Russian Federation: Executive Branch

By Susan Cavan

A difficult year: Moscow moves to manage crises, cadres, and uncertainty

On January 28, Russian Prime Minister Putin gave an introductory address to the World Economic Forum in Davos that was dubbed "liberal" (1) within Russia and "absurd" without. (2) The content of the address, as well as the tone of Putin's later press conference was contradictory; at times Putin sounded conciliatory, at times the blustering braggart re-emerged. What did seem clear is that the speech reflected changing times, and while Putin may have an inclination to accuse and blame developments on a "unipolar" world system, that rhetoric is no longer useful. One vignette from the address echoes Marc Antony's "I come to bury Caesar, not to praise him": "In the last few months, virtually every speech on this subject started with criticism of the United States. This time, however, I will do nothing of the kind. I just want to remind you that, just a year ago, American delegates speaking from this rostrum emphasised the U.S. economy's fundamental stability and its cloudless prospects. Today, investment banks, the pride of Wall Street, have virtually ceased to exist. In just 12 months, they have posted losses exceeding the profits they made in the last 25 years—an unprecedented scope! This example alone reflects the real situation better than any criticism." (3)

After his prepared remarks, Putin fielded questions from the audience and, later, from the International Media Council and International Business Council, and it was during these exchanges that Putin returned to form. When asked about perceptions of Russia in the world, Putin quickly turned the question around: "But why don't you think about your country's image in Russia? Why is Russia asked about it all the time? Do you think everything is all right in other countries,
including Western Europe and the United States? There are plenty of problems there, and you shouldn't turn up your noses and think that everything is swell." (4)

In his response to another question on what levels of state intervention in the Russian economy were acceptable, Putin explained his understanding of the need to protect key sectors through state controls, but also sent an interesting message for domestic consumption, to Russia's oligarchs – after first glancing about the room to see if any were present: "I do not see representatives of our business community here. Even if they were here, I would say what I now want to say. And I am sure of what I am now saying. I get the impression that many of them want to stand as close to the state as possible, to try and hide behind its broad back to solve their problems." (5)

Certainly, as the international economic crisis continues to shake the Russian economy and Russian-owned businesses, Russia's oligarchs have stood as close to the state as possible, especially when it was likely to garner them bail out funds. There are even indications that the oligarchs, even those famously at odds, are uniting at the request of the state, in the person of Deputy Prime Minister Igor Sechin, to form a mega metals and mining concern, what one analyst termed an "iron and steel "collective farm" meant to help stave off international competition. (6) The deal to create the company, which would be managed by Putin's close associate, Sergei Chemezov, under his Russian Technologies umbrella, has been sent to Sechin for approval, although it seems unlikely that the idea did not either germinate with Sechin or at least win his preliminary approval before becoming public. Among those involved in the plan are Vladimir Potanin and Oleg Deripaska (Norilsk Nickel), Igor Zyuzin (Mechel), Roman Abramovich and Alexander Abramov (Evraz Group), and Dmitri Rybolovlev (Uralkali). (7) The deal would give the state, via Russian Technologies, a "25% plus one share in the unified holding company," and given the amount of debt via state loans several of the individuals involved have
accumulated, the deal is a form of "debt for shares" that stands the 1990s "loans for share" scheme on its head. (8)

Even as Putin made his pitch to the international business community at Davos, efforts to stabilize the ruble appeared to be faltering. A new scheme to link the ruble to a combined Euro and Dollar "basket," against which the Bank Rossii suggested the currency could potentially fall to 41, seemed unable to staunch the slide. Thus far, the ruble has lost more than 7% since the announcement of this arrangement. According to Gaelle Blanchard of Societe Generale SA in London, "Right now the market is convinced it wants to see the ruble lower. As long as the central bank gives these targets, then speculators are going to have something to aim for." (9)

The heart of the Russian economy remains energy resources and the price of oil and gas. However, even with oil over $100 per barrel, Russia's actions, notably the August invasion of Georgia, gave many potential partners enough pause to cause a decline in Russia's financial markets. Now, the effect of the international economic crisis on energy prices is likely to force significant changes to Russia's policy courses, both domestic and foreign. While some analysts point to an inverse relationship between the price of oil and the saturation of "freedom" within oil-producing states (along with more cooperative trends in foreign policy), the possibility certainly remains that Russia will react to economic challenges by turning inward and exacerbating xenophobic and extreme nationalist trends. (10)

Perhaps the greatest challenge confronting Russia's ruling "tandem" (if, indeed Putin and Medvedev are still working at all in unison) results from the combination of economic and political uncertainty. Political instability arises from the lack of transparency in the political decision-making process. Until tensions within the diarchy (where open criticism has begun to emerge) are resolved, the functioning of the Russian state may be paralyzed—both at regional and central levels—by functionaries unsure of exactly who is in charge and who speaks for
the leadership. The diarchy, created through Putin's attempt to avoid a succession struggle, has created an illogic of governance that may have attempted to mask the true seat of authority within Russia, but has resulted in a very dangerous situation made more disadvantageous by difficult times.

Source Notes:
(1) "Putin's speech in Davos shows 'liberal approach'," Interfax, 29 Jan 09 via David Johnson's Russia List (JRL), 2009-#21, 30 Jan 09.
(2) "Investors say Nyet to Putin's Ruble after "Absurd" Davos Speech," by Alex Nicholson, Bloomberg, 30 Jan 09 via David Johnson's Russia List (JRL), 2009-#21, 30 Jan 09.
(7) "Possible merger for Norilsk Nickel, Metalloinvest, Evraz Group, Mechel, and Uralkali," Vedomosti, 19 Jan 09; The Russian Business Monitor via Lexis-Nexis Academic.
(8) Ibid.
(9) Quote from Gaelle Blanchard and details from "Investors say Nyet…," Bloomberg, Ibid.
(10) For a discussion on the relationship between the price of oil and the level of freedom within oil-producing states, please see “Does Oil Hinder Democracy?” By Michael L. Ross, World Politics 53.3 (2001) 325-361;"Blood Barrels: Why Oil

Russian Federation: Domestic Issues and Legislative Branch
By Rose Monacelli

The debate over arming reporters: Are we asking the right questions?
Russia’s small but persistent opposition movement was dealt a double blow last Monday, January 19, when prominent human rights attorney Stanislav Markelov was murdered on his way out of a press conference. When Anastasia Baburova, an opposition journalist who worked for Novaya gazeta, attempted to help Markelov, she was also killed. (1) Markelov called the press conference to protest the early release of Yuri Budanov, who had been serving ten years in prison for the murder of a Chechen woman, committed when he was serving as a Colonel in the Russian Army during the war in Chechnya.

The audacity of this crime, which was not only carried out in broad daylight, but on Moscow’s Prechistenka Street, a fashionable and busy area located less than a kilometer from the Kremlin, sadly has become commonplace. Since Vladimir Putin assumed the presidency of Russia in 2000, there have been numerous attempts to sabotage, silence, or eradicate those who oppose government policy. For example, as noted in a previous issue (see IScip Analyst, Volume XV, Number 6), the 2006 murder of Novaya gazeta reporter Anna Politkovskaya, (who was one of Markelov’s clients,) remains unsolved, as does the November beating of Mikhail Beketov, an opposition journalist in the Moscow suburb of Khimki. (2) Beketov’s self-produced paper, Khimkinskaya pravda, was well known in the region for its free criticism of the Khimki government and its
relationship to the Kremlin. Beketov has spent the past two months in the hospital after having endured multiple amputations and a short coma. He recently was moved back into intensive care, after his health took a turn for the worse. (3) The most recent victim, Baburova, also was an opposition figure, a journalist who marched against fascism and protested the government’s human rights record. (4)

It is not just journalists and lawyers, but dissidents and political opponents at home and abroad who have been subject to retribution for the crime of opposing the status quo in Russia. There is no official connection between the Kremlin and the growing list of murders, “accidents,” and tragedies that have happened to befall those who speak publicly against injustice in Russia. However, the government not only has failed to demand accountability for these crimes, it has worked actively against those who have. For example, the trial of the four men who ostensibly plotted and carried out Politkovskaya’s murder has been marred since the beginning by the authorities’ failure to apprehend the triggerman, numerous delays in the trial proceedings, and protests by both sides. (5) Despite numerous condemnations, including those of the French government and the President of the European Union, the Kremlin has released only one statement on the matter, when the foreign ministry accused critics of “artificially politiciz[ing]” the matter to discredit Russia. (6)

Putting aside the fact that it would be difficult to “artificially politicize” the already highly charged issue of free speech, the fact remains that opposition figures are at risk in Russia, and the question of what to do about it is fast becoming a serious issue among those who control the media.

In a press conference held last Thursday, Aleksandr Lebedev, president of Novyye Media holding firm, stated his belief that Baburova’s murder was the result of her work at his newspaper, Novaya gazeta. Speaking from the central office of Russian news agency Interfax, Lebedev hinted at “quite a few things
which we shall not disclose for the time being" (7) that connected his journalists' work with their murders. These connections, he warned, are the result of an 18-month ongoing investigation that has yet to be published. (8) This statement may be somewhat of a reach, as most reports indicate that Baburova was simply in the wrong place at the wrong time, but all the same, she was covering Markelov's press conference, an event that was likely to draw the ire of Kremlin supporters.

Regardless, the purpose of Lebedev's press conference was to stress the point that journalists are increasingly unsafe in Russia, and to introduce a new aspect to the debate: self-defense. Currently, several members of the Novaya gazeta staff have private security details. However, as it is not possible to put all journalists under constant guard, Lebedev announced his intension to ask the Federal Security Service to allow his journalists to carry weapons, in order to protect themselves. (9) The staff of Novaya gazeta is spearheading the effort to protect journalists by arming them. When asked why he thinks this plan would improve the current plight of Russia's journalists, Novaya gazeta's editor in chief Dmitri Muratov recently explained that "when threats are regularly resounding, when at present one of our leading employees is forced to work under guard, when out of five murders, not one has in fact been solved," (10) journalists want to protect themselves in some way.

To carry out his plan, Lebedev will have to fight an uphill battle against the Russian bureaucracy. According to current gun control laws in Russia, citizens do have the right to own certain weapons for self-defense, including gas pistols and revolvers. In reality, however, it is nearly impossible to acquire the special license necessary to be able to purchase these weapons. If the government deems one worthy of owning a gun, the future owner must pass a test that covers proper handling and firing before being allowed to purchase a firearm. Finally, once a citizen becomes a gun owner, he or she is then subject to many other laws that govern their use and storage, the most stringent of which is the caveat that every bullet fired must be reported to the nearest police department.
The special license lasts for a period of five years, at which point the licensing process begins again. (11)

The idea of arming journalists is troubling for several reasons, not least of which is that it seems to be the legal equivalent of applying a bandage to the torso of someone suffering from a stomach ulcer. Ultimately, the question is not whether or not journalists should be allowed to carry weapons for self-defense, it is why they need to be so concerned for their safety in the first place. The heart of the problem is that independent journalists, and others who challenge the state, are being murdered, and their assassins have no fear of retribution from a hamstrung judicial system. In a country where more than 21 reporters have been murdered under suspicious circumstances since 2000, (12) handguns for self-defense are only a symptom of the larger problem.

Moscow Police Chief Vladimir Pronin has condemned Lebedev’s remarks, arguing that “the more weapons there are, the more disorder there is.” (13) He also noted that “in the event of journalists being threatened with danger, [the Moscow Police] have a scheme under which their safety can be assured,” (14) which might be a stronger line of reasoning if events hadn’t proven him wrong so many times already.

Source Notes:


(5) “Journalism: Still Russia” most dangerous profession” Ibid.


(7) “Russian tycoon links recent high-profile murders to liberal paper he owns,” Interfax, 22 Jan 09 via Johnson's Russia List (JRL), 23 Jan 09, 2009-#15.

(8) Ibid.

(9) Ibid.

(10) “Editor slams ministry’s view that journalist murder ‘not political,’” BBC Monitoring, Ekho Moskvy, 22 Jan 09 via Johnson’s Russia List (JRL), 23 Jan 09, 2009-#15.


(13) “Moscow police chief says journalists have no need for guns,” RIA Novosti, 23 Jan 09 via Johnson’s Russia List (JRL), 23 Jan 09, 2009-#15.

Russian Federation: Security Services
By Fabian Adami

Dzhanibekov: GRU assassination?
On 13th February 2004, Zelimkhan Yanderbiyev was killed in Doha, Qatar when his car exploded. Yanderbiyev (a former Chechen President) was returning home from a mosque when the explosion occurred. Yanderbiyev's 13 year-old son and two bodyguards also perished in the blast. At the time of his death, Yanderbiyev was near the top of Russia's "most wanted" list, charged amongst other things, with membership in an "illegal armed formation."

Within days of the incident, Qatari law-enforcement agencies had arrested two Russian individuals carrying Secret Service passports. In short order, it emerged that the detainees were GRU operatives, with reputations for carrying out successful "special operations" against separatist commanders in Chechnya. (1) Tried by the Qatari courts in the summer of 2004, the two officers were found guilty of murder and sentenced to life imprisonment. Later the same year, the two were extradited to Russia on the understanding that they would serve the remainder of their sentences in domestic prisons. Russian authorities—not unexpectedly—reneged on this understanding, issuing a statement that any sentence imposed outside the country was "irrelevant," and admitting that the agents were not incarcerated. (2) The Yanderbiyev operation likely was viewed as a failure in Moscow due to the capture and trial of its agents. Nonetheless, early last month it became clear that the Qatari debacle has not deterred GRU from carrying out further assassinations.

On 9 December, Islam Dzhanibekov, another high-profile former Chechen rebel commander, was gunned down in Istanbul where he had been living for the last six years. At the time of writing, Turkish authorities have not announced the conclusions of their investigation. Instead, they simply have expounded two theories. First, that Dzhanibekov may have been killed as part of an internecine struggle between warring Chechen factions. More likely however, is the alternate theory that he was targeted by Russian Secret Services: Law enforcement officials in Istanbul have stated that the hit was carried out with a 7.62 mm pistol,
most likely an MSP double-barreled weapon that allegedly is GRU's favored assassination weapon. (3)

Two days after his murder, the Russian Defense Ministry’s TV news station (Zvezda), issued a report on Dzhanibekov, claiming that he was responsible for the deaths of over 300 civilians, and insisting that he had been involved in fundraising on behalf of Chechen separatists since moving to Istanbul. (4) Since no statements have been forthcoming from senior Security Service officials, Zvezda’s report could be taken as the official state reaction – and its tone was one of satisfaction, if not tacit admission.

Given that more than a month has passed since the assassination, it is extremely unlikely that Turkish authorities will be able to apprehend the killers, whether they were fellow Chechens or Russian intelligence operatives. Even if they could be identified, the assassins probably would have left the country immediately after completing their assignment. If the murderers were secret agents, there is little chance of justice being served: Russia, as the Litvinenko case demonstrates, will not extradite its citizens under any circumstances.

**Katyn archives: Quid pro quo?**

In the last twelve months, the FSB gradually and selectively has released documents from its archives. The first batch of declassified files, opened in April 2007, pertained to the great famine and purges of the Stalinist period, while the second concerned the mass deportations and forced resettlements in the Baltics between the end of the Second World War and Stalin's death in March 1953. In each of these instances, it seems clear that the FSB’s actions were more of a public relations effort than an attempt to further historical research. (5)

Six weeks ago, the FSB declassified and released yet another set of documents. This time, the files concerned the infamous Katyn massacre that occurred in
1940. Historians estimate that 22,000 Polish prisoners of war were liquidated by the Soviet NKVD, following the partitioning of Poland with Germany. (6)

Speaking to Interfax, General Vasily Khristoforov (Head of the FSB's Registration and Archives Department) claimed that the documents made public constituted all that remained of the FSB's files on the matter. (7) Khristoforov claimed that most of the information on the atrocity had been destroyed on "orders from the top" of the KGB (8) during the late 1950's.

It is highly unlikely that information on a matter as emotive and controversial as the Katyn massacre would be released on a whim—especially in light of the historically fraught relations between Warsaw and Moscow. It is therefore legitimate to ask what the motivation for declassifying the remaining files is. Moscow may hope that laying the massacre to rest results in more cooperative behavior from Poland, particularly in regards to the planned US ABM assets to be placed there. If this is the case, the Kremlin is grasping at straws. Any bases in Poland will be considered US soil, and Washington is unlikely to permit third party access without the strictest of controls.

**Politkovskaya trial update**

In mid-November three individuals charged with complicity in the murder of Anna Politkovskaya went on trial in Moscow. Within a matter of days, the proceedings had descended into farce. First, an early decision by the judge to open the trial to the public was abruptly reversed, allegedly due to security concerns on the part of the jury. When members of the jury bravely and publicly renounced the judge's ruling, a ten-day recess was announced, after which the case was re-opened to the public, with the caveat that the court would be closed while classified evidence was heard. (9)

At the end of December, defense lawyers at the trial went on the offensive, claiming that there were serious discrepancies in the State's case. First, the DNA
samples and palm prints collected from the murder scene and the murder weapon, do not match those of the accused. (10) Secondly, footage from surveillance cameras at Politkovskaya's apartment building shows the alleged assassin entering the building after the time of death as presented by the prosecution. (11) Finally, the third defendant in the trial, Sergei Khadzhikurbanov, possesses an apparently iron-clad alibi, in the form of video footage of his presence at his mother's birthday party, which was held on the same day as the assassination. (12) After the defense had presented its evidence, the trial was once more adjourned. The proceedings resumed on 19 January, and continue with no verdict at the time of writing.

Although the second discrepancy in the prosecution's case is tenuous (the time variation is only 60 seconds), the palm prints, DNA and Khadzhikurbanov alibi present authorities with major problems. While the alleged triggerman (Rustam Makhmudov) is still on the run, two of the defendants are his brothers, and as such, their DNA would share commonalities. If the DNA from the crime scene did not reveal even a tenuous match, and the alibi holds up, all three accused may have to be acquitted. This turn of events would place the authorities in an extremely embarrassing situation, whereby the only person still being held in connection with Politkovskaya's murder is a senior FSB officer, Lieutenant-Colonel Pavel Ryaguzov.

What action the authorities will take remains to be seen, but they are clearly in a catch-22 situation. If the (apparently) exonerating evidence is expunged or the jury is ordered to disregard it, the trial will be exposed as utter farce. On the other hand, if the defendants are acquitted, the responsible law-enforcement agencies will be labeled as incompetent. If both of these outcomes are too unpalatable, attempts may be made to spin the matter, and to argue that the trial shows that Russia's judicial system functions in a democratic, transparent manner.

Source Notes:
(3) "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.
(5) See The ISCIP Analyst, Volume XIII, Number 2 (26 April 07)
(6) "All Available Documents On Katyn Massacre Handed Over To Poland-FSB Official," Interfax, 18 Dec 08; OSC Transcribed Text via World News Connection.
(7) Ibid.
(8) "All Available Documents On Katyn Massacre Handed Over To Poland," Interfax-AVN Online, 18 Dec 08; OSC Transcribed Text via World News Connection.
(9) "Anna Politkovskaya Trial Moves Into Closed Court to Hear Secret Testimony," The Guardian, 4 Dec 08 via www.guardian.co.uk/media/2008/dec/04/anna-politkovskaya-trial.
(10) "Judge Requests Billing Of Murdered Journalist's Phone Calls," Itar-Tass, 26 Dec 08; OSC Transcribed Text via World News Connection.
(11) "Russia: Discrepancy Found In Prosecution Evidence in Politkovskaya Murder Trial," RenTV, 23 Dec 08; OSC Translated Text via World News Connection.

Russian Federation: Armed Forces
By Lt. Col. Erik Rundquist

Russian military reform – challenges ahead
Over the past several months, Russian military and civilian leaders have expended time, energy, and money to kick-start the Russian armed forces down the path of reform with a special emphasis on troop reduction, task organization, and fighting doctrine. (1) During December 2008 and January 2009 some reforms were illuminated with regard to training programs and finances, however new doubts have been cast over whether or not the plans for military reform will reach their ultimate goal. Changes brought about by the global economic crisis have bolstered “loyal opposition” positions against the sweeping reforms. Moreover, the methodology and rationale for the reform plans are still drawing ire from government officials, pundits, and citizens opposed to this reform plan.

Training concerns
A key element to the foundation of Defense Minister Anatoli Serdyukov’s reforms is based on appropriate military training and education. Russian General of the Army and Deputy Minister of Defense Nikolai Pankov remarked that the current state of Russian military training is “excessively capital-intensive” with activities conducted at 65 different educational establishments consisting of 15 military academies, four universities, and 46 higher military schools and institutes. (2) The general further added that, “‘Departmental egotism’ has led to a situation where the duplication of officers’ training in related military specialties at military educational establishments under different subordination has become widespread.” (3) Pankov also notes that up to 46 percent of the total military education budget is spent on the maintenance and repair of the grounds and facilities and that the use of the training facilities was no greater than 60-70 percent of capacity. (4)

An interesting contrast to Pankov’s concerns over excessive and redundant education was highlighted by the Chief of the Russian General Staff, Army General Nikolai Makarov, who publicly complained about the lack of properly trained officers. Makarov stated, “Over the past 18 years, there has grown a whole constellation of colonels and even generals who have never conducted a
single exercise during their service.” (5) General Makarov voiced these concerns despite the hundreds of well-publicized and recently completed joint and combined force training events involving all branches of the Russian military. (6) Commander of the Far East Air Force and Air Defense Combined Formation, Lieutenant General Valeri Ivanov, commenting on positive results of the reforms, noted that in 2008 there were 200 separate exercises and that the “high intensity of combat training” (to include a 15 percent increase in flying hours) dramatically raised the professionalism of his force. (7) However, Ivanov also stated that despite advanced training reforms, he was forced to focus on the more elementary aspects of training when both junior and senior officers started to “forget the rules of the Russian language” in their reports, and further commenting that “Many commanders are not computer literate.” (8)

Closing military facilities also has an impact on the locales in which they are situated, and members of these communities are struggling to be heard on the issue. Recently, residents of Irkutsk took to the streets upon discovering that the local training center for approximately 2,500 air force engineer cadets and faculty will be closed. (9) Retired Colonel Viktor Shprakh along with other protestors complained that the proposed new university site does not have the appropriate laboratories, teaching staff, or research tools. He further commented that the Defense Ministry’s hopes of the faculty members packing up and moving from the eastern Russian facility is “nonsense.” (10) Potentially more challenging for Serdyukov’s reform is the battle for public opinion – a sign during the Irkutsk rally stated, “Redeployment of Irkutsk higher military aviation engineering school is redeployment of money into officials’ pockets.” (11)

Financial matters
Another critical element of Defense Minister Serdyukov’s reform is based on the proper allocation of funds and making sure that they reach the “right pockets.” He notes for the 2009 budget, “There are plans to increase considerably the funding allocated for the combat training of troops and the purchase of weapons
and military equipment.” (12) However, Serdyukov does not have a blank check and the savings must come from somewhere. While the afore-mentioned training facility consolidation is one avenue, the much touted elimination of manpower positions in the Russian military appears, on the surface, to be the quickest and simplest option. The hope is that the Russian military will continue to slash approximately 200,000 officer and warrant officer positions by 2012, with the remaining permanent readiness unit personnel receiving pay comparable to that in “developed countries.” (13) In addition, a bonus and cash award program for 34,000 officers and generals was started on 1 January 2009 with payments meted out for junior officers, mid and upper tier commanders depending on service, rank and position. (14)

Targeting the nearly 205,000 officers positions (with 44,000 currently vacant) that will be cut from the Russian military, Deputy Defense Minister for Financial and Economic Work, Lyubov Kudelina introduced a “one-off” severance payment up to R185,000, based on time served on active duty. (15) Kudelina also noted that nearly 60,000 junior officers, who are not entitled to pensions, would be transferred to the Defense Ministry’s reserve and paid a monthly allowance averaging R20,600, as long as they remain on reserve status. (16) Overall, the cutback of officers is expected to cost nearly R80 billion in order to implement Serdyukov’s reforms, with nearly 117,500 troops to be discharged from service in 2009. (17) Clearly, Russia is absorbing an “up front” cost by reducing its ranks through these reforms.

Viktor Ozerov, Chairman of the Federation Council Committee of Defense and Security, described a mid-December two-hour closed door meeting with the Russian military leadership as “constructive and frank.” (18) One of the key issues involved the discharge of so large a number of officers as part of the Russian military reform. During the meeting, General Makarov noted that the dismissed officers would not be “thrown out onto the street” and would be offered other posts, such as civilian positions, in order to receive social benefits and
Likewise, the organizational reform involving the dismissal of nearly 200 general officers by mid-2009 promises to save some money, however, like the junior officers, sources indicate that these generals will continue working within the Defense Ministry as “civil experts.” If the fate of the dismissed junior and general officers is any indication, perhaps the financial reward of massive troop reductions will not be realized. On an even more somber note, Federation Council Speaker Sergei Mironov told the Defense Minister and his top generals that he was concerned about the reforms, particularly about finding employment for the recently dismissed soldiers. Mironov cautioned, “There is now already a large army of people who do not know how to feed their families. We cannot allow a multi-thousand group of people who professionally handle weapons to join them.”

**Continued opposition**

While senior Russian military leaders have maintained a regimen of briefing on the progress of military reform, the impact of global economic difficulties may prove to be a drag on the course of transformation. While most analysts agree that some sort of reform is needed within the Russian military, some are suggesting that both the pace and timing of the reforms are of considerable concern. Army General Makhmut Gareyev, president of the Academy of Military Sciences, warned, “It makes sense to adjust the schedule for discharging officers as part of the downsizing measures, so as not to cast them on the labor market in a period of economic crisis.” Confusing the issue even more, Deputy Minister of Defense Pankov’s analysis of the global economic crisis actually calls for the pace of military reform to be completed as soon as possible, as opposed to slowing it down, as Gareyev suggests.

The secretive nature of consultations over funding the reforms, such as the afore-mentioned closed door Duma session, highlights another point of contention. Retired Major General Vladimir Dvorkin of the Russian Academy of Sciences noted, “There is no open discussion in the legislature or the executive
or in the independent expert community. No one knows anything.” (24) In order to counter these accusations, Serdyukov reinstated the General Staff Institute of Plenipotentiaries with an eye towards overseeing and explaining the reforms in the military districts. Even so, Sergei Mironov argues that the reform pay increases are not enough, but that the average salary must be increased by 70 to 100 percent. (25)

Despite the economic and technological challenges for building up armed forces that have been neglected for nearly two decades, perhaps the biggest challenge still lies with the senior officers tasked to implement the reform. A military analyst, Aleksandr Golts, hypothesized that key leaders will produce a “new military doctrine,” in order to bog down the reforms indefinitely. As if in support of this theory, Security Council Secretary Nikolai Patrushev announced that a new national security doctrine would be ready in February 2009 and that the main working group charged with drafting this doctrine will be chaired by General Yuri Baluyevsky (former Chief of the General Staff and a purported opponent to the Serdyukov reforms). (26) It will be necessary, posits Golts, to have a new doctrine approved before the reforms can be enacted, and this new doctrine likely will suggest that large formations (such as NATO and the United States) are the main threats to Russia, deftly making Serdyukov’s reform, particularly with regard to force downsizing, out of synch with the newly established doctrine. (27)

It seems apparent that due to conflicting opinions regarding the pace of reform, extent of the manpower cuts, training center closures, base realignments, and the compensation offered to the now unemployed officers, military reform will be a challenging task for the Russian Defense Ministry. And in the chaos of an uncertain global economy, issues such as force and equipment modernization promise only to add to the difficulties of reform.

Source Notes:
(1) See The ISCIP Analyst, Volume XV, Number 4 (6 Nov 08) for doctrine/organization and ISCIP Analyst, Volume XV, Number 6 (11 Dec 08) for troop cut examples.

(2) “Russian deputy defence (sic) minister interviewed on military education reform,” Krasnaya zvezda, 18 Dec 08; BBC Monitoring Former Soviet Union – Political, 2 Jan 09 via Lexis-Nexis.

(3) Ibid.

(4) “Cuts in Russian military higher educational establishments will start in 2009,” Interfax-AVN, 16 Dec 08; BBC Monitoring Former Soviet Union – Political, 23 Dec 08 via Lexis-Nexis.

(5) “Russian CGS complains of lack of combat-ready officers,” Zvezda TV (ITAR-TASS), 16 Dec 08; BBC Monitoring Former Soviet Union – Political, 17 Dec 08 via Lexis-Nexis.

(6) See The ISCIP Analyst, Volume XV, Number 2 (9 Oct 08) and ISCIP Analyst, Volume XV, Number 3 (23 Oct 08) for troop exercises and force projection examples.

(7) “Russian Far East air force, air defence (sic) formation commander on work, problems,” Krasnaya zvezda, 20 Dec 08; BBC Monitoring Former Soviet Union – Political, 5 Jan 09 via Lexis-Nexis.

(8) Ibid.

(9) “Russian military school meets Defence (sic) Ministry relocation order with opposition,” Ren TV, Moscow, 29 Dec 08; BBC Monitoring Former Soviet Union – Political, 31 Dec 08 via Lexis-Nexis.

(10) Ibid.

(11) Ibid.

(12) “Russia’s Armed Forces to undergo major reforms – defense minister (Part 2),” Interfax, 30 Dec 08 via Lexis-Nexis.


(16) “Russia to transfer 57,200 junior officers to reserve from February 2009,” Interfax-AVN, 22 Dec 08; BBC Monitoring Former Soviet Union – Political, 25 Dec 08 via Lexis-Nexis.

(17) “Russia is to spend some R80bn on discharging and retraining military officers,” Interfax-AVN, 24 Dec 08; BBC Monitoring Former Soviet Union – Political, 2 Jan 09 via Lexis-Nexis.

(18) “Russian chief of staff, upper house committee chief comment on army reform,” Krasnaya zvezda, 17 Dec 08; BBC Monitoring Former Soviet Union – Political, 7 Jan 09 via Lexis-Nexis.

(19) Ibid.

(20) “Russian Army to have less than 900 generals after reform,” Interfax, 19 Dec 08 via Lexis-Nexis.

(21) “Russian paper discusses closed Duma hearings on army cuts,” Moskovskiy komsomolets, 18 Dec 08; BBC Monitoring Former Soviet Union – Political, 26 Dec 08 via Lexis-Nexis.

(22) “Russian general says officers must not be thrown out during economic crisis,” Interfax-AVN, 23 Dec 08; BBC Monitoring Former Soviet Union – Political via Lexis-Nexis.

(23) “Russian army, fleet to cut over 200,000 officer posts in 2009,” Interfax, 30 Dec 08 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.

Russian Federation: Foreign Relations

By Shaun Barnes

Russia-US relations: More than rhetoric?
If the statements of public officials are any indication, Moscow is not immune to the sentiment of “hope” that seems to color perceptions of the new US president, Barack Obama. To a degree, this may reflect positive expectations of a new approach toward Moscow on the part of the Obama administration. But, perhaps more importantly, it is a result of the very real structural changes in international politics brought about by the current global economic crisis. Declining Russian power for the foreseeable future makes confrontation with the United States an unaffordable luxury. The changing of the guard in Washington thus presents an opportunity for Moscow to ease the tensions that followed Russian actions and rhetoric in the last year.

Members of Russia’s foreign policy elite have expressed guarded optimism about the potential for working with the new administration in Washington. Prime Minister Vladimir Putin said Obama appeared to be a “sincere and honest person.” Though he cautioned against “excessive expectations,” Putin
maintained, “we totally agree that we have a lot in common in resolving the
problems of preventing an arms race, problems in the Middle East and Iran and
non-proliferation problems.” (1) President Dimitri Medvedev “hopes for a
partnership and nothing else” from his American counterpart. (2) The Chairman
of the Federation Council International Affairs Committee believes that improved
Russian-US relations will be “driven by necessity” on Washington’s part. (3)
Diplomatic pleasantries of this nature typify the response to most new heads of
state, but there is reason to believe that substance may lie behind these
pronouncements.

First, statements from the new administration offer some signs of an effort to
entice Russia into a new approach vis-à-vis Washington. Thus, Obama’s foreign
policy platform places a great deal of emphasis on diplomacy, and he has called
for “cooperative engagement with the Russian government” as part of his
agenda. (4) In her Senate confirmation hearing, Secretary of State Hillary
Clinton also stressed the need for the US and Russia, “whatever our differences,”
to “reengage […] on nuclear security.” (5)

However, the other factor that augurs a change of tack in Russia’s US policy is
the erosion of its international position by the ongoing economic crisis. Foreign
Minister Sergei Lavrov’s claim that Russia “accumulated serious foreign policy
capital” in 2008 may have been true in the middle of last year, but that “capital”
has been degraded by ruble devaluations, tumbling energy prices, and the
specter of global recession (as well as Russia’s own actions in the Caucasus.)
(6) Consequently, President Medvedev has put overcoming the financial crisis at
the top his foreign policy agenda. (7)

The scope of the shift is dramatic. Russia’s currency began to recover only
recently after losing nearly thirty percent of its value between August and
January. (8) Even now, the sustainability of any gains is questionable. The
precipitous drop in oil prices from their 2008 high of nearly $147 per barrel has
led Prime Minister Putin to order the federal budget re-calibrated assuming an oil price of just $41 per barrel, rather the $95 assumed prior to the fall. (9) Sagging petroleum markets also undercut a key component of Russia’s foreign policy – the joint development of energy projects abroad. Russia’s finance minister warned that inflation could reach as high as thirteen percent in 2009. (10) All of these problems, in addition to declining foreign exchange reserves and slower economic growth, will burden Russia in the coming months.

Facing such economic constraints and the need for a greater focus on domestic policy problems, it comes as no surprise that Russia is extending an olive branch, however tentatively, to the new leadership in the United States, in an effort to win some breathing room until a recovery occurs. That being said, the change of administration in Washington also brings opportunities for Russia, even with its diminished power.

America faces its own steep economic hurdles and domestic affairs will almost certainly will command the lion’s share of President Obama’s attention in the coming months. In foreign affairs, the drawing down of US troops in Iraq, the planned “surge” in Afghanistan, and the Iranian nuclear program, among other issues, take precedence over Russia and present openings for Russian cooperation with the US, if Moscow is prepared to change its approach.

One example pertains to discussion of a possible deal on the use of a route that passes over Russian territory as an alternative to the Khyber Pass for the transit of supplies to NATO troops in Afghanistan. While denying reports that such an agreement had been reached, Russia’s NATO envoy did not rule out the possibility of a new transit route if the formal consultation mechanism of the NATO-Russia Council is restored after its suspension during Russia’s incursion into Georgia. (11) President Medvedev also endorsed this position, stating, “We are ready for fully fledged and equal cooperation on security in Afghanistan, including with the United States.” (12)
The leveraging of Russian cooperation on American foreign policy priorities is a pattern that may be repeated over other issues. Indeed, in the published portion of Medvedev’s instructions to his ambassador to the US, a dominant theme is cooperation across a range of issues from the economy to terrorism and counter-proliferation. (13) It remains to be seen whether Russia can extract any foreign policy gains beyond greater stability and more open communications channels in this way.

Another test case may present itself as the first Strategic Arms Reduction Treaty (START I) nears expiration in December. (14) The Obama administration has made strategic arms reductions a priority and talks on a replacement for START I could present an opportunity for Moscow to press its case for an end to the European-based component of America’s ballistic missile defense system. Even if missile defense isn’t discussed, a new strategic arms reduction agreement would present budgetary and security benefits to Russia that, in and of themselves, may warrant working more closely with the US.

Source Notes:
(1) “Russia waits for Obama’s Pledges to be implemented - Putin,” Interfax, 17 Jan 09; BBC Worldwide Monitoring via Lexis-Nexis.
(3) “Russian-US relations will improve under new administration - senator,” Interfax, 17 Jan 09; BBC Worldwide Monitoring via Lexis-Nexis.
(5) Transcript of Hillary Clinton’s Confirmation Hearing, Council on Foreign Relations, 13 Jan 09 via


Russian Federation: Energy Politics

By Creelea Henderson

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Market price for gas questioned behind the “Façade of Reasonableness”
An interesting phrase appeared recently in one of the many articles covering the
gas dispute between Russia and Ukraine. Describing the Russian contender,
author Peter Rutland wrote: “On one side we have the Kremlin, eager to flex its
geopolitical muscles behind a façade of reasonableness.” (1) Rutland’s
comment is significant in that it points to an unexamined premise, namely, that
market-oriented pricing is reasonable, per se. During the confrontation with Kiev,
Gazprom officials fortified their position by invoking unassailable principles of
fiscal responsibility and market-oriented pricing mechanisms. Meanwhile, behind
the “façade of reasonableness,” Gazprom executives are reevaluating their
commitment to current marketing arrangements that drag the price of gas down
with the plummeting price of oil. (2)

What is the fair market value of natural gas?
The principle of market value was developed by the Dutch as the basis for
marketing natural gas in the 1960’s. (3) In order to secure a share of the energy
market, the price of gas was pegged just below the price of whatever alternative
fuels potential customers were using at the time. (4) The market value principle
provided a ceiling that hovered just below the price of alternative fuels, meaning
that customers would never pay more for gas than for alternative fuels. At the
same time, the ceiling was also a floor, meaning that consumers would never pay
much less.

Because the price of gas varies in relation to the price of alternative fuels that it is
replacing, export prices for gas were set according to the market value of
whatever fuels happened to dominate the market in the individual customer
country. The relative market value of gas required specific provisions that would
allow for periodic readjustments, as the mix of alternative fuels in the customer
country changed and as the prices for those alternative fuels fluctuated. Thus,
gas supply contracts entitled the parties to review price provisions at regular intervals, typically occurring every three years. (5)

When Russia began exporting gas to Western Europe in the 1970’s, the economic structures of the USSR did not provide an adequate model for constructing market-based pricing arrangements. Consequently, the Russian gas sector adopted the Dutch pricing template early on. In the last decades, during Russia’s transition to a market-based economy, the gas sector largely has retained the basic Dutch pricing model, although with several important distinctions. The most significant change introduced into Russian supply contracts is the unique point of reference from which the market price of gas is calculated. Russia’s gas export monopoly Gazprom chose as its starting point the price paid in Western European markets at the end of the pipeline. From that price, it deducts transportation costs between the intermediate importing country and the countries at the end of the pipeline in order to arrive at the gas supply contract price in the target country.

That, in theory, is how Gazprom arrived at the price that will be paid by Ukraine in 2009. After factoring in a twenty percent discount, the average price Ukraine will pay ranges between $230 and $250 per thousand cubic meters. (6) However, Gazprom has yet to disclose a clear, objective formula that would allow its customers access to a predictable market-oriented price index.

Although analysts agree that the long-term solution to future disputes can be found in a system of multi-year contracts with the gas price tied to the global price of oil, today’s answers may not continue to play a predominant role in European gas imports in the future. (7) The Russian economy has suffered a shock in the past year from the falling price of oil, and the prospect of maintaining oil as a key calibrator for the price of gas seems dubious at present. With the costs of extracting and transporting gas rising steeply, and the price of oil plummeting from a high of $147 last July to below $50 today, Russia is looking to
alternative pricing schemes. In December, Russia convened a charter meeting of the Gas Exporting Countries Forum (GECF) in Moscow to formalize an organization that will allow gas exporters to address ways of disconnecting the price of gas from that of oil. Russian Prime Minister Vladimir Putin used the opportunity to announce “the era of cheap energy resources, of cheap gas, is of course coming to an end.” (8)

Ministers at the GCEF repudiated the notion that the Forum will develop into an OPEC-like producers’ cartel capable of monopolizing global gas supply. However, though specific proposals have not been disclosed, the GECF’s agenda includes maintaining high global gas rates through production cuts, calculating the cost of future investments into the return on the product, keeping gas-to-gas competition out of the realm of the possible, and re-calibrating the gas-to-oil pricing formula that is proving to be disadvantageous. For Gazprom, the need to find a new market-oriented pricing mechanism is particularly urgent as the three-year price reviews for its Western European supply contracts approach. If the price of gas Gazprom charges Germany, France and Italy is re-calibrated to reflect the current price of oil, Russia stands to lose its main source of hard currency for years to come.

Source Notes:
(2) “Putin says 'cheap gas era' ending,” BBC News. 23 Dec 08 via (http://news.bbc.co.uk/2/hi/europe/7796806.stm).
(4) Ibid.
(5) Ibid.
Newly Independent States: Caucasus

By Robyn Angley

GEORGIA

Media freedom

Media freedom in Georgia has been a particular concern since November 2007 when the government closed the Imedi television station in the midst of opposition. Imedi had developed into a sensationalistic opposition television station and provided a great deal of support to the multiple opposition parties that sponsored protests on the fourth anniversary of the parliamentary elections that produced the Rose Revolution. The station, which subsequently reopened and then closed again, has been in flux since the death of oligarch owner Badri Patarkatsishvili last winter. Imedi currently is the source of an ownership dispute between Patarkatsishvili’s heirs.

Other television stations include Rustavi 2 and Mze. Both generally support the government. The Georgian Industrial Group, belonging to National Movement MP David Bezhuashvili, holds a 45 percent share in both companies. (1) A majority stake (55 percent) in both Rustavi 2 and Mze is held by GeoMedia Group, a business interest about which very little is known. Kavkasia is an
independent television station and sometimes produces controversial pieces, but the low production quality of its broadcasts makes it less appealing.

Concerns about the state of Georgia’s media may be exaggerated. President Saakashvili recently pointed out that opposition leaders were criticizing the lack of free speech and press freedom “while speaking live on the television.” “It is ridiculous,” he concluded. (2)

Nonetheless, self-censorship with regard to politically sensitive stories seems to be the norm. In part, this is the result of an attitude among journalists that suggests that the media should give the politicians brought to power by the Rose Revolution the chance to prove themselves before criticizing them too harshly. This perspective is particularly noticeable at Rustavi 2, which was influential in bringing Saakashvili to power. A former Rustavi 2 journalist paraphrased his colleagues to explain the prevalent attitude: “We brought those guys to government. We know them very well. We are, in most cases, [the] same age....[G]ive them time.” (3)

Among the greatest weaknesses of Georgian media are low levels of professionalism and the influence of owners (and the politicians with whom they have relationships) on media content. Much of the “news” that is reported in the Georgian media is based on rumor or is inadequately sourced. Tinatin Dvilashvili is a journalist and Media Project Manager at the Georgian Foundation for Strategic and International Studies, an influential Tbilisi think tank. Dvilashvili attributes the sub par performance of professional journalists to low salaries and the lack of adequate training. (4) In the Shevardnadze era, media training was available primarily through Western-funded NGOs such as Internews. Following the Rose Revolution, the perception of Georgia as an accomplished democracy led to a decline in civil society assistance and democracy building aid. One impact of the shift in aid streams has been a decline in the availability of media
training for young journalists, although several formal educational programs offer journalist training.

Sozar Subari, Georgia’s ombudsman, presented a report to parliament in December that strongly criticized the current state of Georgian media. He accused the government of controlling media content by exerting pressure on owners of media outlets. (5) In his turn, the ombudsman has come in for criticism from authorities. In a recent television appearance, Saakashvili alleged that the Public Defender’s office has become politicized and that Subari is using his position as preparation for entering politics. (6) Subari has become increasingly outspoken since the protests that resulted in the closure of the Imedi television station.

**Russian naval base in Abkhazia?**
The Russian General Staff has announced that the Russian navy has agreed “in principle” to establish a naval base on Abkhazia’s Black Sea coastline in the town of Ochamchire. (7) If confirmed, these reports will represent a further consolidation of Russia’s position within Georgian sovereign territory.

**AZERBAIJAN**

**March referendum to abolish presidential term limits**
On 18 March, Azerbaijan will hold a referendum about whether or not to amend the section of the constitution that limits the president to two five-year-terms. Current President Ilham Aliyev’s second term expires in 2013. The decision to hold the referendum was approved by parliament, in a vote of 100-7. (8) Opposition politicians, among them Panah Huseyn from the Musavat party, criticized the proposed amendment as being illustrative of Azerbaijan’s lack of democratic progress. (9) A group of opposition parties has come together to oppose the changes. (10) Members of this group have complained of pressure from authorities, including the detention of multiple individuals while collecting the signatures needed for registration. (11)
In an interesting example of the power of the press, a group of pro-government journalists has come forward to support the abolition of presidential term limits. (12) Not surprisingly, the group is led by the editors of two pro-government newspapers.

Government bans foreign radio
As of 1 January, Azerbaijan has banned the broadcast of international radio on national frequencies. The ban included broadcasters such as Radio Liberty, the Voice of America, the BBC and Europa Plus, a Russian radio station. The government cites the need to bring its regulations into line with the Council of Europe as the reason for the new policy. (13) The ban does not affect the Turkish national station, which has a special deal under which it can broadcast in Azerbaijan in exchange for the Azeri national radio station being aired in Turkey.

Source Notes:
(3) Author interview, 1 May 08.
(4) Author interview, 5 May 08.
(7) “Russia to set up naval base in breakaway Georgian region in 2009 - General Staff,” ITAR-TASS, 26 Jan 09; BBC Worldwide Monitoring via Lexis-Nexis.
Kyrgyz president attempting to milk two cows at once?

On February 3, following weeks of conjecture and speculation by politicians and media pundits, Kyrgyzstan’s President Kurmanbek Bakiev finally announced that his government does intend to request the closure of the US air base at the Manas airport (located just outside Bishkek). Bakiev issued his announcement in Moscow, immediately after receiving assurances from the Russian government that his country would be granted a US$2 billion loan, as well as US$150 million in other aid. However, Bakiev’s Feb. 3 statement does not appear to constitute an official request for the closure of the base; the precise words of his announcement, as quoted in ITAR-TASS, were that his government “has made the decision on ending the term for the American base on the territory of
Kyrgyzstan and in the near future, this decision will be announced," (1) leaving the timeline for the base closure wide open and thus also leaving the door open for further negotiations with the US.

Bakiev informed the media that his decision to end American use of the base was based on growing domestic opposition to the presence of US forces on Kyrgyz soil, as well as on the US government’s ostensible unwillingness to discuss increasing the financial benefits it provides to his country, in return for leasing the base: “…American partners and us [sic] have many times discussed an economic compensation to Kyrgyzstan, but no understanding has been reached. Kyrgyzstan has been asking the United States to review the relationship for more than three years but to no avail.” (2) The Kyrgyz president seems to have forgotten that in July 2006 the US agreed to a considerable increase in both rent payments and other “compensation” in return for a renewal of the Manas lease. The 2006 lease renewal garnered the Kyrgyz government a total of US$150 million in economic benefits, including US$63 million for the use of the base and to pay for supply contracts and wages of the local personnel who work on the base. The president also appears to have missed widely reported statements on the matter made by General David Petraeus, head of the US Central Command (CENTCOM), during his visit to Bishkek last month. Gen. Petraeus emphasized the importance of the Manas air base in supporting US military operations in Afghanistan and mentioned the possibility of further raises in rent payments. (3) In fact, the general stated quite unequivocally that the US wishes to increase the compensation that Kyrgyzstan receives for leasing the base and that a delegation from the US would be traveling to Bishkek soon to discuss the matter: “I noted our desire to increase the benefits that accrue to your country from Manas and the other activities, and we'll be sending a team of senior officers here in February to discuss in concrete ways various programs that we can undertake.” (4)
President Bakiev’s advisers and staff are being more than a little remiss if they neglect to keep him informed of significant developments in Kyrgyz-US relations, particularly when those developments augur substantial financial benefits for his own administration. Of course, it is possible that the President merely feigned ignorance of the latest events in order not to antagonize his other benefactor, Russian President Dmitri Medvedev. The Kyrgyz government is in desperate need of any and all types of financial aid, be it in the form of loans, investments, debt forgiveness and/or grants. Kyrgyzstan has been battling energy shortages since winter 2008 and even Bishkek’s residents have been forced to endure power blackouts since last spring. President Bakiev is doing his best to lay the blame anywhere but on his own administration, to little avail – the public’s dissatisfaction with a government unable to meet some of the country’s most basic needs will not be appeased by politicians’ finger-pointing and blame-shifting.

The Russian government, despite its own current financial shortcomings, has promised to help prop up Bakiev’s administration by investing US$1.7 billion in Kyrgyzstan’s aging and rapidly decaying energy infrastructure, specifically in the hydropower industry, as well as writing off a chunk of Kyrgyzstan’s debt (US$180 million) and injecting US$150 million directly into the Kyrgyz state budget. The $1.7 billion is an interest-free loan to be used for the completion of the Kambarata-1 hydropower project. The project is due to be competed in four years. (5) Unfortunately, even if the new hydropower station is finished ahead of schedule, it will do nothing to help Bakiev lead his country through the upcoming months. Spring 2009 is likely to be a critical period not only for the survival of Bakiev’s administration, but for the survival of neighboring regimes, as well. Central Asia is facing a significant water shortage, due to both Kyrgyzstan’s and Tajikistan’s overuse of water from their reservoirs, water that is used to produce hydroelectric power domestically, but which is also needed for irrigation in Uzbekistan and Kazakhstan. No amount of Russian financial aid can change the current situation; in fact, if the Kambarata-1 station indeed is ready to go on-line
four years from now, there may be insufficient water to power it, which eventually may cause Moscow to reconsider its generosity.

There is also the question of whether or not Bakiev’s presidency will be able to survive the widespread social unrest which may well ensue as a consequence of continued power outages, the still rising cost of living (which will include ever greater hikes in electricity rates), and the not inconsiderable outrage of neighboring Kazakhstan and Uzbekistan, when their spring crops go unwatered. The Kazakh government may balk at the use of armed force to secure the water resources it needs, but Uzbekistan’s President Karimov does not seem to suffer a similar inhibition. Civil conflict in Kyrgyzstan and/or armed conflict between two or more Central Asian states over water resources also could give the Russian government pause at the prospect of becoming anymore involved in Kyrgyzstan’s affairs.

The timing of Bakiev’s announcement regarding the base closure comes at an interesting time – not only has Russia promised an unprecedented amount of investment into a Central Asian state facing numerous and perhaps insurmountable socioeconomic challenges, but Moscow also has given the green light to the establishment of new NATO supply routes to Afghanistan across its own territory and that of the Central Asian states. The significance of the Manas air base would seem to loom rather large in this scenario and Bakiev’s threat to request its closure, along with the Putin-Medvedev diarchy’s reported support for this move is an odd juxtaposition to Moscow’s purported desire for greater cooperation with NATO in its military operations in Afghanistan, operations that the US air base at Manas buttresses. This raises the possibility that the primary purpose of Bakiev’s announcement and Moscow’s continued grumbling over the US presence in Kyrgyzstan is to put additional pressure both on Washington and NATO, in order to extract the maximum economic benefit from whatever new agreements might ensue.
In any case, Bakiev himself can not make the decision on whether to evict US troops from Kyrgyzstan or not, he may only issue a recommendation on the matter to parliament, which must then draft and pass relevant legislation, including a deadline for the base’s evacuation. Neither of the signatories to the lease agreement has the right to terminate it unilaterally and the whole process likely would take at least six months, (12) providing plenty of time for further negotiations between Bishkek, the US, and NATO.

However, if the water and energy crises facing Kyrgyzstan and its neighbors prove to be too much of a challenge for President Bakiev and he loses his grip on power amid renewed social unrest, both the US and NATO may feel compelled to rethink their use of the Manas base. The Kyrgyz president appears to be gambling with heavy stakes, while holding a hand that grows ever weaker – hopefully his bravado will not cost his country’s citizens everything they have.

Source Notes:
(2) “US hopes for further use of Manas base in Kyrgyzstan,” 3 Feb 09, ITAR-TASS via Lexis-Nexis Academic.
(3) “Issue of U.S. airbase in Kyrgyzstan to be solved by early Feb - MP (Part 2),” 22 Jan 09, Central Asia General Newswire; Interfax via Lexis-Nexis Academic.
UKRAINE

Ukraine’s gas deal: What’s it all about?

The recent Russia-Ukraine gas crisis generally was understood in Western circles as a disagreement over both gas price and Ukraine’s foreign policy choices. But the underpinnings of the crisis actually were much more complicated. These underpinnings included Russia’s apparent desire to control Ukraine’s pipeline system, the questionable function of corporate gas brokers, and the identification of a fair gas price based on real figures. The battle also involved Russia’s determination not to work with Ukraine’s president, as well as Russia’s desire to create a case for funding proposed pipelines that bypass Ukraine. With so much at stake, it’s no wonder that both sides stood on forceful and inflexible positions at one point.

In the end, the gas deal appears to have made both sides unhappy in some respects – a sure sign that a genuine compromise was struck.

The details of the deal are complicated, but largely transparent. Ukraine will pay a “European price” for gas received from Russia. (1) That price will be refigured each quarter, based on market fluctuations. Because the global “market” gas price is tied to oil with a seven to nine month lag, Russia and Ukraine both can estimate the “market” gas price already through at least August, and possibly October. This allows the countries to determine, based on the volume of gas purchased, that Ukraine will pay an average of $228 per 1000 cubic meters (tcm) of gas in 2009. (2)
Although the $228 figure is higher than the approximately $180 Ukraine paid in 2008, it is far below the $450 Russia demanded during the height of the gas conflict. It is also below the “final offer” of $250 made by Russia on 31 December – one day before the gas to Ukraine was turned off. In this respect, it is a clear win for Ukraine.

Russia has attempted to represent this figure as a “special” price that includes a 20% discount granted to its “partner” – for which Ukrainians, of course, should be grateful. (3) Indeed, when signing the deal, Ukraine Prime Minister Yulia Tymoshenko went out of her way to sound appreciative. “I am very grateful to Vladimir Vladimirovich [Putin] and his team,” she said, “for their readiness to provide special conditions for Ukraine in 2009.” (4) Tymoshenko’s overwhelming (but somewhat forced) gratitude led a Moscow-based reporter to remark admiringly on the Prime Minister’s “feminine cunning.” (5)

It is far from clear, however, whether the $228 price truly is a sharply discounted price, given the decline in oil prices during 2008. As suggested in this issue by Creelea Henderson (See Energy Report), Gazprom’s formula to determine a “market” price is far from transparent. In fact, as Ukraine pointed out repeatedly during the gas crisis, Gazprom’s market price is open to interpretation depending on which country is involved, and it seems often to be set arbitrarily.

Following her agreement with Putin, Tymoshenko publicized the prices she said were to be paid by several other countries. She said Moldova, for example, will pay $280/tcm in 2009, while Belarus will pay under $200/tcm and Poland will pay $389/tcm. (6) Belarus has confirmed that it will pay a price that is close to the figure quoted by Tymoshenko, while Moldova has said it paid $280 in 2008, but could pay less this year.
However, Moldova’s President Vladimir Voronin recently announced that during the first quarter of 2009 his country will pay $318/tcm, as opposed to Ukraine’s “discounted price” of $360/tcm for the same period. (7)

This suggests that either Ukraine is not really receiving a discount, or that Moldova is receiving a much greater discount. The latter is very possible, given that Moldova has ceded partial control of its gas transit pipeline system to Gazprom and has received a concession that allows a very gradual move to “European prices” by 2012. Belarus has received a similar agreement.

These deals undermine the idea of a market-based “average European price” while placing control of pipelines in the hands of Gazprom. Although such an arrangement repeatedly has been suggested for Ukraine by Gazprom, the idea is strongly opposed by the majority of Ukraine’s voters. With the presidential election less than one year away, politicians suggesting consideration of Gazprom’s offered arrangement do so at their own risk.

Gazprom’s average European price also appears to be undermined by the current Russia-Germany agreement. According to numerous sources familiar with the deal, Germany will pay an average price of $280/tcm in 2009 – even though the cost to transport gas to Germany would be higher than that to Poland, which is paying much more. (8)

According to Ukraine’s Naftohaz gas corporation, Ukraine will pay $270/tcm during the second quarter of the year, $219/tcm during the third and $162/tcm during the fourth, as gas prices gradually catch up to oil prices. (9) Gazprom did not refute any of these figures.

Ukraine appears to be the first Gazprom client to release specific pricing, volume, and formula details of its contract; the Russian company generally insists on confidentiality. This secretiveness allows Gazprom to suggest prices without
providing comparative data, as it did throughout its gas spat with Ukraine. For example, although Gazprom suggested that “Europe” would pay $450/tcm during the first quarter of 2009, it is clear now that few, if any, countries actually will pay this price. Journalists were unable to confirm or refute this figure at the time (assuming they tried), since pricing details of Gazprom clients were confidential.

Moreover, the Ukrainian price of $360/tcm for the first quarter primarily seems to be for Russia’s public relations benefit, since Ukraine will buy almost none of its gas at that price. In fact, shortly after the deal was signed, Gazprom confirmed that it had sold Ukraine all of the gas held in storage by the gas intermediary RosUkrEnergo (RUE, 50% owned by Gazprom) at a price of $167/tcm. (10) This deal—agreed upon separately and announced quietly days after the main gas agreements were signed—is a major reason why Ukraine’s price will average below other countries in Europe (with the notable exception of Russia’s close ally Belarus).

After the agreement was signed, Tymoshenko also announced that the so-called “technical” gas used to operate pumping stations sending gas to Europe will be purchased at a fixed annual rate of between $153 and $167/tcm. (11) Since Ukraine can use up to 18 million cubic meters of technical gas per day, this price amounts to a huge savings. In fact, it is less than the price paid for technical gas last year ($179/tcm).

Finally, Ukraine will carefully control its gas purchasing. The country holds about 15 billion cubic meters of gas in its own storage and will take possession of 11 billion from RUE. Therefore, Ukraine will need only a few million cubic meters of gas before April, when the plummeting oil prices begin pushing down gas prices. “We will limit the purchase of gas in the first quarter,” Tymoshenko explained, since “there is simply no need to consume expensive gas during this time. That is why we have storage facilities and why we pumped gas into them all year. And now we have the necessary leeway …. .” (12)
Moreover, the country will purchase between 10 and 15 million fewer cubic meters of gas than last year. This decrease in gas needs is an ironically positive effect of the global economic crisis, as plummeting metallurgical production leads to a drastic decrease in gas required to run Ukraine’s factories.

In the agreement, Tymoshenko achieved her long-desired goal of removing the RUE gas intermediary. RUE’s removal also had been encouraged by, among others, the EU and several independent monitoring groups. In particular, international corruption monitor Global Witness, after years of investigating, suggested that RUE’s structure and opaque nature created a clear impression of corruption. (13)

In a comment released during the gas crisis, Global Witness noted that RUE earned profits of approximately $800 million per year. However, “RosUkrEnergo has sat astride one of the most strategic and lucrative energy supply routes into the EU while revealing very little about its activities or, for nearly two years, even naming all its shareholders.” (14)

Despite this achievement, Ukraine failed to achieve one basic goal during its negotiations; although it will pay more for its gas, the country will not receive an increase in the fees Russia pays for the right to transit gas through Ukraine. Therefore, there will be no offset of the additional cost Ukraine will pay for its gas in 2009. This additional cost for Ukraine is expected to equal between two and three billion dollars.

There is no way to know, of course, what political side agreements may or may not have been made during the talks between Putin and Tymoshenko. Will Russia tacitly support Tymoshenko’s bid against Yushchenko for the presidency later this year? Did Tymoshenko agree to drastically alter Ukraine’s strategies to
join NATO or integrate with the EU? Will Gazprom be provided expanded access to Ukraine’s domestic gas network? Did Tymoshenko agree to discuss an extension of the Black Sea Fleet lease? Or did she agree to allow gas exploration on the Black Sea Shelf?

The answers to all of these questions are important and will remain unknown in the near to medium-term future. It is clear, though, that Yushchenko was effectively frozen-out of negotiations by Putin. The Russian president’s pre-existing animosity toward his Ukrainian counterpart increased following Yushchenko’s defense of Georgia’s position during the August 2008 Russia-Georgia conflict. For his part, Yushchenko showed no desire to negotiate with Russia over any part of the gas deal.

Still, following the agreement, Yushchenko attacked his prime minister and likely presidential election competitor, suggesting she had betrayed Ukraine’s national interests. He then instituted a criminal investigation of Tymoshenko’s actions. (15)

Tymoshenko responded simply. “I believe if the president could have secured better conditions,” she said, “there was no one to stop him.” (16)

The next gas price adjustment negotiation with Russia will occur during the upcoming presidential campaign, with an election to take place between 26 December 2009 and 23 January 2010. The path of negotiations, and the ease or difficulty with which an agreement is reached, very well could depend on the type of role Russia would like to play in Ukraine at that time.

Source Notes:
(1) Statement by Prime Ministers Vladimir Putin and Yulia Tymoshenko, 17 Jan 08 via Russia Today news channel at
http://www.youtube.com/watch?v=wYdeVQDvojc (English) and Vesti at http://www.youtube.com/watch?v=3tPSGwQ2SXM (Russian).

(2) Ukrainian News Agency, 1932 CET, 20 Jan 09.


(4) Comment by Prime Minister Yulia Tymoshenko, 19 Jan 09 via Russia Today (Moscow) and Fifth Channel (Kyiv). Statement can be viewed with English translation at http://www.youtube.com/watch?v=PMVZ2WBT6H4.

(5) Ibid.


(7) Infotag News Agency (Moldova), 27 Jan 09; BBC Monitoring via Lexis-Nexis.

(8) Thanks to a special deal, which provides Gazprom some access to Germany’s domestic gas distribution, the German gas price is determined based on futures prices. This is unlike other European countries, which use Gazprom’s “average European price.”

(9) Ukrainian News Agency, 1932 CET, 20 Jan 09.

(10) UT1 Television, 22 Jan 08; BBC Monitoring via Lexis-Nexis.


(16) “Ukraine President, PM row again before key meeting,” Reuters, 1448 CET, 22 Jan 09 via Google News.