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Russian Federation: Executive Branch
By Susan Cavan

Crisis makes manifest fissures in Russia's political façade
Despite the passage of one year since Dmitri Medvedev was elected president of the Russian Federation, the odd "tandem" that formed when former President Putin selected his successor and finagled to ensure his electoral victory, then sidled into the role of prime minister has yet to establish a clear mechanism of governance (institutional or personal) or to delineate, at least publicly, the rulers' respective spheres of authority. The result is a muddle of divided responsibilities: Putin and his government clearly have overall authority in the economic sphere, but the attendant responsibility for economic missteps appears absent; President Medvedev seems to have authority in foreign affairs, as well as some judicial and legislative initiatives, but only absent crisis, such as attended the invasion of Georgia in August 2008.

While the onset of crises (economic and political-military) seems to demand a more transparent method of governance, the experiences with the Georgian war and the economic crisis have provided starkly different results. Last August, Prime Minister Putin took control of Russia's response in a very public and bellicose manner. President Medvedev negotiated with the EU (through the French president) over ceasefire terms that were never fully implemented — at great peril to his reputation and with damage to his presumed authority (ex officio) in such matters. (1) Prime Minister Putin emerged from August's events as the obvious senior member of the tandem, and the indispensable authority in the Russian political leadership.
The onset and continued tumble of economic crisis has produced a more mottled picture of leadership. While the Russian government traditionally (at least since 1992) has assumed both the lead and the responsibilities for economic reform and management, initial responses to the 2008 economic downturn, particularly by Russia's oligarchs, suggested uncertainty; those seeking the state's financial largesse appealed both to Putin and Medvedev for support. However, it soon became clear that Putin's government would control the distribution of "bail out" funds and, additionally, structure (and restructure) corporate mergers and asset/debt trades. (2)

As the economic crisis grinds on, three trends are most notable and are coming to characterize this phase in relations between the president, prime minister, and their respective cadres. First, President Medvedev appears to have stepped up efforts (however mild) to differentiate himself from his predecessor. Most recently, Medvedev has indicated his support for two bills that appear to encourage the formation and representation of small political parties. One bill aims to reduce the number of signatures required of a political party for registration, while the other seeks to address the current inequalities of media coverage, specifically television and radio, for all parties represented in the Duma. (3) Putin, since accepting the leadership of, if not membership in, United Russia has made clear efforts to ensure the dominance of United Russia, and Medvedev's measures can be seen as attempts to counterbalance the party.

These efforts on the part of Medvedev have fed into another aspect of the current situation that involves rampant speculation—of a sort rarely seen since the Yel'tsin years—over a possible shake-up in the current political arrangement. (4) Several factors, including early indicators of independent action by the president, contribute to the speculation, but the effects of the economic crisis form the basis of most scenarios. In part, this reflects the assumption that the prime minister and his government are responsible for "anti-crisis" measures that are not proving successful in resolving the economic difficulties. While it is assumed that
Russia's banking system has survived thus far due, in large part, to government actions (specifically the Finance Minister's creation of a large reserve fund), future incarnations of the crisis likely will result in severe economic challenges and privations. Prime Minister Putin, whose hallmark has been stability and order, must either prepare himself to oversee an era of economic distress (with its probable negative impact on his popularity) or leave his post. It is the possibility of Putin's loss of public support in the face of this crisis that lies at the heart of the ouster/resignation scenarios. What is more notable, perhaps, than the speculation itself is the realization of circumstances that make these scenarios seem possible.

There is also a robust debate among several leading members of the apparat (alternatively Putin and Medvedev associates) regarding the nature of Russia's polity and the possibility of changes to the social and political structure. Igor Yurgens of the Institute for Contemporary Development seems to have sparked the debate with his consideration of a social contract that involved a trade off between prosperity and citizens' rights. (5) Responses have abounded, perhaps most notably from Vladislav Surkov, who was considered Putin's main political adviser (and "architect" of youth group movement Nashi). Surkov, who addressed "Forum Strategy 2020," a gathering meant for a discussion of the political situation and dedicated to reviewing Medvedev's first year as president, attacked suggestions that a social compact had developed in Russia during the Putin years: "I mean speculation on how the powers-that-be distributed oil dividends and so on and society in return forsook its rights and freedoms. And how now that oil dividends have been expended, society comes to its senses again and wants freedoms back." "A word to the wise," Surkov offered to those swayed by this argument, "Try not to get carried away even in crises." (6)

If there are fissures developing in the political leadership, they are most noticeable within and between the government and presidential apparatus. While competition between the Kremlin and government staffs is not only to be
expected, but indeed has been a characteristic of every post-Soviet government, it is the factionalism re-emerging within each staff that is most suggestive of conflict. At the Kremlin, the division seems to be a consequence of the ideological dispute over whether the nature of the political system needs to be changed (or is changing due to circumstances) or whether it is best to maintain the status quo. Most recently, it has deepened over the selection (and publication) of a list of apparat benchwarmers – the Kremlin "reserves" that seems to have been a special project of Kremlin Chief of Staff Sergei Naryshkin.

Within the government, nearly the same factional splits that were visible in Putin's Kremlin have reappeared, notably between siloviki and St. Petersburger economists. In this case, circumstances evolving directly from the economic situation, such as a debate over propping up the ruble and at what expense to industry, have aligned Finance Ministry Chief Aleksei Kudrin, along with his recently-released deputy, Sergei Storchak, (7) Central Banker Sergei Ignatiev, Economic Development Minister Elvira Nabiullina, and very few others against an array of siloviki, including Deputy Prime Minister Igor Sechin, Russian Railways President Vladimir Yakunin, and Russian Technologies Chief Sergei Chemezov, et al.

What is clear from events of the past year is that the diarchy appears as an unstable political arrangement, not least because of its hazily conceived division of authority. The current economic upheaval has provided an environment that may serve either to anchor the diarchy by providing institutional roots and support, or to shred the delicate structure altogether. There is support for both approaches. As former Kremlin ideologue, Gleb Pavlovsky notes, "There is a multiparty system with the authorities…. One of those is the pro-crisis party, those who want a new little coup." (8)

While Surkov may hope to prevent the crisis from distorting or destroying the system that he helped to create and therefore propounds a need to strengthen its
dynamic, there are those who suggest that the artificial creation of the tandem will topple on its own: "Surkov sees the situation he created over the last few years has started to come apart," claims Yevgeni Gontmakher from the Institute for Contemporary Development. "We need to introduce real politics, not this imitation." (9)

Source Notes:
(1) See IScip Analyst, Volume XIV Number 15 (18 August 2008) for comments by then US Secretary of State Condoleezza Rice regarding Medvedev's (and Russia's) inability to deliver on their promises).
(2) See previous ISCIP Analysts, e.g. Volume XV, Number 8 (19 February 2009).
(4) See, for example, "Is Putin leaving." by Dmitri Bykov, Sobesednik, 26 Feb 09 and "Coup rumors should not be dismissed," Interview with Pavel Gusev, editor-in-chief of Moskovsky komsomolets, Moscow City FM Radio, 1230 GMT, 2 Mar 09; BBC Monitoring via JRL, 4 Mar 09, 2009-#44.
(5) See IScip Analyst, Volume XV, Number 8 (19 February 2009).
(6) "We never traded freedom for lentil soup," by Anton Denisov, Nezavisimaya gazeta, No. 42, 3 Mar 09; What the Papers Say via Lexis-Nexis Academic.
(7) Deputy Finance Minister Sergei Storchak's arrest on corruption charges and eventual release from detention last year is detailed in several previous IScip Analysts.
(8) "Top Officials Denounce Calls for Kremlin to Restore Freedoms," by Gregory L. White, 4 Mar 09, Wall Street Journal via Johnson's Russia List (JRL), 4 Mar 09, @009-#44.
(9) Ibid. Quote attributed to Yevgeni Gontmakher, a senior staff member of Igor Yurgens' Institute for Contemporary Development.
The financial crisis and Russia’s middle class

Part of the difficulty of examining how Russia’s middle class has been affected by the current financial crisis is due to the difficulty of defining the term "middle class." In unquantifiable terms, it could refer to those who are educated, occupy mid-level jobs with growth potential, and live comfortably on a steady income. A 2003 survey of the Russian population contextualized the term based on three factors: “wealth, occupation, and self-identification,” (1) and found that nearly 20 percent of the Russian people self-selected into the middle class in at least two of these categories, a group that researchers named the “core middle class.” (2) Although the number was substantially higher in urban areas than in rural, this figure was the average for the entire country.

Within five years of the original study, a group of Russian sociologists modified this definition, specifying that the middle class lived only in urban areas, added higher education to the requirements for inclusion, and classified their work as “non-manual or entrepreneurial.” (3) These changes raised the number of middle-class Russians to more than 25 percent of the population. Unless otherwise stated, this will be the working definition for all future references to the "middle class" in this article.

In the meantime, Russia’s Ministry of Economy put forth its own definition in December 2004 when it announced that only those with earnings of more than “six times greater than the subsistence minimum” counted as part of the middle class. According to the same report, Russia’s middle class would include 50-60 percent of the population by 2010, a very optimistic figure encouraged by the
previous four years of financial growth thanks to high oil and natural gas prices.  
(4) The current minimum wage in Russia is 2000 rubles ($55) per month, (5) which would mean that the middle class includes anyone who earns more than 12000 rubles ($332) per month. Even though the optimism that fueled this prediction has faded in light of the current financial crisis, this definition would expand drastically the current middle-class population.

Finally, a spring 2008 Levada poll of the middle class helped put this issue in more concrete terms, only focusing on those who earned more than 68,250 rubles ($1888) per month in Moscow, and more than 36,400 rubles ($1,006) elsewhere. (6)

The inability of pollsters, the government, and Russian citizens to agree on a single definition for "middle class" is less important than the universal factors that set the current Russian middle class apart from its counterparts in other developed economies. First of all, in most developed countries, the middle class makes up the majority, not the minority. Second, and more importantly, rampant corruption among the business community has created what some experts call a "shadow economy," or an economy based on estimation. A poll from 2000 found that most persons claimed to earn $600 per month on average, (well above the proffered minimum wage) but listed $450-1250 worth of expenses, which is an alarming disparity in light of most Russians’ lack of savings and credit. (7)

This lack of savings and credit is the third major factor indicating why the global financial crisis is afecting the Russian middle class differently than both the Russian upper and lower classes, as well as the rest of the world’s middle-class population. After the financial crisis of the 1990s, most of Russia’s citizens never really regained trust in the country’s banking system. This is understandable; after all, it was the middle class that bore the brunt of the economic damage inflicted on and by the government in the 1990s: massive unemployment, food and supply shortages, bank collapses, and government-sponsored fundraising
schemes such as GKO bonds and other short-term, ruble-dominated treasury bills that promised high payoffs but failed to provide any financial compensation. In August 1998, despite the nearly $45 billion that the population had poured into the GKOs over four years, Russia defaulted on its debt and devalued the ruble, causing banks to fail and wiping out the savings of private citizens. (8) In the aftermath of the crash, the middle class virtually disappeared, as a majority of the country’s educated, mid-level white-collar employees lost their jobs, pensions, and savings.

At that time, it was doubtful that the situation ever would improve, and many concluded that there was scant possibility of middle class expansion in the near future. (9) Soon, however, then-President Putin instituted a combination of financial and government reforms, which were bolstered by a soaring commodities-based economy that created ideal conditions for growth. For the next several years, Russia experienced, on average, seven percent annual growth, which served to eradicate foreign debt, dramatically lower poverty levels, create a budget surplus, multiply the average income by eight and allow the government to put away more than a half trillion dollars in foreign currency reserves, as well as create a $172 billion reserve fund. (10) Even after the onset of the global financial crisis, Russia’s economy ranked tenth in the world in 2008 with a $1.8 trillion GDP. (11)

Many assume that these factors will prevent the financial crisis from reaching the people in the same way that the 1998 collapse did. However, as mentioned before, the major reason why the current situation has not affected middle-class Russians seriously is that they simply never put their money back into the financial system. Instead, suspicious of the government when it comes to economic matters, nervous citizens choose to invest in short-term projects or squirrel away money at home or in foreign banks. 80 percent of Russian families currently have no savings. (12)
This mistrust extends beyond savings accounts to the nation’s credit system. While most westerners have high personal debt, few Russians have credit cards, and mortgages account for less than 1.5 percent of the country’s GDP. In the eyes of some economists, what was once a problem to be overcome has now become an advantage, as a simple economy might prove to be more resilient and recover more quickly than western credit-burdened economies.

At the same time, there are several factors that may complicate the recovery of the middle class. First of all, unemployment continues to rise. As of last month, unemployment in Russia was at 5.8 million, an increase of 500,000 from Fall 2008. This number is roughly equivalent to eight percent of the population, an increase of 1.8 percent from the past year and the first time since 2006 that unemployment has not decreased. This trend is expected to continue into 2009, as experts from Russia’s Health and Social Development Ministry have predicted that unemployment will approach seven million. In this context, the number of persons without savings is a serious liability.

Even those who do have money are affected by the falling value of the ruble. While members of the upper class are insulated by their wealth from short-term currency undulations, the middle class lives paycheck-to-paycheck, leaving its representatives more vulnerable to both rising unemployment and the variability of the ruble. Even though the government continues to prop up the national currency, the value has continued to decrease, which means that middle-class Russians, who deal only in cash, consistently are losing money as food and housing prices rise. In the past year, for example, food prices have increased between 36-50 percent, more than four times the increase in European Union countries.

The Kremlin response to the burgeoning middle-class crisis has been minimal. Perhaps remembering that it was the growing and vocal discontent among the newly expanded lower class that prompted President Yeltsin to fire then-Prime
Minister Viktor Chernomyrdin in March 1998, and then to hire and fire a series of Prime Ministers in succession until Putin took office, the Kremlin has gone out of its way to downplay the seriousness of the current situation and prevent the burden from landing on the middle class a second time. In November it publicly acknowledged the need to “move decisively to protect the emerging middle classes from poverty in the economic slowdown,” in order to quell fears about Russia’s long-term stability. (18)

These words have yet to be bolstered by actions, however, and the trouble seems to be getting worse. In December, account holders at Capital Credit, a Moscow bank, found that their money was no longer available when they went to retrieve it. In a show of public discontent that could grow ever more prevalent, investors turned to the internet to group together, contact politicians, and pass around petitions calling for the bank’s license to be revoked, which would qualify the bank’s clients for government insurance and entitle them to a return of their funds. When this failed to garner a response from Russia’s Central Bank, investors took to the streets in protest, waving signs that compared the current situation to the 1998 crisis. After several weeks, the government eventually revoked the bank’s license. (19)

This example, particularly the protestors’ willingness to compare the current situation to the 1998 crisis, is telling, especially since Putin often claimed during his presidency that the strong economic growth he oversaw during his eight years in power was the result of Kremlin-instituted economic and social reform and constituted a victory over the corruption and incompetence that had caused the 1998 collapse. Stability, he often maintained, was what restored Russia’s position in the world. It remains to be seen whether the government will be able to maintain that stability as the situation continues.

Source Notes:
(2) Ibid.
(7) Josh Wilson, “Russia's Elusive Middle Class,” The School of Russian and Asian Studies, 10 Feb 04 via http://www.sras.org/russian_middle_class. Last accessed 28 Feb 09.
(9) “Russian Middle Class – Sociologists’ View,” ibid.


(13) Ibid.


(16) “Russia’s Middle Class Feeling Pinch as Unemployment Soars,” ibid.

(17) “How Did Russia Rebuild Itself? Sorry, But You’re Wrong,” ibid.


Russian Federation: Security Services

By Fabian Adami

MVD – Targeting students
On 14th February, First Deputy Minister of Internal Affairs Mikhail Sukhodolskiy announced that the MVD is launching a new surveillance program targeted at Russia’s education system. “Educators”—a euphemism for surveillance officers—are to be assigned to universities around the country in the very near future. The reasons cited for this decision are two-fold. First, Sukhodolskiy claims that authorities are concerned particularly about the failure of “ethnic youths” (presumably Chechens, Tatars, Bashkirs, etc.) to “assimilate and to adhere to common standards of behavior.” Secondly, the political leadership fears that the current political and economic instability might lead to a Russian version of the protests that occurred in Paris during 1968. (1) Russia’s youth, according to Sukhodolskiy, has been left out of “indoctrinal work” for too long, a fact that might lead to “outbursts of social activism,” read anti-government outpourings. (2)

There is no reason to doubt that President Dmitri Medvedev and Prime Minister Vladimir Putin fear mass demonstrations in the current climate – Russia’s economy has suffered and will continue to suffer. New graduates likely will face extreme difficulty in finding work, and the unemployment rate will rise, just as it has done elsewhere. But, the sales pitch behind the program is transparent and cynical at best. Russia has a huge problem with racism and discrimination against ethnic minorities – witness the knee jerk response of blaming even the smallest problems on Chechens or other minorities from the Caucasus. This is a blatant case of using fear of the “other” to convince 7.5% of the population (Russia’s students) that the state must monitor their every word, in order to protect them.

**FSB & finance**

Late in January it became clear just how seriously President Medvedev is taking the current economic situation. At a meeting attended by the country’s most powerful officials, Medvedev assigned the FSB the task of monitoring the expenditure of state funds. Corruption already is a huge problem in Russia, and
the Kremlin is concerned that the “considerable resources” that will be called upon to solve the financial emergency “should be spent as designated.” Medvedev’s comments at the meeting were relatively tough, with the president making it clear that any attempts to “profiteer” from the crisis would be viewed as a “double crime.” (3) The national economy Medvedev noted, already contains a number of “corrupt set-ups,” which could cause serious damage if they were allowed to function freely. (4)

In total, the FSB will be supervising the allocation and distribution of some 2.1 trillion rubles. (5) It is evident that the Kremlin (with some justification) is concerned about the issue—epitomized by the oligarchs—of capital flight, which so nearly brought about a collapse during the Yel’tsin years. Russia’s economic future depends on ensuring that its valuable oil and gas revenues do not disappear offshore.

Further expansion of the FSB’s power generally must be viewed with concern, given the agency’s already wide-ranging reach. In this instance, however, it is difficult to see who else could be called upon to do the job: the country’s financial regulators clearly are not trusted at the highest levels.

**Politkovskaya fallout**

On 17th February, the jury in the Politkovskaya trial returned with a unanimous not guilty verdict for all of the defendants accused in the murder-conspiracy. Any other decision had been made almost impossible due to a number of factors. DNA and fingerprint evidence at the scene did not match those of the defendants, while prosecutors and investigators had succeeded in losing—apparently irretrievably—a number of other pieces of evidence. (6)

The fall-out from the verdict was immediate and virulent. State attorneys announced their intention to file an appeal, while the Prosecutor General’s Office insisted that the truth of the crime would be “fully established” by further
investigation, so that “those who carried it out and those who commissioned it” could be “identified” and brought to justice. (7) Russia’s Human Rights Ombudsman Vladimir Lukin also issued a statement noting that the investigation had been carried out in a shoddy manner, with little or no regard to the process itself. The focus of inquiries, according to Lukin, is too often on “the opinion of the bosses as to which verdict is required in a given case,” rather than on correct methods and procedures. (8)

Anna Politkovskaya’s son Ilya reacted to the verdict with disappointment, claiming that “having studied the case files,” he was convinced that the four defendants “were involved in the murder one way or another.” (9) Mr. Politkovskaya did not blame the jury, claiming instead that the prosecution’s affidavits had been “half-baked,” and should not have been submitted in the form that they were. (10) Politkovskaya’s former deputy editor at Novaya gazeta, (11) as well as a number of human rights activists echoed these sentiments, implying that the Security Services had omitted key pieces of evidence, including forged identity documents, computer hard-drives, SIM cards and surveillance video footage, despite concerns that they would be painted as incompetent, for fear of revealing classified information in an open court (12), and for fear of revealing who really was “behind” the murder. (13) Neither Mr. Politkovskaya nor his family’s attorneys believe any one of the four defendants was the actual triggerman. They argue that the “executor” and the “contractor” of the crime are still at large, (14) and have hinted that the investigation should focus on loyalist Chechen President Ramzan Kadyrov and those close to him. (15)

Defense attorneys in the case have admitted that there is a likelihood that the jury’s verdict will be overturned, noting that such a ruling would fit the State’s pattern in high-profile cases. If that occurs, then the State and the Security Services will be able to claim—albeit illegitimately—that their work is done and that the case was solved. It is entirely possible, given Politkovskaya’s criticism of his regime, that President Kadyrov is connected to the murder. However, it is
simply not in the Kremlin's interests to investigate the case—or any Kadyrov links—in any depth. Perhaps it is for this reason that Ms. Politkovskaya’s family is disappointed with the verdict – they know that this trial is their only chance for any kind of closure.

Source Notes:
(1) “Police To Be Assigned To Campus Duty At Russian Universities, Editorial: ‘Calm Down, Student,’” Gazeta.ru, 14 Feb 09; OSC Translated Text via World News Connection.
(2) Ibid.
(3) “FSB Should Track Spending Of Govt Aid Allotted To Banks, Companies—Medvedev,” Interfax, 29 Jan 09; OSC Transcribed Text via World News Connection.
(4)“Russia’s FSB To Monitor Use Of State Anti-Crisis Funds,” Politkom.ru, 18 Feb 09; BBC Monitoring via Lexis-Nexis.
(5)“Russia’s FSB To Monitor Expenditure of State Anti-Crisis Funds, Corrected Version; Changing Typo in Subslug. Article by Olga Mefodyeva: ‘Application Also Found For FSB,’” Politkom.ru, 13 Feb 09; OSC Translated Text via World News Connection.
(6) See The ISCIP Analyst, Volume XV, Number 8 (19 Feb 09).
(9) “Murdered Russian Journalist’s Son Disappointed At Not Guilty Verdict,” Vesti TV, 19 Feb 09; OSC Summary via World News Connection.
(10) “Politkovskaya’s Son Believes Acquitted Men Guilty of His Mother's Death,” ITAR-TASS, 19 Feb 09; OSC Transcribed Text via World News Connection.
Russian Federation: Armed Forces

By Lt. Col. Erik Rundquist

**Russian military reform - a continuing saga**

Defense Minister Anatoly Serdyukov’s reforms of the Russian military continue to grab headlines. While the most controversial and visible element of the reform is the reduction of military manpower (particularly among officers and the General Staff), a key component in bolstering these changes resides with Russia’s military industry. (1) That industry not only is critical in research, development, and military construction, but also in providing Russia with a source of revenue to help cover the costs associated with reform. In addition, some recent measures concerning combat service support (essential to maintaining morale and effectiveness) may have implications for medical services and rear area support for combat brigades. With the engines of reform turning will Serdyukov’s efforts stall in the midst of global economic crisis?

**The industrial “complex”**
For the Russian navy, military reforms have focused on new ships and advanced weaponry to enhance force projection and strike capability. With regard to precision long-range strike operations, tests are scheduled to resume on the Bulava missile system, despite its most recent flight failure in December 2008. A Russian defense industry source noted, “Investigations which were carried out show that factory defects were the cause of the latest failed launch.” (2) While at least five tests are scheduled for 2009, the sea-launched ballistic missile has not fared well, due to substandard construction or poor quality of the missile’s components. (3)

Regarding force projection, the Russian navy announced it plans to receive its newest combat logistics ship, the Zvezdochka, sometime during the autumn of 2009. This construction project was started in September 2004, the ship was floated in December 2007, and according to the program’s director-general, Vladimir Nikitin, the ship recently has entered the “testing stage.” (4) If successfully tested, this logistical support ship may aid future Russian naval forays such as those seen in the Mediterranean and the Caribbean in 2008.

While both the Bulava missile and logistical ship construction represent important tasks to support the navy, Russian Industry and Trade Minister Viktor Khristenko is examining the larger strategic picture for naval construction. Recently he announced a merger of Russian companies into a shipbuilding corporation will include the Rubin, Malakhit, and Almaz central design bureaus and three shipbuilding centers. (5) Khristenko acknowledged that Russia’s 168 major shipbuilding companies, 2,000 minor component companies, and over 100 private ship repairing companies employ over 160,000 persons and the purpose of this unified corporation will be to, “improve the competitiveness of the shipbuilding industry.” (6) While not necessarily a “bailout” moment for the Russian naval industrial complex, it seems Khristenko’s consolidation strategy, while attentive to the external global competition for naval sales, potentially could
create downsizing conditions where redundant functions within each currently independent company would be eliminated.

Like their naval counterparts, the aviation and space components of Russian military production also are planning significant activities for 2009. While there is anticipation of the initial test flight of Russia’s fifth generation fighter in mid-2009, the Russian Air Force will continue to receive current operational aircraft for its inventory. (7) According to Lieutenant Colonel Vladimir Drik, aide to the Commander-in-Chief of the Russian Air Force, at least ten MiG-29 SMT fighters and ten modernized Su-25 ground attack aircraft will be added to the Russian inventory this year. (8)

Moreover, the Russian satellite navigation system “GLONASS” is expected to reach the operational parameters of its American counterpart “GPS” by the end of 2011, predicts Russian Deputy Prime Minister Sergei Ivanov. (9) Despite this, Ivanov adds that there is heavy competition with the European Union and China where Russia might, “ ... lose our leading positions as a provider of navigation services.” (10) Ironically, Ivanov’s statement was made in the midst of a maintenance stand-down where three of twenty satellites were taken off-line simultaneously, which “considerably reduced” the availability of navigation services, highlighting the instability of Russia’s satellite system. (11)

While Russia is trying to procure advanced weapon systems, Serdyukov announced in a closed session of the State Duma that the military budget would be changed. In fact, Russia’s revised defense budget for 2009 actually will cut defense spending by 15 percent, although there is no limit on military hardware and equipment “purchased via state orders.” (12) As if trying to calm the Russian arms manufacturers, Prime Minister Vladimir Putin noted that the domestic defense industry will have production orders for several years. He signed and authorized an order providing government loan guarantees for “strategic military industrial concerns.” (13)
Another way the Russian defense industry can help itself is in the form of military exports, although the results are often mixed. Nikolai Dimidyuk, a spokesman for Rosoboronexport, noted that there are over 20 billion dollars in current orders with nearly half of this total slated for combat aircraft and the remaining amount supporting ground forces, air defense, and naval forces. Rosoboronexport noted that its primary customers are China and India. (14) In fact, the Indian Government Security Committee recently approved nearly 1.2 billion dollars to purchase 80 Russian Mi-17 medium transport helicopters for India’s air force. (15)

Dimidyuk acknowledged that the global economic crisis has forced Rosoboronexport to examine other options to entice buyers. In particular, this company may form joint ventures with other countries to share the burdens of research and development, and Dimidyuk remarked his company would, “... consider any forms of financial settlements.” (16)

Another option for Russia to build up its financial coffers is through a military equipment leasing program. In January 2009, the Director of Federal Service for Military-Technical Cooperation Mikhail Dmitriyev announced Russia may transfer several Project 971 Shchuka-B-Class (NATO designation: Akula-2) nuclear submarines to India for a ten-year lease period. (17)

Despite these promising ventures and export options for the Russian military industrial complex, there have been some setbacks in the midst of Serdyukov’s reforms. Algeria recently sent the Russian Air Force packing as it rejected their MiG-29 fighter aircraft imports after nearly three years of trying to close a 1.3 billion dollar arms deal. The Algerians cited the “inferior quality” of the fighters and highlighted an even greater symptom of Russian military sales; namely cost overruns, inability to meet delivery timelines, poor production, faulty equipment,
unreliable maintenance support, and lack of spare parts and replacement components. (18)

Domestically, Serdyukov has had to intervene personally in order to take care of Russian military industrial workers. Recently, the Defense Ministry promised to pay over four hundred workers of its 111th military factory in Briansk, as these technicians had not been paid their salaries for nearly seven months. Attention to the matter apparently was highlighted when 18 workers went on a hunger strike in January 2009, resulting in two of the workers being hospitalized. This particular factory also had failed to pay government taxes, fees, and energy bills and the factory leadership is under investigation. (19) While this factory might not be typical of the military production industry, it does serve to demonstrate the potentially corrupt domestic environment that Serdyukov must navigate in order to move forward with his military reform.

**Combat service support reform**

An important element of Russia’s planned military reform involves the various combat service support agencies for the military. In particular, if smaller regionally-focused and agile combat brigades represent the army’s end goal, then care and morale of this diminished force is crucial. Lieutenant General Vladimir Shappo, chief of the Russian Defense Ministry Main Medical Department, announced that nearly 2,200 medical officer positions will be cut, 22 military hospitals would be closed, and some facilities merged, in order to support Serdyukov’s reforms. Shappo suggests that despite these cuts, the quality in military care will be “gradually increasing.” (20) By 2016, Shappo adds, approximately one-third of the military medical officers will be civilians and in many cases military doctors will likely “... remove their epaulettes and will remain in their hospitals.” (21) This paradox of force downsizing coupled with transforming positions into civil service jobs resembles the General Staff cuts, where senior officers will remain in a civilian/advisory capacity. (22) In either case, the retention of these officers in all likelihood will cut into any savings that
might have been reaped from their dismissal. Added to this, as civilian employees, Russian military officers may lose some flexibility regarding their deployment and tactical use. It is highly unlikely these specialists would be deployed to hostile areas.

Closer to the combat brigade frontlines is the crucial “rear area,” which typically houses medical, supply, transportation, engineering, force protection, fuels, and other elements essential to maintaining combat forces. Recently, the Rear Services Chief, Deputy Defense Minister Colonel-General Dmitri Bulgakov announced that a major reorganization and restructuring of the rear services would commence. Bulgakov identified the global economic crisis as a factor in this decision, given that the reform is intended to be a cost-saving measure. (23)

As if on cue, military analysts have pounced on the rear services reform effort. Anatoliy Tsyganok from the Military Forecast Center notes Serdyukov’s reform will severely degrade the rear service support structure. Moreover, Tsyganok is advocating the division structure used by NATO, the US, and Japan that enables a more robust rear service support capability. (24) Linking some of the highlighted problems within the Russian civilian economy, Tsyganok also claims that transforming the Armed Forces Rear Services into various civilian organizations and holding companies will make things worse for the military and “engender corruption.” (25)

Konstantin Sivkov of the Academy of Geopolitical Problems is concerned that the reform measures will not provide any cost-savings at all. He argues that transfer to civilian organizational support is more expensive and has increased “14 times.” He also feels that the civilian organization will be incapable of providing supply trains beyond three to four days of operations. More importantly, he claims, “These civilian rear services specialists will scatter after the first shot.” (26)
As Defense Minister Serdyukov pushes through the reform measures that will impact the combat brigades, their combat service support functions, and the economic industrial base to bolster these changes, history unfortunately is not on Serdyukov’s side. Colonel-General Leonid Ivashov, president of the Academy of Geopolitical Problems notes, “I have counted six phases of military reform in Russia beginning since 1988. Only one issue – reductions – has been successfully resolved in each of them.” (27) In order to work through the reform measures, the military industrial complex will have to step up and compensate for the troop reduction by following through on its promises of adopting more advanced technology. Serdyukov has much riding on this premise for 2009.

Source Notes:
(1) See The ISCIP Analyst, Volume XV, Number 4 (6 Nov 08) for discussion on manpower and unit/organizational cuts.
(2) “Test of Russian Bulava missile to resume in March,” Interfax-AVN, 22 Feb 09; BBC Monitoring Former Soviet Union – Political via Lexis-Nexis.
(3) Ibid.
(4) “Russian Navy to receive first armament support ship in autumn,” ITAR-TASS, 2 Feb 09; BBC Monitoring Former Soviet Union – Political via Lexis-Nexis.
(5) “Shipbuilding corporation to be set up in Russia in 2009 – minister,” ITAR-TASS, 4 Feb 09; BBC Monitoring Former Soviet Union – Political via Lexis-Nexis.
(6) Ibid.
(7) See The ISCIP Analyst, Volume XV, Number 8 (19 Feb 09) for discussion on Russia’s fifth generation fighter aircraft.
(10) Ibid.


(13) Ibid.


(15) “Russian may lease several project 971 nuclear subs to India – paper,” Krasnaya zvezda, 16 Dec 08; BBC Monitoring Former Soviet Union – Political, 9 Jan 09 via Lexis-Nexis.


(17) “Russian may lease several project 971 nuclear subs to India – paper,” Krasnaya zvezda, 16 Dec 08; BBC Monitoring Former Soviet Union – Political, 9 Jan 09 via Lexis-Nexis.


(20) “Number of military medical institutions in Russia to be cut by 30%,” Interfax News Agency, 4 Feb 09; Russia & CIS Military Weekly, 5 Feb 09 via Lexis-Nexis.

(21) “One-third of Russian army doctors to be replaced by civilians – general,” RIA Novosti, 4 Feb 09; BBC Monitoring Former Soviet Union – Political via Lexis-Nexis.

(22) See The ISCIP Analyst, Volume XV, Number 7 (5 Feb 09) for discussion on the Russian General Staff cuts.

(23) “Rear services to be optimized, some to be staffed by civilians – head,” Interfax News Agency, 11 Feb 09; Russia & CIS Military Weekly, 12 Feb 09 via Lexis-Nexis.
As signs of a NATO-Russian rapprochement continue, the new partners object
On February 7th at the forty-fifth annual Munich Security Conference, speaker after speaker called for a renewed partnership between Russia and the West. US Vice President Joseph Biden notably declared that it was time to “push the reset button” on US-Russia relations and stated that his country’s European ballistic missile defense project would continue “in consultation with our NATO allies and Russia.” (1) France’s president, Nicholas Sarkozy, who aims to bring his country back into full NATO membership, declared “I don’t believe today’s Russia is a military threat to the European Union or NATO.” (2) Both Germany’s Chancellor Angela Merkel and Britain’s Foreign Secretary David Miliband endorsed the idea of a new dialogue on European security with Russia as a key partner. (3)

The outpouring of support for a new Western dialogue with Russia was well-received in Moscow after last year’s August rupture over Russia’s thrust into Georgia, which froze the activity of the NATO-Russia Council. Russia’s NATO envoy, Dimitri Rogozin, welcomed Biden’s remarks on missile defense, hoping
Washington’s “new approach” on the issue would “lay a good foundation for talks at the level of the two presidents,” Obama and Medvedev. (4) He also praised Sarkozy’s speech, calling the French president a “lucky one” and noting the impression his address made on the audience. (5) The rhetorical olive branch extended at Munich lent credence to Rogozin’s repeated emphasis that NATO’s leadership is making the effort to restore relations between the West and Russia “[a]t their initiative,” not Russia’s. (6)

Not all the participants at Munich were as ready as the representatives of the major Western countries to renew NATO ties to Russia. For his part, NATO’s Secretary General Jaap de Hoop Scheffer claimed it was an important goal, but added the reservation that the partnership “must be a two way street” with compromise from Moscow on Georgia, NATO expansion, and the war in Afghanistan. (7) Estonia’s president delivered a speech tinged with tough rhetoric for Russia, ultimately concluding that NATO must return to its “core mission […] the defense of the alliance,” before exploring new pan-European security structures. (8)

Most significant, however, were the skeptical remarks of Polish Prime Minister Donald Tusk. Tusk cautioned that the US and NATO “must ask questions about Russia” before reengaging “without fear prejudice, aggression, but also without gullibility.” He hinted that if European solidarity could break down during a crisis like the recent gas dispute between Russia and Ukraine, there could be little expectation of a united European front in the event of a “much serious (sic), or hotter, emergency situation.” (9)

Tusk’s Munich speech was the most significant of a series of recent Polish warnings against too eager an embrace of Russia by NATO. It is clear that Poland hopes to makes its influence felt at the upcoming 60th Anniversary NATO summit in Strasbourg-Kehl this April – a meeting that promises to be a turning point for the alliance as it plans to craft a new security concept and make a
formal decision on reestablishing the mechanisms for consultation with Russia. Poland’s Defense Minister Bogdan Klich wants the summit to “change the formula” for NATO’s cooperation with Moscow, to take account for the “lack of trust” between the two. (10) Radoslaw Sikorski, Klich’s counterpart at the Foreign Ministry, suggested a “two-way strategy” for NATO that would not abandon dialogue with Russia, but would also stand strongly behind the alliance’s principles in situations like Russia’s war on Georgia. (11)

Poland’s motives for this strong stance emanate, in part, from its historically chilly disposition toward Moscow, but also include concerns that it may lose the benefits of its deal with the US on missile defense. Although Poland has received assurances that the ABM program would proceed as planned, the more reserved tone of the Obama administration on missile defense has caused concern that the plan will be used as a bargaining chip to secure Russian cooperation with the West, leaving Poland without the Patriot missile air defense system and military modernization funds it was promised in returned for hosting America’s ABM interceptors. (12)

Moscow’s leaders have recognized that Poland and other relatively new members of NATO are “frightened” by the prospect of a resurgent Russia and that allegedly they have taken steps aimed at “blocking many Russian approaches to international issues.” (13) However, Moscow has not deemed it necessary to address this challenge in any meaningful way, perhaps believing that the smaller NATO members will not carry the institutional weight to block the renewal of the NATO-Russia Council. Instead, Russia has offered little more than kind words, the possibility of renewed compliance with the Conventional Armed Forces in Europe Treaty, and a halt to the deployment of as yet nonexistent Iskander missiles to the Russian enclave of Kaliningrad. (14) Russia’s negotiation on the transit of NATO supplies to Afghanistan might have seemed a more significant gesture toward the West, had it not been accompanied by Moscow’s maneuvering to secure the closure of the America’s
air base at Manas airport in Kyrgyzstan [See the ISCIP Analyst Volume XV Number 7 (5 February 2009)].

It does appear unlikely that movement on the resumption of the NATO-Russia Council will be blocked at the alliance’s summit next month. Poland and the Baltic countries may well be out-muscled by the Western heavyweights.

Source Notes:
(5) “Russian NATO envoy names ‘winners’ and ‘losers’ at Munich conference,” Interfax, 8 Feb 09; BBC Worldwide Monitoring via Lexis-Nexis.
(6) “Russia’s envoy on restoration of relations with NATO,” Krasnaya zvezda, 27 Jan 09; BBC Worldwide Monitoring via Lexis-Nexis.
Russian Federation: Energy Politics

By Creelea Henderson

Energy to the East

Two events transpired in the month of February that, together, may signal a sea change in Russia’s energy export regime. On the 17th of the month, China secured a 20-year commitment of Siberian crude oil deliveries through a huge loans-for-oil deal with Moscow, and on the 18th of the month, Russia inaugurated its first LNG (liquefied natural gas) plant on Sakhalin Island in the Sea of
Okhotsk, pledging its first delivery to Japan in March. With the oil and gas agreements in place, Russia is poised to enter the East Asian market at a time when its traditional energy partners in the West sink deeper into recession.

On 17 February, Beijing announced that the China Development Bank would lend Russian state oil company Rosneft and pipeline monopoly Transneft $25 billion in exchange for a 20-year commitment to deliver crude oil to China. (1) Under the loans-for-oil arrangement, Rosneft will supply 110 million barrels of oil annually, and Transneft will build a new spur of the East Siberia-Pacific Ocean (ESPO) pipeline to transport those volumes to China. (2) Russian Deputy Prime Minister Igor Sechin hailed the deal as a “breakthrough,” and noted that “$25 billion is a unique deal in the history of the global economy.” (3) The magnitude of the loan is an unmistakable sign of the preeminent stature of China as a global lender flush with cash reserves. (4) Less obviously, it is also an indicator of the massive resistance with which China was forced to contend in its efforts to secure oil deliveries from its reluctant neighbor. (5)

Beijing has been lobbying Moscow for Siberian oil deliveries for over a decade. A breakthrough that seemed imminent in 2004 when Russian oil giant Yukos advocated a privately financed pipeline to China collapsed mid-year with the arrest of Yukos chief Mikhail Khodorkovsky on charges of tax evasion. In years since, Moscow has delayed decision on a state-built pipeline to China several times. Although Russia began construction of the ESPO oil pipeline in 2006, the creeping rate of progress has evinced a deep skepticism in Moscow toward Chinese markets. (6) At a Sino-Russian summit in 2007, China’s energy chief, National Development and Reform Commission Vice Chairman Zhang Guobao, complained that “the Sino-Russian pipeline question is one step forward and two steps back . . . One moment Russia is saying they have made a decision, the next saying that no decision has been made.” (7) Analysts attribute Moscow’s ambivalence to several factors, including: stagnant Siberian oil production; unwillingness to alienate energy customers in the West; an ongoing campaign to
limit foreign control over Russian energy assets, and a profound discomfort with
the notion that Russia may, in the near future, become China’s petrovassal. (8)

Nevertheless, faced with declining demand for energy on global markets and
stagnant crude oil production at home, Moscow has turned to Beijing with a new
esprit de corps. China Development Bank obliged with $25 billion in loans at
generous sub-market interest rates that will fluctuate between 5 and 5.5 percent.
(9) Rosneft has not disclosed the price that China will pay for Russian oil, but
analysts forecast an average of $73 per barrel, a robust figure compared with the
current price of $39 per barrel of Russian crude. (10) The deal provides Rosneft
with a cash infusion that will allow the company to manage its $21 billion debt
load as it expands into remote oil fields in Eastern Siberia. Rosneft’s plan to tap
the relatively undeveloped eastern fields will raise Russia’s flagging crude
production, which fell in 2008 for the first time in a decade, at the same time that
it will give China exclusive access to a new source of energy. (11) The key to a
long-term supply relationship is a fixed permanent pipeline that connects Russian
oil fields directly to China. China’s $10 billion loan to Transneft for the
construction of the ESPO pipeline will finance the link that finally secures
Moscow’s commitment to the Chinese market. (12)

Equally important to the eastward shift in Russian energy exports, on 18
February Russia launched its first LNG facility on Sakhalin Island. (13) Located
100 miles north of Japanese Hokkaido, Sakhalin was seized by the Soviet Union
at the end of WWII, together with four islands known in Russia as the Kurils. Both
Russia and Japan continue to claim sovereignty over the Kuril Islands, a dispute
that has forestalled the signing of a peace treaty ending hostilities after WWII.
Their longstanding territorial contentions did not prevent Japanese Prime Minister
Taro Aso from attending the inaugural ceremony at the Prigorodnoye gas
liquefaction plant, where, as a guest of Russian President Dmitri Medvedev, he
discussed expanding energy cooperation between the two counties. (14) "Having
such an energy source was our dream for many years," Aso said. "Russia is
becoming a constructive partner in this region. Japan welcomes Russia in this capacity." (15)

Until now, Russia had to rely on pipelines to transport its natural gas to markets overland. Once compressed into a liquid state, however, gas volumes can be loaded onto tankers like crude oil and shipped anywhere in the world. When it achieves full capacity, the Sakhalin plant is expected to produce 5 percent of the global LNG supply annually, 65 percent of which is contracted for export to Japan, the world's largest importer of LNG. Sakhalin exports, scheduled to begin in March, are expected to make up about 7 percent of Japan's LNG imports annually. (16) Produced off the coast of Sakhalin and piped to the plant, the gas will eventually account for 8 percent of Japan's consumption.

Russia's energy ties with Japan seem to be easing the two countries' diplomatic relationship somewhat, as Aso's presence at the unveiling of Prigorodnoye attests. On the sidelines of the ceremony, Medvedev reiterated Russia's 1956 offer to return two of the Kuril Islands to Japan as part of a "creative approach" to the territorial dispute. (17) In the meantime, Russia is content to focus on its expanding share of the global energy market: "All this, beyond any doubt, strengthens our position, the position of Russia, as the biggest player on the energy market," said Medvedev. (18)

Source Notes:
(4) “Neftyaniki dobyli kitaiskii kredit,” Kommersant, 18 Feb 09 via
(9) “UPDATE 2-China rates on Russia oil loan 5.0-5.5 pct –source,” Reuters, 18 Feb 09 via
(10) Ibid.
(11) “Cash-rich China snags Russian oil deal; Will lend $25-billion to energy companies in exchange for long-term agreement for more crude,” Globe and Mail, 18 Feb 09 via Lexis-Nexis Academic Universe.
(14) “Russia, Japan Should Boost Trade Ties, Medvedev Says (Update1),” Bloomberg, 18 Feb 09 via
Russian Federation: Special Feature: Russia and Iran

By Blake Brunner

**Relations between equals?**

*Prime Minister Erdogan: Thank you very much. Thank you very much. I don't think I will come back to Davos after this.* (1)

During the Davos World Economic Forum, at the conclusion of a January 29 panel including Turkish Prime Minister Recep Tayyip Erdogan, Arab League Secretary-General Amr Moussa, UN Secretary-General Ban Ki-moon and Israeli President Shimon Peres, Erdogan took control of the floor, despite objections from the moderator, denounced what he described as an inappropriate 25-minute filibuster by Peres, and stalked off the stage. The topic, of course, had been Israel’s recently concluded attack on the Gaza Strip, which Erdogan denounced as barbaric (he later also denounced anti-Semitism as a “crime against humanity”). (2)

International media outlets seized on the episode and issued a deluge of editorials in which Erdogan’s Davos tirade was described as a crucial turn in Turkish foreign policy. Despite the flag-waving crowd of supposed patriots who welcomed Erdogan home after his premature departure from Davos, opinion in the Turkish press was not unanimous. While an Istanbul-based writer for the
International Herald Tribune wrote that Erdogan’s outburst signaled a “neo-Ottoman awakening,” and concluded that “some things are changing in Turkey … for good.” (3) On the other hand, a columnist for Turkey’s Hurriyet Daily News cautioned that “neither Israel nor Turkey could run the risk” of “spoil[ing] their relationship.” (4)

Similar warnings appeared in Israeli and US media. An unnamed Israeli official told Haaretz, "One does not risk the foreign policy of a country that claims to be a regional power for the sake of local elections," attributing Erdogan’s motivations to simple electioneering for Turkey’s upcoming electoral contests. (5) And in one of the most recent and high-profile editorials from the United States, David L. Phillips, director of the Turkey Initiative at the Atlantic Council of the United States, shifted the focus from Erdogan to Turkey itself, stressing that “Turkey must repair its ties with Israel. … Turkey’s future lies with the West. The Islamist street leads away from Europe to the Middle East.” (6)

And this is where Russia comes in. The opportunities provided by Turkish-Russian cooperation prove that Turkey’s choice is not limited to either the West (i.e., the United States and Western Europe) or the Middle East. Because of its strategic location and unique cultural history, Turkey’s options appear to be much more varied than portrayed by Phillips. By cooperating with Russia and thus evading the West-versus-Middle East paradigm, Turkey opens up avenues to commerce, development and diplomacy that may never have existed had it relied only upon the West.

It is coincidental, but perhaps providential, that Erdogan’s Davos performance would be followed so closely by Turkish President Abdullah Gul’s Feb. 12-15 official state visit to Moscow, the first of its kind by a Turkish president. Gul was enthusiastic at a joint press conference: “Our relations have already reached the level of [a] multidimensional positive partnership on a whole range of subjects. … Russia and Turkey are the two most important countries in the region, which are
called upon to make a weighty contribution to ensuring peace, stability, security and cooperation.” (7)

President Medvedev’s commentary was similar, with an additional phrase: “And these are at the moment not simply relations between equals, but are also very friendly and have very good prospects. We have recently started to call them multifaceted cooperation and multidimensional partnership.” (8)

“Not simply relations between equals.” Whatever Medvedev meant to say, there is no disputing that right now, Turkey and Russia are not equal. One need look no further than the countries’ respective trade volumes to see that. During the state visit Medvedev pointed out that the Russia-Turkey trade volume has reached approximately $34 billion, (9) a giant leap from only $1 billion a decade ago; perhaps not wishing to embarrass his guest, Medvedev did not mention that this total disproportionately favors Russian exports to Turkey that reached approximately $28.26 billion in 2008. (10) Speaking about the trade volume, Gul alluded only to “problems that exist in this area,” but then went on to express his hope that the volume will “very soon” reach $40 billion to $50 billion. (11)

Any increase in trade volume will be due in part to Russia’s accelerating participation in the development of Turkey’s energy infrastructure. During Gul’s visit, the two countries signed an agreement for Russia to supply Turkey with $60 billion of electricity over the next 15 years. (12) Additionally, Russia’s Atomstroyexport leads the only consortium to submit a bid to construct and operate Turkey’s first nuclear power plant, which would be located in the Mediterranean province of Mersin and have an operating capacity of 4,800 megawatts. (13) Possibly because it was the sole bidder, the consortium initially tendered an offer for the plant to produce electricity at the exorbitant price of 21.16 cents per kilowatt hour, compared to the international average of 10 to 15 cents per kilowatt hour. (14) However, coinciding with Gul’s visit, Russian Energy Minister Sergei Shmatko announced, “We gave Turkey a good discount,”
which a representative of the Turkish Electricity Trading and Contracting Co. confirmed to be a 30% reduction to 15.35 cents per kilowatt hour. (15) Shmatko also mentioned that Turkey may sign an agreement to have Russia construct four other nuclear plants of 1,200 megawatts each, and he estimated that the cost of the contract could be $18 billion to $20 billion. (16)

Turkish money also has been flowing into Russia’s Muslim-majority Tatarstan region, where Turkey accounts for 70% of all foreign investment. (17) The first Turkish president ever to visit the republic, Gul signed agreements for future Turkish investment worth $250 million. (18)

While Gul’s visit seems unlikely to lead to any significant recalibration of the lopsided economic relationship between the two countries, they appear on more equal footing when it comes to regional diplomacy. Gul and Medvedev signed a declaration in which Russia praised Turkey’s proposed Caucasus Stability and Cooperation Platform (CSCP) as a “constructive initiative which complements the existing international mechanisms and which will help eliminate the lack of trust between the countries involved in frozen conflicts.” (19)

The significance of this statement is twofold. First, Russia’s recognition of Turkey’s role vis-à-vis the CSCP seems to dismiss any lingering suggestions of ill will between the countries regarding Turkey’s behavior during the August, 2008 Russian thrust into Georgia, as a direct result of which Turkey initially proposed the CSCP. There had been reports that Russia was displeased that Turkey allowed US warships bearing humanitarian aid into the Black Sea during the conflict. (20) Second, Russia is acknowledging Turkey’s diplomatic clout in relation to Ankara’s “frozen conflict” with Armenia, which has been thawing due to joint Turkish and Armenian efforts. (21)

In light of the good vibrations between Russia and Turkey, there seems to be only one thing that could put a crimp in the new relationship: Nabucco, the
proposed natural gas pipeline whose planners—a consortium comprising companies from Austria, Hungary, Romania, Bulgaria, Germany and Turkey, with possible Polish participation—envision gas flowing from Azerbaijan, Turkmenistan and Iran via Erzurum, Turkey, to Baumgarten, Austria. In January, Russian First Deputy Prime Minister Viktor Zubkov dismissed Nabucco as “ill-thought-out;” Gazprom’s CEO A. Alexander Medvedev claimed that Russia has "practically reserved the entire quantity" of Turkmenistan’s reserves, questioned whether Azerbaijan could provide its share of gas, and ruled out Iranian participation. (22)

This abundance of criticism from Russia seems to betray resentment concerning, if not the pipeline itself, then at the negative publicity that accompanies most mentions of the as-yet-chimerical Nabucco. In a January article in The Economist Nabucco was cited as a solution to the “real need … for Europe to reduce its [gas] dependence on Russia.” (23) Bulgaria has announced that it would cancel 1 billion cubic meters of its annual Gazprom gas purchases in favor of Nabucco gas. (24)

Turkey, however, is encouraging Russian participation in Nabucco. Turkish Foreign Minister Ali Babacan acknowledged the veracity of A. Alexander Medvedev’s criticism, telling a Turkish news service, “If Russia feels itself excluded, it has instruments to hamper Nabucco. … First you have to provide the source and then find the consumer, and I think we need Russia to provide both of them.” Babacan seems to concede that if Russia were to fight for its claims to Turkmenistan’s and Azerbaijan’s gas reserves, it could scupper Nabucco’s chances of operating at full capacity. Turkey would have no problem with Russia’s eventual linking up to Nabucco, Babacan said, trying to dismiss the subtext of competition between the two countries. (25)

So even this one potential sticking point for Russian-Turkish foreign relations also presents the possibility for Russia to gain greater access to the European
energy market. Given that Nabucco’s capacity is projected to be able to satisfy at most 10% of Europe’s annual consumption of 300 billion cubic meters—although this is a wildly optimistic estimate based on current consumption—Russia has little reason to be worried.

Indeed, currently Russia may hold a preferential hand regarding Turkey. Global analysts predict that Nabucco will ease Turkey’s entry into the European Union, with Germany’s most recent Minister for Economics and Technology Michael Glos going so far as to refer to the pipeline as “political blackmail.” (26) On the other side of the Atlantic, the United States will remain beholden to Turkey for the use of its Incirlik air base until the withdrawal of US forces from Iraq. Diplomatic relations between Turkey and Israel continue apace despite Erdogan’s diatribe concerning Gaza. Rather than simply lying with the West, as David Phillips claims, Turkey may appear to have opportunities in all directions.

Source Notes:
(1) “Turkish PM walks off stage after dispute over Gaza,” Associated Press Online, 29 Jan 09 via Lexis-Nexis Academic Universe.
(2) “Erdogan defends decision to storm out of Davos debate,” Agence France Presse, 29 Jan 09 via Lexis-Nexis Academic Universe.
“Remarks by Russian President Dmitry Medvedev and Turkish President Abdullah Gul Following the Russian-Turkish Talks (as Released by the Kremlin); Location: The Kremlin, Moscow,” Federal News Service, 13 Feb 09 via Lexis-Nexis Academic Universe.

Ibid.

Ibid.


“Remarks by Russian President … ,” Federal News Service, 13 Feb 09. Gul may also have been referring to what Turkey believed to be inordinately strict Russian customs controls on Turkish goods. See “Trouble Continues at Russian Customs,” Turkish Daily News, 5 Feb 09 via Lexis-Nexis Academic Universe; and The ISCIPI Analyst, 18 Sept 08.

“Russian Federation To Make $60 Bln of Power Supplies To Turkey For 15 Years,” ITAR-TASS, 13 Feb 09; OSC Translated Text via World News Connection.


Ibid.

“Russia, Turkey close to reaching agreement on building four nuclear plant units: Russian energy minister,” Interfax, 13 Feb 09; OSC Translated Text via World News Connection. “Russia, Turkey Close to Mega Energy Deals,” Turkish Daily News, 14 Feb 09 via Lexis-Nexis Academic Universe.

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“Russia, Turkey sign declarations on multifaceted cooperation,” Interfax, 16 Feb 09; BBC Monitoring Former Soviet Union – Political via Lexis-Nexis.

The ISCIPI Analyst, 18 Sept 08.


(23) “Gas wars; Energy in the European Union,” The Economist, 10 Jan 09 via Lexis-Nexis Academic Universe.


(25) "Turkey Wants Russia to Take Place in Nabucco, Foreign Minister," Anatolia, 20 Feb 09; OSC Transcribed Text via World News Connection.

(26) “German Minister: Turkey Blackmailing EU Over Gas Pipe,” Agence France Presse, 20 Jan 09 via Lexis-Nexis Academic Universe.

Newly Independent States: Caucasus
By Robyn Angley

AZERBAIJAN

Shifting geopolitics prompt changes in Baku

The Russian invasion of Georgia in August, coupled with Turkey’s recent overtures to Armenia, has prompted a subtle shift in Azerbaijan’s foreign policy, most notably manifest in expanded cooperation with Iran.

An explosion in early August on the Turkish portion of the Baku-Tbilisi-Ceyhan (BTC) pipeline combined with the fallout from the concurrent clash between Russia and Georgia cost Azerbaijan dearly. The US State Department estimates
that Azerbaijan lost over $1 billion in profits in August, due to lost oil from the explosion in Eastern Turkey and the cost of rerouting or halting other exports to avoid Russian strikes on the Georgian port of Poti. Faced with major losses, Azerbaijan offered the National Iranian Oil Terminals Company an oil swap (1) and also sought to ship gas via Russia.

The economic losses inflicted by the August events are exacerbated by the prospect of a warming in the relationship of Azerbaijan’s close ally, Turkey, with its enemy, Armenia. In the years since war broke out between Armenia and Azerbaijan over the Nagorno-Karabakh region, Turkey has been a staunch supporter of Azerbaijan’s territorial integrity. Ankara closed its border with Armenia and made its reopening contingent on resolution of the Karabakh conflict. That stipulation appears to have been lifted, however, following a visit by Turkish President Abdullah Gul to Yerevan in September during the UEFA World Cup qualifying match. The possibility of a Turkish-Armenian détente has given Azerbaijan the impetus to expand its regional relationships and gather supporters of its position on the Karabakh issue.

Baku’s unease over the possibility of an unfavorable resolution to the Karabakh question is reflected in its defense spending. Azerbaijan steadily has increased its military capabilities over the last several years. Its fragile position in the event of a Turkish-Armenian agreement appears only to have encouraged this trend, with a 30 percent increase in its already high military spending budgeted for 2009. (2)

The shifting geopolitical situation in the region has resulted in increased cooperation between Baku and Tehran. Iranian leaders have expressed their support for Azerbaijan’s territorial integrity, (3) and have offered to play a mediation role in the Nagorno-Karabakh conflict, (4) although their support for Azerbaijan’s territorial integrity makes Iranian mediation unacceptable from the
Armenian perspective. Iran is not part of the OSCE Minsk group charged with negotiating over Nagorno-Karabakh.

More important than moral support is the prospect of increased economic cooperation with Iran. The global economic downturn is affecting foreign investment flows in Azerbaijan. Although still reporting positive growth for 2008 (2.6 percent), foreign investment in the energy sector fell 16.3 percent compared to 2007. (5) Though isolated in many ways from the global market, Iran represents a potentially valuable trading partner for Azerbaijan – all the more so because Tehran’s isolation offers Baku the possibility of heightened influence in a relatively restricted playing field.

Increasingly, Baku has turned to Tehran as an outlet for its oil exports and as a trading partner. On 20 February, Iran and Azerbaijan signed a memorandum of understanding that outlines 114 areas of economic cooperation. (6) Shortly thereafter, Azeri President Ilham Aliyev announced that he expected trade with Iran at least to double in the near future, (7) with Iranian Foreign Minister Manuchehr Mottaki estimating that bilateral trade could increase from $700 million to $1.5 billion. (8)

Not least among the areas of increased cooperation between Baku and Tehran is the energy sector. The oil shipments to Iran begun in the wake of the August war in Georgia have continued. Iran has expressed an interest in increasing its imports of Azeri gas. Iran first began paying commercial prices for Azeri gas in February 2008, and now pays roughly 2.5 times the price per barrel that Turkey does, making it an attractive customer. (9) Additionally, SOCAR, Azerbaijan’s state-owned oil company, and the National Iranian Oil Company (NICO) have announced that they will continue increasing their cooperation in the energy sector. (10) NICO intends to invest $1.7 billion and to hold a 10 percent interest in the second phase of exploration of Azerbaijan’s Shah Deniz gas field. (11) The company already holds a ten percent stake in the project’s first phase.
With Turkey and Armenia on the path to cooperation and a precarious situation in Georgia, it is likely that Azerbaijan will continue pursuing a diverse foreign policy that seeks support from various regional actors as well as more distant players such as the United States and Europe. Azerbaijan's regional outreach will include Russia, as well as Iran – the former for its potential influence on a Karabakh solution and the latter for economic benefits. The extent to which the Turkish relationship will be affected by an Armenian détente depends on developments in Ankara, Yerevan, Baku, and Stepanakert.

Source Notes:
(2) Ibid.
(3) “Iranian minister on ties with USA, Azerbaijan, Karabakh conflict, Caspian status,” ANS TV, 22 Feb 09 via Lexis-Nexis.
(4) “Iranian Ambassador to Azerbaijan: Armenia and Azerbaijan can ask Iran for assistance to the solution to Nagorno Karabakh conflict,” ARMINFO, 19 Nov 08 via Lexis-Nexis.
(7) “Azeri president says trade with Iran to double soon,” Islamic Republic News Agency website, 20 Feb 09 via Lexis-Nexis.
(8) “Iran, Azerbaijan trade will reach $1.5bln,” Moj News Agency, 21 Feb 09 via Lexis-Nexis.
(9) “Iran wants to buy Azeri gas - Baku report,” Turan, 2 Feb 09; BBC Monitoring via Lexis-Nexis.
KRYGYZSTAN

Is the Kyrgyz president ready to renegotiate Manas air base deal?

Now that the Russian Duma has ratified the promised bail-out funds for Kyrgyzstan, is President Kurmanbek Bakiev ready to begin negotiating a new deal with the United States Air Force on the Manas air base? And, perhaps more importantly, is Duma ratification as good as money in the bank?

President Bakiev seems to think so, if the interview he gave to the BBC yesterday is any indication. The Kyrgyz president told his interviewer that “the doors are not closed” regarding further talks on the US air base and that his administration is willing to consider new offers from the Pentagon: “We are ready for any new proposals from the US government aimed at stabilising the situation in Afghanistan.” Bakiev further stated that new negotiations with the US would need to follow a different format and that should his government agree to another lease agreement, there would be changes in the conditions of use. (1)

Kyrgyzstan’s leader has repeatedly cited US disregard for his requests for increased financial compensation as a major reason behind his decision to ask US troops to vacate the Manas base, but he now also seems to be hinting that a new lease agreement might require the Pentagon to adhere to stricter environmental standards and perhaps allow its soldiers to become more vulnerable to prosecution under Kyrgyzstan’s justice system. Over the past few years, these last two points have been rallying cries for political factions lobbying
for the base’s closure. A shooting incident in December 2006 that resulted in the
death of a civilian truck driver, Aleksandr Ivanov, who was making a fuel delivery
to the base sparked widespread outrage and anti-US sentiment in the Kyrgyz
media and resulted in a sharp uptick in the number of calls for the base to be
shut down. (2) The fact that Zachary Hatfield, the US serviceman who shot the
truck driver, was immune from prosecution by Kyrgyz courts and did not remain
in Kyrgyzstan until the investigation into Ivanov’s death was concluded, (3)
fanned the flames of anti-US outrage even further.

Immunity from prosecution by local courts for military personnel stationed abroad
is the international standard and it seems highly unlikely that the US government
would agree to alter that status for its servicemen and women, even if
Kyrgyzstan’s justice system suddenly were to gain a reputation for transparency,
fairness and impartiality, standards which Kyrgyz courts rarely seem to accord
their own citizens. However, the conduct of US troops while on Kyrgyz soil
undoubtedly will need to be included in any future discussions of a continued US
military presence at the Manas air base.

Two additional and equally significant points raised by President Bakiev during
his BBC interview touched on Kyrgyz involvement in resolving the conflict in
Afghanistan and on Kyrgyzstan’s status at the negotiating table with more
powerful countries, such as Russia and the United States. The president told his
interviewer: “We should be respected more…Our partners - be it the United
States or Russia - should listen to what we have to say.”(4) Bakiev is not the first
Central Asian leader to feel frustration at the lack of respect shown by
representatives from “great power” countries, such as Russia and the US, and if
this dissatisfaction indeed did play a role in his decision to evict US troops from
Manas, then the Pentagon may have much ground to make up in any future
talks. In a country renowned for its mastery of the arts of marketing and public
relations, the US has made a poor showing in Central Asia overall and may have
missed numerous opportunities to improve relations significantly with the Central Asian governments as a result.

One such opportunity currently on the table, is what role, if any, the Central Asian states should play in mediating the conflict in Afghanistan and/or in bringing greater stability to the region. The threat posed by the continuing conflict in Afghanistan and its spillover effects come up for discussion virtually every time representatives of any of the former Soviet states get together, as well as occupying a place on the agenda of bilateral talks with officials from both the regional or “great power” states. Those Central Asian states that share a sizeable stretch of border with Afghanistan are particularly vulnerable to the narcotics and weapons’ trafficking, which Kabul seems unable to quell and which has resulted in spillovers of violence onto Central Asian territory on more than once occasion. The Kyrgyz government has expressed concern about this situation numerous times and in numerous venues and in his recent BBC interview, President Bakiev brought it up once again, this time offering his country as a neutral setting for UN-sponsored peace talks between President Karzai and Taleban leaders. (5) Bakiev’s offer is a clear, unequivocal signal to the US, NATO, and Russia that one of his top priorities is to create greater stability and security in Afghanistan and that a secure, stable Afghanistan is of equal, if not greater, importance for his country than placating American, NATO, or Russian interests.

Kyrgyzstan all too often is viewed primarily as a pawn being pushed and pulled between Russia and the US, and government officials from those countries frequently appear to extend economic or other benefits to Bishkek mainly in order to attain other goals, such use of an air base (the Russian military uses the Kant air base), support for certain international initiatives, control over energy assets, etc. However, representatives from the “great power” states should not forget that President Bakiev’s administration has its own interests to protect and although Bakiev may have fewer resources and less muscle at his disposal than
either the Russian or US leaders, he may yet possess enough bargaining power to embolden him to pursue his own agenda, such as a role for his government in the stabilization and development of Afghanistan.

Having obtained a Russian bail-out for his own administration and for his country’s hydro-power industry, Bakiev now seems to feel confident enough to turn his attention to international issues, such as the US air base and the conflict in Afghanistan. The Kyrgyz government’s actions regarding the closure of the US air base closely followed the Russian government’s actions regarding the promised debt write-off and bail-out funds. Now that the Duma has ratified the various parts of the agreement (6) and the Russian government has amended federal budget items for 2009-2011 to include the loan amounts promised to Bishkek, (7) and Bakiev, in turn, has fulfilled his part of the bargain by completing the process for evicting US troops from Manas, the Kyrgyz president appears ready to discuss a new deal on the air base, this time to include a longer list of demands, as well as greater restrictions on US troop activities.

Were the Pentagon to allow at least a discussion of how Kyrgyzstan could become involved in mitigating the situation in Afghanistan as part of future negotiations on re-opening Manas to the US, it might go a long way toward convincing President Bakiev that his concerns regarding Afghanistan are being taken seriously, as well as assuring him that even though his country does not wield the international clout of Russia or the US, his status at the negotiating table is viewed with equal respect.

Source Notes:
(2) “U.S. military spokesman says Kyrgyzstan shooting appears to come under immunity agreement,” 8 Dec 06, The Times of Central Asia via Lexis-Nexis Academic.
Newly Independent States: Western Region

By Tammy Lynch

UKRAINE

Return to Kuchma-land?

During the regime of President Leonid Kuchma, Ukraine’s security services (SBU) regularly were used to threaten and intimidate members of the political opposition, civic leaders, and the media.

Over the last year, there have been increasing signs that the office of the president has returned to using the SBU—in conjunction with the Prosecutor-General’s Office—for political purposes. These signs have included “escorting” politicians critical of President Yushchenko to the Prosecutor’s office for lengthy questioning on dubious grounds and visits to politicians and state officials by SBU representatives. Prime Minister Yulia Tymoshenko, Interior Minister Yuriy Lutsenko and MP David Zhvania, all of whom have been publicly critical of the president, were questioned for hours in relation to criminal cases that did not move forward and never were explained fully.


(5) Ibid.


(7) “Russia amends budget to sanction $2bn gov't loan to Kyrgyzstan,” 3 Mar 09, RosBusinessConsulting Database via Lexis-Nexis Academic.
On 4 March, the apparent political use of the SBU by the Yushchenko administration reached new heights. On that day, at least a dozen masked, heavily armed men burst into the headquarters of Ukraine’s gas monopoly Naftohaz. According to witness statements carried on the Ukrayinska Pravda website, the men leaped over turnstiles and barriers to rush into the heart of the building, showing no identification and no documentation. Holding automatic weapons, they blocked off hallways and demanded to be shown copies of the 19 January gas contract between Naftohaz and Gazprom. (1) In fact, in press statements, an SBU spokesperson claimed that the search for this contract was the reason for the raid. (2)

This claim raised eyebrows, since the contract has appeared on numerous websites. In fact, it is one of the most widely published contracts of any agreement with Gazprom. Moreover, thanks to archaic, Soviet-era regulations, Naftohaz must show the original contract (with the accompanying myriad of signatures and stamps) to the customs service in order to clear Russian gas through Ukraine for both domestic and international use. Without the original contract, the customs service, which is under the precarious control of President Yushchenko, could refuse to allow Russian gas into the country.

An SBU spokesman later accused Naftohaz of illegally appropriating 900 million dollars of gas. (3) This statement is widely believed to refer to 11 billion cubic meters of gas that had belonged to private gas intermediary RosUkrEnergo. The spokesman did not say why the state-run SBU would raid another state-run company looking for documents related to a dispute with a privately-held company in which the state has no interest. In essence, the SBU chose to work on behalf of RosUkrEnergo against Naftohaz.

Although accounts of the raid come from perhaps biased Naftohaz employees, photos and videos provided by various media show heavily armed men in SWAT-
Within several hours of the raid, the attorney for Prime Minister Tymoshenko’s political bloc had secured a court order confirming that state services require a warrant to conduct such a search. The court instructed the SBU to produce such a warrant, prove probable cause or leave. Faced with furious deputies, nervous employees (one of whom was rushed to the hospital, fearing a heart attack) and a swarm of media, the SBU left – without the contract.

On Thursday, 5 March, the SBU attempted to gain entrance to Naftohaz subsidiary UkrTransGaz (although this entity presumably does not possess the desired contract), but officials, private security employees, and parliamentary deputies demanded warrants and court orders legalizing the search. The SBU left. (5)

The situation sounds so confusing and, actually, ridiculous, that it is easy to miss the main moral of this saga.

The SBU raids came a day after Ukraine’s currency had rebounded somewhat against the dollar, a day after the government amended the budget to meet the concerns of international organizations, a few days after the IMF had said it was pleased with the country’s progress toward earning the second tranche of its $16.4 billion loan, and at a time when Naftohaz and Gazprom seemed to have an understanding about payment schedules. During a period of consistently bad economic news and political infighting, for the first time in a long time, the government seemed to be making just a bit of progress.

In contrast to these precarious achievements, this raid paints a picture of chaos, infighting, corruption, and incompetence. Prime Minister Tymoshenko charges that this is exactly what the President and his allies want. In fact, several
sources close to the Ukrainian government and gas industry told TIA yesterday that they suspect (although they have no evidence) that this raid was designed to undermine Ukraine’s credibility internationally, in order to damage Yushchenko’s chief rival in the upcoming presidential elections – Tymoshenko. Since Ukraine’s reputation as a gas transit country is key to its international standing, attacking the heart of its gas industry would be the best way to impact international opinion.

There may be a much more practical reason for the raid, however. Numerous Ukrainian media have charged that President Yushchenko is allied with Dmytro Firtash, who owns 45% of RosUkrEnergo (RUE). Russia’s Gazprom owns 50% of the company. The 19 January contract removes RUE as the intermediary between Gazprom and Naftohaz – a decision that could mean a loss of income of up to $800 million per year. A separate agreement on 19 January, confirmed by both Gazprom and Naftohaz, allowed Ukraine to purchase 11 billion cubic meters of gas held in storage in Ukraine by RUE. The gas is to be used to power Ukraine’s pumping stations, in order to send gas to Europe.

Because it is to be used to transit gas, Prime Ministers Putin and Tymoshenko agreed that Ukraine would pay a hugely discounted price of $153/tcm for this gas, as opposed to the average price of $228/tcm the country will pay for other gas.

Firtash, who has gas interests throughout Eastern Europe, objected to the transfer of ownership of the gas and said he would sue in Stockholm for its return, as allowed by his contract with Ukraine. For reasons known only to himself, Yushchenko immediately sided with Firtash and questioned why Ukraine—the country where he is president—should be able to purchase this gas.
At a National Security and Defense Council meeting chaired by Yushchenko, members reportedly voted to begin investigating the circumstances behind the purchase of this gas.

Tymoshenko responded that the country had received a very good deal, and that Ukraine could not afford to pay more for the fuel it uses to transit gas to Europe. The $153/tcm price was available only on the gas already in storage in Ukraine. Any other gas would cost $228/tcm. Still, Yushchenko questioned the purchase.

For its part, the parliament voted on 5 March to investigate the SBU's investigation. At the same time, Russia confirmed that the “auditing chambers” of both countries are investigating RUE's activities. And Naftohaz paid its February gas bill on time and in full.

There is no indication, meanwhile, if this latest episode will derail discussions with the IMF for the continuation of Ukraine's loan agreement. If the IMF becomes spooked by these developments and does not provide funding, Ukraine faces the prospect of a total economic collapse. So far, Yushchenko has made no comment on this possibility.

Source Notes:
(3) Ibid.
(4) See http://www.youtube.com/watch?v=AHTIoEiJKEc for raw video.
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Unless otherwise indicated, all articles appearing in this journal were written especially for Analyst. This article was originally published at http://www.bu.edu/iscip/digest/vol15/ed1509.shtml.