2010-02

The ISCIP Analyst, Volume XVI, Issue 9

Cavan, Susan

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

http://hdl.handle.net/2144/11877

Boston University
If democracy in Russia is being criticized that means that it exists. (1)
Prime Minister Putin certainly has his hands full these days. In addition to the responsibilities of securing Russia’s emergence from the ongoing economic crisis, the familiar, pesky modernization debate continues among Russia’s political elite, and even his most bullying efforts to quell the conversation have failed. Now, the debate not only threatens to taint the public perception of his “achievements” in office, but seems to be undermining his political façade, as Russia’s fractious political parties consider forming a united front to take on Putin’s United Russia.

It seems clear that Putin recognized the pitfalls of a debate on the nature of the Russian state and the best path to modernization and political maturity; clearly, he hoped his appearance at the State Council meeting on the subject would close the book on the discussion. (2) Nonetheless, President Medvedev’s efforts to differentiate himself from his tandem twin (including efforts to call attention to election irregularities that benefited United Russia) have kept the spotlight on the issue of modernization and reform of state governance.

Recently, Putin’s (and Medvedev’s) Kremlin ideologist, Vladislav Surkov, tried yet again to staunch the debate in an interview devoted to the need to stimulate innovation in the economy: “you cannot say that all economies, and all democracies look alike. In France there is one type of economy and democracy, in Germany another, and in England - a third kind. Plans taken out of books do not work in countries like Russia with its specific features. There is no Caucasus in other countries, either in Britain or the United States. … the consolidated state
[is] a tool of the transition period, a tool of modernization. Some people call it authoritarian modernization. I do not care what it is called. Spontaneous modernization is a cultural phenomenon (and it is cultural, not political), and it has only been achieved in the Anglo-Saxon countries.” (3) This, of course, sounds remarkably akin to Surkov’s previous political-ideological masterpiece: Sovereign democracy, which seemed a petulant response to western criticism of the diminishment of democratic institutions in the Putin era. Accordingly, Russia has its own unique path toward democracy and any attempts to assess progress by non-Russian norms or to hold Russia’s leadership to objective standards of democratic behavior are inappropriate, if not culturally insensitive.

While the debates over modernization, innovation, progress, and political development all clearly have common threads, Surkov’s formulation draws dire lessons from Russia’s experience of transition in the 1990s and rejects this earlier phase of Russia’s experience: “However much some people praised us for perestroika, it led to people’s blood being shed, starting with Vilnius, Tbilisi, the Fergana Valley, and Karabakh. Not to mention Chechnya and Dagestan even now. This is the old system still collapsing. It is dying and being reborn, bleeding. I think the main task of a democratic society is to look after the people. (…) I am not saying that a super-centralized regime is needed now. We need a consolidated regime, which is in control of the situation.” (4)

Sadly, Surkov commits the logical error of conflating the effects of the collapse of the old system and the need to ameliorate those effects, with the demands of positive, forward-looking democratic governance. The fact that the Soviet Union approached its collapse with violent shudders cannot be seen to require Russia’s leaders to adopt Soviet methods through a transitional period (and certainly not 20 years later!).

There have been many rebuttals to Surkov’s comments, many of which see the resort to “consolidation” and authoritarian models as a thinly veiled nod to the
need to keep Putin’s siloviki clan in power, despite threats of stagnation. Clearly, Medvedev’s program of modernization includes an inherent critique of Putin and his era of order and stability, however, Putin is not deaf to the needs of competition in the economy. It is interesting that Surkov’s remarks were made in the larger context of comments on innovation and the plans to create a “Silicon Valley” in Russia. Perhaps this ongoing modernization debate reflects an internal conflict as the diarchy puzzles out the nature of real competition – economic, technological, interstate, even political.

A lesson in competition (and strategic alliances) may be what is on offer in Novosibirsk as the three main opposition parties (Communist Party of the Russian Federation, Liberal Democratic Party, and Just Russia) signed an agreement to work together to oppose United Russia candidates in the run up to regional and local elections scheduled for March 14. (5) While protest rallies, such as that held in Kaliningrad in January, offer tantalizing glimpses of the power of oppositional unity at this moment in Russia’s history, the facts remain that these parties have divergent, if not antithetical, ideological approaches and goals. Additionally, the diarchical regime, which has appeared unwilling to crack down forcefully on protests at this moment, easily could snap out of its modernization musings and reassert its authority should any protests or elections threaten the security of the regime – or even just one end of the tandem.

Source Notes:
(1) Maksim Glikin, Natalya Kostenko interview with Vladislav Surkov, the first deputy chief of the Presidential Staff: "'A Miracle is Possible' - Vladislav Surkov, the First Deputy Head of the Presidential Staff, Deputy Chairman of the Modernization Commission" Vedomosti, 15 Feb 10 via Johnson’s Russia List (JRL) 2010-#34, 19 Feb 10.
Medvedev launches unprecedented Interior Ministry reforms
On February 18, 2010, President Medvedev fired seventeen police generals; halved the force of the central command of the Interior Ministry to 10,000; and filed bills on reorganization of the Interior Ministry in the Duma. (1) Those measures are intended to increase police efficiency and improve the Ministry’s image with Russia’s citizens. It also shows that Medvedev is determined to keep a firm grip on security structures.

This is the most dramatic purge the Interior Ministry has ever seen; Medvedev overnight fired more senior police officials than Putin had removed during the eight years of his presidency. (2) Medvedev replaced two of the fired deputy interior ministers with senior members of the presidential administration, which is consistent with the President’s vow to take the Interior Ministry reform under personal control, but also suggests that he might wish to install his own people in the Ministry. (3) Interior Minister Rashid Nurgaliev is retaining his post, and by the end of March he must submit proposals on effectively reforming the Interior Ministry. His post at the Ministry might depend on this task; fortunately, he can ask his new deputies for counsel.

At the end of 2009, Medvedev issued a decree ordering the Interior Ministry to cut its staff by 20%. The reform will, thus, affect all levels of employees, from top
to bottom. (4) Medvedev clearly disagrees with Putin, who cautions against dramatic personnel changes, due to the shortage of qualified professionals. (5) Low crime solving rates and the latest tragic events involving police officers killing innocent citizens have helped trigger the reforms. In the most widely publicized incident, intoxicated police chief Denis Evsyukov groundlessly opened fire, killing two and wounding seven shoppers at a supermarket last year. (6) During his speech at the Interior Ministry board meeting, Medvedev mentioned that police authority has eroded even further, following those events. (7) Several hours after the speech, the President announced the dismissal of the police generals and proposed new legislation to restructure the Interior Ministry.

The proposed bills provide additional grounds for termination from the police force; increased penalties for crimes committed by the police; and the restructuring of the Interior Ministry. (8) Under the new proposed legislation, a gross neglect of duty during the course of performance of official duties would constitute additional grounds for termination. The bill provides a comprehensive list of the type of conduct that constitutes gross neglect of duty for the purposes of disciplinary sanctioning, including termination. (9) Such conduct includes absence from the job for more than four consecutive hours, intoxication on the job, and obstructing the work of the agency. The bill also proposes including a new section in the Criminal Code to establish sanctions for police officers who fail to follow their superiors’ orders, if such failure results in significant harm to citizens’ property or to societal interests. (10)

Medvedev’s plan to restructure the Interior Ministry aims to decrease the workload of local police departments by transferring some of the Ministry’s secondary functions to different agencies. For example, the plan suggests transferring control of the drunk tanks to the Health and Social Development Ministry. A drunk tank is a facility in which publicly intoxicated persons are detained overnight to sober up. (11) Established during Soviet times, they have
gained increased scrutiny in recent months after a Tomsk journalist was beaten to death by a police officer on duty at the drunk tank. (12) The Interior Ministry also no longer would conduct motor vehicle inspections, which are currently a major source of bribes for corrupt police officers. More than half of vehicle owners prefer paying off the police in order to pass motor vehicle inspection instead of risking failure because of some minor defect. (13) Additionally, the Ministry no longer would be responsible for deporting illegal aliens; this duty would be transferred to the immigration authorities instead. (14)

President Medvedev complimented the Ministry for preventing the crime rate from increasing during the financial crisis, but emphasized the importance of implementing new anticorruption measures within the Interior Ministry. A commission to resolve conflict of interest problems and ensure stricter compliance with job duties has been created within the Interior Ministry. (15) Starting this year, police officers will be required to submit information regarding income and assets for themselves and members of their families. Providing false information will be considered a neglect of duty and eventually could result in dismissal from the force. The President also promised to increase the police officers’ salaries, which are currently around $400-600 per month. (16) “This is an issue of a particular significance, considering all the anticorruption tasks that I have described,” commented Medvedev.

Critics maintain that these measures might be insufficient and may indeed lead to further Interior Ministry destabilization. They point out that there are enough laws on the books to hold officials liable; the real problem is lack of enforcement and oversight. (17) “The Ministry is reforming itself, without any supervision,” pointed out Deputy Chair of the Duma Security Committee, Gennadij Gudkov. He proposed establishing an independent committee of parliamentarians and citizens to select the Ministry’s top officials. (18)
While it is too soon to decide whether the reform will be effective, it is clear that the President has taken firmer control of the discredited Interior Ministry and demonstrated his will to improve its reputation and effectiveness, while reinforcing citizens’ rights. He commented, “It is just the beginning of work, further decisions will follow. We understand that it’s just a tip of the iceberg.” (19)

Source Notes:
(1) “Work on reforming the Interior Ministry the President will keep under personal control,” The President of Russia Official Web Portal, 18 Feb 10 via http://news.kremlin.ru/news/6909.
(7) “Work on reforming the Interior Ministry,” The President of Russia Official Web Portal, Ibid.
(9) “Medvedev filed a bill in the Duma on increasing penalties for the police,” RIA-Novosti, 18 Feb 10 via http://www.rian.ru/politics/20100218/209798083.html.
(14) “Work on reforming the Interior Ministry,” The President of Russia Official Web Portal, Ibid.
(17) Viktor Hamraev, “President called to order,” Kommersant, Ibid.
(18) Sergei Nagorny, “The reform picks up speed,” Interfax-Russia.ru, Ibid.
(19) “Work on reforming the Interior Ministry,” The President of Russia Official Web Portal, Ibid.

Russian Federation: Armed Forces
By Lt. Col. Andrew Wallace (USAF)

Russia identifies NATO as primary threat
President Medvedev announced his approval of Russia’s new military doctrine on 5 February during a meeting of the National Security Council. (1) The new document covers the period through 2020 and builds upon the previous one signed in 2000 by then President Putin. One of the new additions to the document is the identification of the North Atlantic Treaty Organization (NATO) as the primary threat to Russian national security.
Specifically, the doctrine cited, “the desire to endow the force potential of…NATO with global functions carried out in violation of the norms of international law and to move the military infrastructure of NATO member countries closer to the borders of the Russian Federation, including by expanding the bloc.” (2) In the 2000 version of Russia’s military doctrine, it identified the threat posed by alliances like NATO as, “[T]he expansion of military blocs and alliances to the detriment of the Russian Federation's military security.” (3) Although the addition of NATO as a specific threat is not surprising, it does indicate Russia’s intention to address the persistent influence of NATO within its near abroad.

Since the end of the Cold War, NATO has expanded steadily and recently has placed Montenegro, a former Yugoslav republic, on track for membership in the alliance. In addition, public debate regarding NATO membership has gained momentum in Serbia, attracting the attention of Moscow. (4) Russia’s envoy to NATO, Dmitriy Rogozin stated, “[H]e could not understand Serbia’s political and military elite that supported entry into NATO.” (5) He went on to say Russia would reconsider its stance on Kosovo recognition if Serbia joined NATO. (6) Perhaps, Serbia has decided to limit its exposure to the price Russia demands for cooperation. According to military analyst Aleksandar Radic, “Serbia [has] paid the price for Russia not recognizing Kosovo’s independence by establishing economic ties with it on Moscow’s own terms.” (7) Regardless, Russia is concerned with the continued expansion of NATO and the impact it will have on Russian influence in the region.

Nikolai Patrushev, the secretary of the Russian Federation Security Council confirmed Moscow’s desire to limit NATO’s influence within Russia’s near abroad during a recent interview on the new military doctrine. He stated, “The expansion of NATO represents quite a serious threat to Russia….former Warsaw Pact states and certain countries that used to be part of the Soviet Union are [now] members of the Alliance. They draw with them other states - Georgia and Ukraine - that may potentially join NATO.” (8) Following this line of thought, the
threat NATO represents to Russia is not that of a military invasion, rather it is the threat to Russian primacy within its perceived sphere of “privileged interests.” (9)

Russian analyst Pavel Felgenhauer recently commented, “Moscow…is resolved to be a regional superpower – the strong man in its neighborhood (as Iran aspires to be in the Middle East).” (10) He goes on to say that Russia will cooperate with NATO only if the West gives Moscow a “free hand in Eastern Europe,” similar to the deal struck at Yalta in 1945. (11) Only a few days ago, Russian and Abkhaz defense ministers signed a deal allowing Moscow to use and update an existing Abkhaz military base for the next 49 years. (12) It will hold up to 3,000 troops, including units of the FSB. (13) President Medvedev said the agreement “provide[s] a framework for the peaceful development of Abkhazia as an independent state.” (14) Georgia’s Ministry of Foreign Affairs has strictly protested the action. (15) NATO and Western powers are concerned that a Russian military buildup in Abkhazia threatens Georgia’s territorial integrity. (16)

Although Russia identified NATO as its primary threat, the alliance appears committed to taking steps to improve the relationship. NATO’s Secretary-General Anders Fogh Rasmussen said, “To make NATO the main threat to Russia simply doesn’t reflect realities…NATO is not an enemy of Russia. On the contrary, we want to develop a strategic partnership with Russia.” (17) In fact, NATO has backed this comment up and invited Russia, for the first time, to provide input on the alliance’s new draft strategic concept. (18) The alliance also did not object to France’s proposed arms deal that may send a Mistral-class helicopter carrier to Russia. (19) Secretary-General Rasmussen stated, “It should be possible for NATO allies to have a normal trade relationship with Russia. If we could develop a true strategic partnership, then exchanging military equipment would not be that controversial.” (20)
Despite NATO’s effort to develop a closer strategic partnership with Russia, many differences remain. In a recent interview, retired Col-Gen Leonid Ivashov, President of the Academy of Geopolitical Problems said, “[t] is a fact that today Western countries led by the Unites States are preparing for a real war, and this cannot but be a threat to us…NATO is arming itself and expanding.” (21) So far, the message of strategic cooperation offered by NATO does not appear to be gaining traction with Russia’s military elite.

Pavel Felgenhauer summed up the differences between the two sides this way, “Russia sees the West and the United States as its main enemy – politically, ideologically, economically, and militarily. That is how it is seen from Russia, but not from the West. These are very serious differences that cannot be overcome just by brandishing small yellow boxes with red buttons.” (22) In defending its “privileged interests,” Russia undoubtedly will challenge NATO’s influence and expansion in the future.

Source Notes:
(1) Medvedev signs Russia's new military doctrine, RIA Novosti, 5 Feb 10 via Lexis-Nexis Academic.
(2) (Corr) Text of newly approved Russian military doctrine, President of the Russian Federation website, 5 Feb 10 via Lexis-Nexis Academic.
(4) Serbian commentary says NATO "suddenly" becoming main issue in country, Politika, 18 Feb 10 via Lexis-Nexis Academic.
(5) Envoy warns Belgrade Russia "will have to recognize Kosovo" if Serbia joins NATO, Blic, 10 Feb 10 via Lexis-Nexis Academic.
(6) Ibid.
(7) Ibid.
(8) Russian security supremo names NATO expansion as key threat, Rossiyskaya gazeta, 10 Feb 10 via Lexis-Nexis Academic.
(9) For a description of Russia’s “privileged interests” see: Interview given by Dmitry Medvedev to Television Channels One, Rossiya, NTV, 31 Aug 08, accessed via http://eng.kremlin.ru/speeches/2008/08/31/1850_type82912type82916_206003.shtml.

(10) New Military Doctrine underscores Kremlin’s aspirations to become regional superpower, Jamestown Eurasia Daily Monitor, 10 Feb 10.

(11) Ibid.

(12) Russia Gains Base In Abkhazia, RFERL, 17 February 10, accessed via http://www.rferl.org/content/Russia_Gains_Military_Base_In_Abkhazia/1960545.html.

(13) Ibid.

(14) Ibid.

(15) Georgia concerned about Russia’s increased military presence in breakaway region, Ministry of Foreign Affairs Website, 18 Feb 10 via Lexis-Nexis Academic.

(16) Russia Gains Base In Abkhazia, RFERL, 17 Feb 10, Ibid.


(18) Anders Fogh Rasmussen: Reaching Out to Russia, Newsweek, 22 Feb 10 via Lexis-Nexis Academic.


(20) Anders Fogh Rasmussen: Reaching Out to Russia, Newsweek, 22 Feb 10 via Lexis-Nexis Academic.

(21) Retired Russian general views Western "threat", defends Iran’s position, Centre TV, 11 Feb 10 via Lexis-Nexis Academic.
Russian Federation: Foreign Relations

By Alexey Dynkin

As tensions rise in Middle East, Russia hedges bets

The visit of Israeli Prime Minister Benjamin Netanyahu to Moscow (16-18 February), during which he met with Russian President Medvedev and Prime Minister Putin, was preceded by some unusually harsh statements about Iran's nuclear program from senior figures in the Russian government, highlighting the continued importance of the Middle East in Russian foreign policy.

During Netanyahu's visit, the Israeli prime minister called for “crippling sanctions” to be imposed immediately on Iran. His comments were foreshadowed in a blunt warning by Security Council Chairman Nikolai Patrushev on February 9 to Iran's leadership: "Iran says it doesn't want to have nuclear weapons,” said Patrushev, "but its actions, including its decision to enrich uranium to 20 percent, have raised doubts among other nations, and these doubts are quite well-founded." (1) The message from Moscow to Tehran seems clear: if you act recklessly, don't count on us bailing you out. Perhaps the Israelis, therefore, interpreted this as a low point in Russian-Iranian relations and rushed to take advantage of the opportunity when it presented itself.
While there is little doubt that Iran was the reason for Netanyahu's visit, the results of the three-day diplomatic excursion are less clear. The Israeli prime minister's calls for crippling sanctions were quietly ignored by his host Medvedev, who declared that Russia's position regarding Iran's nuclear program remains unchanged: in other words, Russia urges Iran to cooperate further with the International Atomic Energy Agency, thereby convincing the international community of the true peaceful intentions of its nuclear program. (2) In fact, it is unlikely that Netanyahu had hoped for anything more in that respect. Even if Russia were to agree to the types of sanctions he was proposing (a very unlikely scenario, given Russia's past behavior in this regard), approval would still require the cooperation of China. It is unlikely that Netanyahu maintains any illusions about the ability of Israel to persuade the international community to unite in its interests. Far more likely, the call for immediate, crippling sanctions had two purposes: one, to convey the degree to which Israel is concerned that Iran is, in fact, building a nuclear weapon; and two, as a warning that it may be on the verge of taking military action. This last element of Netanyahu's message has several dimensions.

Since the beginning of February, conflicting statements have been made by various Russian officials concerning the fulfillment of a contract to deliver to Iran the advanced S-300 anti-aircraft missile system. The missiles, which can intercept aircraft at a distance of 150 kilometers, would make an Israeli pre-emptive strike far more complicated to carry out. This fact makes the S-300 deal—and, by extension, Russia—very important both for Iran and Israel. As late as 15 February, while Netanyahu was already in Moscow meeting with the Russian leadership, Russian Security Council Deputy Secretary Vladimir Nazarov affirmed that the missiles would be delivered as planned according to the contract, stressing that their defensive purpose makes the sale fully legal under international agreements. (3) Two days later, however, Federal Military-Technological Cooperation Service Director Mikhail Dmitriyev said that no time frame has been established yet for the delivery of the S-300, while Vladimir
Kasparyants—chief designer of the arms manufacturer Almaz-Antei, which produces the missile system—reportedly stated that there were no technical problems with the system, and that delays in its delivery were political. (4) Given all this back-and-forth about the S-300 deal, many observers concluded that this was precisely the central issue that Netanyahu had come to discuss in Moscow.

Speculation abounds that the meetings may have resulted in a secret deal between Israel and Russia: Russia would withhold delivery of the S-300 in exchange for Israeli guarantees to suspend any arms deliveries to Georgia. Netanyahu, in fact, alluded vaguely to such a deal in a post-meeting press conference, stating that Israel “takes into consideration Russian concerns and interests, and expects Russia to do the same in regards to matters related to our security.” (5) If it proves true that a “Georgia-for-Iran” deal was reached, several questions immediately arise about its implications.

First, the latest Russian flip-flopping on the delivery of the S-300 is nothing new. On the contrary, fulfillment of the contract (which was signed in December 2005), already has been delayed repeatedly, with technical problems being cited as the reason for the delays. Similarly, Israeli military assistance to Georgia has been effectively suspended since the August 2008 war with Russia (according to a number of reports, Israel began withdrawing aid even before the war – as soon as it came to realize that a clash was imminent). (6) Thus, if such a deal was struck, it would not necessarily represent something new, but rather the formalization an arrangement already in effect.

Second, it is hard to imagine a more asymmetric quid-pro-quo, if it can be called that. Iran is a central national security issue for Israel and is viewed as an existential threat. Georgia, while seen by Russia as belonging to its “sphere of influence,” is obviously not an existential threat and, ultimately, a peripheral issue. The arms deals themselves are incomparable, as well. Israeli assistance to Georgia may have translated into some battlefield gains for the Georgian
military during the war, but it did not (nor could it have been expected to) affect the overall outcome. The S-300, on the other hand, could certainly affect the outcome of an Israeli preemptive strike, and as such is a strategic weapon. Lastly, and most importantly, Russia and Israel are two fundamentally different types of states. Israel is a militarily strong regional power, but one that is largely preoccupied with its own security. Today's Russia is also a regional power, but one with expansive ambitions and a much larger definition of what it sees as its area of interest. Thus, Russia's relations with Iran are part of a more general strategy of supporting “multi-polarity” (Iran being one of the “poles”) as a counterbalance to the United States, therefore their relationship may represent a more fundamental element of its foreign policy than Israel's assistance to Georgia. This seems to indicate that Israel's relative interest in making sure this arrangement holds was stronger than Russia's, raising the issue of why Russia would agree to such an arrangement in the first place. From the Russian perspective, there are two possibilities: one, that the deal is more comprehensive than supposed; or, that Russia has other reasons to delay the delivery of the S-300 beyond an alleged quid-pro-quo on Georgia.

So what could Israel have offered to Russia? During the press conference Netanyahu did mention, in general terms, the possibility of future Israeli technological cooperation with Russia. (7) Interestingly, journalists present never raised the question of possible future military cooperation, should Russia heed Israeli concerns on the Iranian issue. In fact, given Israel's foreign policy priorities, it is very possible that Israel would agree to considerable military assistance to Russia, if the latter goes along with it on the Iranian issue. In particular, Israeli know-how in the area of military technology (a major weak link in the Russian military) could be an important asset to Russia's military modernization efforts. There is no evidence, however, that this specific possibility was discussed.
Russia clearly has been stalling the delivery of the missiles to Iran, and another facet of its motivation may involve concerns that it could trigger an attack. Once the delivery schedule is set, Israel may decide that the time to act is now, before the missiles are in place. There are many reasons why Russia would want to avoid such a scenario. For one thing, any such attack would likely target, the Russian-contracted nuclear power plant at Bushehr where, as of late 2009, dozens of Russian engineers and other staff were present. (8) In addition, it is possible that an Israeli attack could spark serious regional conflict, leading to a geopolitical re-arrangement that might not be favorable to Russian interests. Russia is keen on preventing this.

Like other major nuclear powers, Russia is similarly wary of the addition of another member to the club. “God forbid” Iran acquires a nuclear weapon, exclaimed Federation Council speaker Sergei Mironov – at the same time affirming once more that Russia will both oppose sanctions and (eventually) deliver the S-300, citing its legality as a defensive weapon. (9) This ambivalent attitude towards Iran's nuclear ambitions, against the background of extensive Russian involvement in the Iranian nuclear program, is puzzling, to say the least.

Ideally, Russia would prefer to avoid both a nuclear-armed Iran and an Israeli attack, while continuing to profit from its dealings with Iran. As time goes on, however, this appears less and less likely. As if to drive this point home, just two days after Netanyahu's visit to Moscow, the International Atomic Energy Agency released a new report stating concern that Iran may be covertly developing a nuclear warhead. (10) This report undoubtedly makes Israel's case stronger, possibly increasing the likelihood of Israeli military intervention.

By going back-and-forth with Iran on the delivery of the S-300, while apparently making a temporary, informal agreement with Israel, Moscow is trying to create some space to maneuver in the increasingly tense atmosphere in which it has found itself in the Middle East. By holding off on the missile delivery, Russia may
be bargaining on at least a delay in an Israeli attack, yet at the same time, if an attack occurs soon, the current arrangement allows Russia to distance itself from the conflict. Viewed in this light, the recent IAEA announcement may in fact provide a convenient opportunity for Russia to justify its abandonment of Iran. On the other hand, other options – such as delivering the missiles covertly and hoping that they can be installed before Israel takes action – also potentially exist. By sending mixed signals to Tel Aviv and Tehran, Moscow's message to both is to remind them that whatever happens, much will depend on what Russia decides.

Source Notes:
(3) “Moscow sees no reason to default S-300 contract with Iran,” Russia & CIS Diplomatic Panorama, 15 Feb 10 via Lexis-Nexis.
(4) “S-300 missile systems intended for Iran have no technical flaws - developer (Part 2),” Russia & CIS General Newswire, 17 Feb 10 via Lexis-Nexis.
(7) Ibid, Kommersant.
Never mind the Poles and forget about the gas glut—Nord Stream ahead!

On February 12, a permit issued by the Regional Administrative Agency for Southern Finland cleared the way for a new natural gas pipeline to pass through Finland’s Exclusive Economic Zone (EEZ) along the floor of the Baltic seabed.

(1) The pipeline, known as Nord Stream, is a Russian project that will link gas fields in Siberia to the European gas transmission grid, bypassing transit countries in Eastern Europe. The Finnish Water Permit represented the last administrative hurdle remaining for Nord Stream AG, the international gas consortium led by Russia’s state-controlled Gazprom, before construction can begin on the pipeline that will run 760 miles undersea from Vyborg in Russia to Lubmin in Germany. With Finland’s approval of the project now secure, the consortium can start laying pipes along the seabed as soon as the winter ice sheet melts, which is expected to occur sometime around April Fool’s Day. “We will start work on the day when people will laugh,” said Sergei Serdyukov, Technical Director at Nord Stream AG. (2)

The Poles will not be laughing

Polish authorities contend that Gazprom’s real motivation in building Nord Stream is to provide an alternative to shipping its gas across transit states, including Ukraine, Belarus, and Poland, thereby allowing Russia to threaten gas
supplies in Eastern Europe without affecting deliveries to Western Europe. From its inception, Polish politicians have opposed Nord Stream, which the Foreign Minister once famously referred to as the Ribbentrop-Molotov pipeline, but they have discovered that they lack the clout to block the project, which is backed by powerful figures in Germany. (3) Fearing that a quarrel between Russia and Belarus or Ukraine would leave Poland without gas and without recourse, the country’s leaders have been making efforts to reduce dependence on Russian pipeline deliveries by diversifying gas supplies, and have developed a plan to build a liquefied natural gas (LNG) terminal at the northwestern port of Swinoujscie. (4) However, Poland’s LNG plan itself could be scuttled by the Nord Stream pipeline, since, rather than requiring the pipeline to be buried in the sea bed, Germany granted a permit that would allow it to run along the sea floor, where it will reduce the depth of the channel leading to Poland’s future LNG terminal, potentially preventing the entry of large ships. (5) Although Polish officials are working diplomatic channels to appeal the German permit and to request that a full technical documentation of the pipeline’s construction details be given to Poland, they have all but admitted that their challenge is likely to prove ineffectual, “From Poland's point of view this means a failure of Poland's energy policy,” said Grazyna Gesicka, who heads the Law and Justice parliamentary caucus. “Poland's diplomacy was unable to stop this investment.” (6)

**Gas glut**

Another obstacle to the success of Nord Stream, this one potentially more formidable, can be found on the other side of the globe, in US shale fields, where deposits of natural gas formerly thought to be too costly to exploit have been brought into production over the past decade. Last year, the US overtook Russia to become the world’s largest natural gas producer, driven in part by a rise in unconventional output. (7) Rising production in the US has meant less demand for LNG imports, causing those cargoes to be rerouted to Europe where they are putting downward pressure on spot-market gas prices. With spot prices at about
half the level under long-term contracts, European customers in LNG-compatible markets have begun replacing Russian gas imports, the price of which is pegged to the comparably higher price of oil, with LNG volumes. (8)

Last year, demand for Russian gas among European consumers plummeted, due to a three-week shutoff caused by a pricing dispute with Ukraine, depressed industrial use amid the global economic downturn, and increased use of LNG supplies. In February of this year, Gazprom reported an eight percent drop in its third quarter sales, compared to a year ago. (9) The situation is not likely to improve soon, according to the International Energy Agency (IEA). “I don't have very good news for Russia, I'm afraid,” Fatih Birol, IEA Chief Economist, told an investment conference in Moscow. “I see a global gas glut hitting until 2015.” (10) Gazprom has dismissed this gloomy prognosis, claiming that the supply glut will evaporate by 2012, around the time that Nord Stream is expected to achieve full capacity. According to Gazprom projections, Russian gas exports to Europe will rise by fifteen percent this year over last, and sales to export markets outside of the former Soviet Union will more than double by 2030. (11) The company points to its sizeable portfolio of long-term contracts that lock in supplies to European markets until 2035, at least. (12)

Judging by recent events, however, it would appear that some European customers are not content to sit through the current price differential between spot and long-term gas purchases, and have approached Gazprom in the hope of negotiating more flexible supply arrangements. Last week, Germany’s largest utility, E.ON AG, struck a deal with Gazprom to buy a “low double-digit” percentage of its pipeline gas supply at spot-market prices. (13) While the gas glut is forcing Gazprom to reconsider its pricing arrangements with its European customers, it is also raising questions about the commercial viability of Nord Stream in the near-term. The pipeline will have a capacity of 27.5 billion cubic meters when it comes online in 2011, and when the pipeline achieves full capacity in 2012, that volume will increase to 55 billion cubic meters. (14) If these
volumes are delivered in addition to current supplies, and European demand for
gas remains flat as predicted, Nord Stream deliveries will saturate the market
further and drive down prices. On the other hand, Gazprom may choose, instead,
to divert some share of the volumes that it currently transports across Ukraine
and Belarus to Nord Stream, thus pushing Russia’s neighboring states toward
the margins of the supply chain, while holding European supply levels steady
until the gas market signals a rebound. In the meantime, Poland has contracted
for extra gas supplies from Gazprom this year, and will require additional
volumes in the coming years, at least until it is able to launch its LNG terminal on
the Baltic Sea.

Source Notes:
(1) “Final Permit for Nord Stream Pipeline Paves Way for Construction Start in
April,” Nord Stream AG website, 12 Feb 10 via (http://www.nord-
stream-pipeline-paves-way-for-construction-start-in-
(2) Anatoly Medetsky, “Nord Stream Wins Final Clearance,” The Moscow Times,
15 Feb 10 via (http://www.themoscowtimes.com/business/article/nord-stream-
wins-final-clearance/399732.html).
(3) Marcin Sobczyk, “Poland Sits Still as Nord Stream Prepares to Block Sea
europe/2010/01/25/poland-sits-still-as-nord-stream-prepares-to-block-sea-
port/?KEYWORDS=Nord+Stream).
(4) Eric Watkins, “Poland receives LNG terminal bids,” Oil & Gas Journal, 11 Feb
10 via (http://www.ogj.com/index/article-display/2357245966/articles/oil-gas-
journal/transportation-2/lng/2010/02/poland-
receives_lng/QP129867/cmpid=EnlPipelineFebruary222010.html).
(5) Eric Watkins, “Nord Stream consortium awards pipeline contracts,” Oil & Gas
Journal, 27 Jan 10 via (http://www.ogj.com/index/article-
display/3466353213/articles/oil-gas-journal/transportation-
(6) Ibid.


(11) Ibid.

