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Asylum seeker from Putin's Russia

An article in the Sunday Telegraph (5 Nov 00; via lexis-nexis) by former KGB defector Oleg Gordievsky suggests that the recent arrival of former FSB agent Aleksandr Litvinenko in London could have repercussions for President Putin's reputation. According to Gordievsky, it was Putin who "instigated" the harassment and imprisonment of Litvinenko after the infamous "assassination" press conference in 1998. Apparently Litvinenko has also intimated that he can prove a link between Putin and the 1999 apartment bombings which killed hundreds of Russian citizens and precipitated the current Chechen war. I wonder what Tony Blair will have to say to Putin next time they meet, if this information proves correct. (For more on Litvinenko, see Security Services below)

Putin makes changes to arms agencies

President Putin has decreed a restructuring of the state's weapons exporting companies. Rosvooruzheniye's director, Aleksei Ogaryov, and Promexport Chief Sergei Chemezov have both been removed from their posts in line with a merger of the agencies and the creation of a single company to be called Rosoboronexport. Andrei Belyaninov, Chemezov's deputy, will head up the new agency. Russia's arms export establishment has been through periods of consolidation and breakup before, and as Ogaryov points out, exports typically fall in the year following any structural changes. (INTERFAX, 4 Nov 00; via lexis-nexis) Apparently, his argument did not sway the president. It might also be noted that the removal and replacement of the directors of these companies usually have signaled a change in the political faction in control of the Kremlin or government.
GOVERNMENT

New laundering service?
Vyacheslav Soltaganov, chief of the Federal Tax Police, has called for the creation of a financial intelligence service to help rein in rampant money laundering, capital flight and tax evasion in Russia. While Soltaganov believes the service should be civilian, and kept separate from the Tax Police, he envisages a wide-ranging surveillance mechanism that would note all transactions exceeding $5,000. (Current law already requires banks to report anything over $10,000.) According to Soltaganov, the state has need of "a whole monitoring system ... allowing the definition of accounts, names and banks to which significant financial flows are directed." The government denies that this represents an attempt by Putin to institute Soviet-style police controls. (ASSOCIATED PRESS, 0920 PST, 3 Nov 00; via C-ap@clari.net)

Who caused the crash?
Deputy Prosecutor General Vasili Kolmogorov announced last month that an investigation of the 1998 financial crisis will likely yield criminal complaints against government members by early next year. (INTERFAX, 1040 GMT, 25 Oct 00; FBIS-SOV-2000-1025, via World News Connection) Kolmogorov says some crimes have already been uncovered, but he would not disclose names while the investigation was still ongoing. Still, his announcement is certain to make several public servants, past and present, mightily nervous.

Chaika on justice
In an interview for Rossiyiskaya gazeta (21 Oct 00; FBIS-SOV-2000-1023, via World News Connection), Justice Minister Yuri Chaika claimed that his ministry had already found, throughout the components of the federation, over 400 legislative acts which did not conform to federal laws. Chaika then lamented that the justice ministry had no punitive powers to compel those regions that won't voluntarily correct their legislation to revise their error. He clearly believes,
however, that the president supports revisions in the ministry's brief that would enable it to go to the courts.

The interview revealed also that at least parts of Putin's regional policy are actually being implemented. According to Chaika, the justice ministry works well with the new presidential representatives in the new districts, and none of the regional justice ministries remains under the jurisdiction of the local authorities. The regional ministries are firmly aligned with the federal organs, bypassing regional leaders, as appears to be the president's intent. In a note on personnel, Chaika says that while three or four years ago the ministry had 3,500 employees, now that number is over 500,000. Good to know there are so many people working for justice in Russia.

Russian Federation: Security Services
By Luba Schwartzman

To flourish...
The former head of the Soviet KGB's First Chief Directorate Leonid Shebarshin, declared in a recent interview with Rossiiskaya gazeta that it is "only logical" for an ex-KGB officer who became Russia's president to "promote some colleagues of his to some key positions." Shebarshin, now president of Russia's Economic Security Service, added that he hoped this trend would continue "within reasonable limits" since secret service men are well-educated, well-rounded, and, "unlike many politicians, most of them are free of prejudices." (ROSSIISKAYA GAZETA, 26 Oct 00; via lexis-nexis) The latest such major appointment is that of Col-Gen Aleksey Shcherbakov, first deputy director of the foreign intelligence service since January 1996, to a "hot spot" -- first deputy minister of communications and information. (AVN MILITARY NEWS AGENCY, 0902 GMT, 2 Nov 00; via lexis-nexis) Other security service newcomers to the political arena include: Vyacheslav Trubnikov (former head of the Foreign
Intelligence Service) and Viktor Kalyuzhny, now members of the Russian foreign ministry (ITAR-TASS, 0751 GMT, 10 Jul 00; BBC Summary of World Broadcasts, via lexis-nexis); officers on the investigation team of the Kursk disaster (THE DAILY TELEGRAPH, 28 Aug 00; via lexis-nexis); and the heads of the Central and Northwestern federal districts, Georgy Poltavchenko and Lieutenant General Viktor Cherkesov, respectively. (VERSIYA, 21 Sep 00; What The Papers Say, via lexis-nexis)

...take flight...
Another Federal Security Services veteran has not been quite so lucky. In 1998 he "caused a sensation" by holding a news conference "to denounce the alleged plot by the Federal Security Bureau" to assassinate the wealthy Russian businessman, Boris Berezovsky. Now, after the proverbial third arrest (he was acquitted by the court in one case, and the prosecutor's office dismissed the charges due to lack of evidence in the second instance), Alexander Litvinenko, who claims, among other things, to have information on last year's Moscow apartment building bombings, has fled to Great Britain with his wife and six-year-old son. (LONDON PRESS ASSOCIATION, 1443 GMT, 2 Nov 00; FBIS-SOV-2000-1102, via World News Connection) His application for asylum currently is being considered by Home Office officials. Since Britain has no extradition agreement with Russia, it is unlikely to hand over the former FSB officer. (INTERFAX, 3 Nov 00; via lexis-nexis)

...or fight
Edmund Pope's trial goes on, though his lawyer thinks that neither the judges nor the public prosecutor will attempt to draw it out too much longer. (ITAR-TASS, 27 Oct 00; via lexis-nexis) There has been testimony, both to his advantage (concerning the discrepancy between the reports submitted to court and those sent through Pope to Pennsylvania University, the unclassified nature of Pope's discussions with Professor Anatoly Babkin and the qualification of the head of the "expert commission," Professor Logvinovich), and against him (concerning the
expertise of his main witness, Arsenty Myandin). (INTERFAX, 0847 GMT, 30 Oct 00; FBIS-SOV-2000-1030, via World News Connection) There are two very serious reasons for concern, however. First of all, on 2 November, the defendant complained of pain in his legs and back. The Lefortovo doctor signed a note that the defendant was suffering from osteochondrosis in his hip and bilateral radiculitis -- conditions with some symptoms similar to the rare bone cancer which Pope has been diagnosed as having. (INTERFAX, 1543 GMT, 31 Oct 00; FBIS-SOV-2000-1031, via World News Connection) Secondly, Russian President Vladimir Putin has stepped up the pressure on the chief investigator, warning that the investigator's job depended on winning the case. (THE RUSSIA JOURNAL, 14 Oct 00; via www.russiajournal.com)

Russian Federation: Foreign Relations

By Sarah Miller

Russian diplomacy: still in the game
Is Russia's foreign influence waning? After nearly bungling opportunities afforded by the Yugoslav election results and missing the Middle East summit at Sharm el-Sheikh, Russian foreign policy looked as if it might be facing a fresh setback. But the diplomatic flurry over the fortnight suggests that the Russian government is out to prove its critics wrong. The latest diplomatic push in the Middle East, the EU and Yugoslavia suggests that international prestige and economic stakes are driving a reinvigorated Russian foreign policy. Accordingly, Moscow has renewed its involvement in these and other international spheres, using economics and implicitly anti-US rhetoric to re-build its "unique" role as co-sponsor of the Oslo process and to reconstruct ties to Europe that might bolster its reputation and secure new and lucrative economic partnerships.

Russia's absence from Sharm el-Sheik in mid-October has had little effect on Russian involvement in the Oslo process. According to the foreign ministry,
President Vladimir Putin has upheld his pledge to gain a "greater role" in the process by maintaining "constant contact" with the Israeli and Palestinian leadership throughout the crisis. (AGENCE FRANCE PRESSE, 3 Nov 00; via RussiaToday.com) Indeed, Russia has used its influence as co-sponsor from afar, pledging not to take sides in the issue. A series of phone conversations between Putin and the two warring leaders as well as a flow of envoys to the Russian capital serve as evidence of the appeal of Russia's self-prescribed "neutrality" in the matter. According to Foreign Minister Igor Ivanov, Russia's "unique position in the peace process" is due to its "good relations with the Arab states" and a "breakthrough in relations with Israel over the past few years." In Ivanov's estimation, this position will make it "very difficult to alienate Russia from the region." (AGENCE FRANCE PRESSE, 23 Oct 00; via RussiaToday.com) Ivanov's comments not only indicate the importance that Russia places on presenting a semblance of neutrality in order to maintain its "unique" and diplomatically prestigious position in the process, but also hint at the bruises left by its perceived exclusion from the US-dominated Sharm el-Sheikh summit. (See NIS OBSERVED, 23 Oct 00) Ivanov's somewhat contrived suggestion that "perhaps other states such as the EU" should also be included in the Oslo process served not as a practical political initiative on the eve of Putin's EU summit, but as a further expression of Russian dissatisfaction with US domination of the co-sponsorship. (AGENCE FRANCE PRESSE, 23 Oct 00; via lexis-nexis)

In an effort to enhance Russia's relations with the EU, Putin spent the beginning of November in Paris launching a much-hailed "strategic dialogue" which effectively overlooked its Chechnya campaign in favor of strengthening economic ties with European states. For Russia, better ties to the EU not only could help lead the way to WTO admission, but also could provide a much-needed economic infusion from Europe in the form of energy purchases and long-term investment in the Russian energy sector. (REUTERS, 2 Nov 00; via RussiaToday.com) The relationship could offer political rewards as well since
Russia and the EU countries have both denounced US efforts to develop National Missile Defense (NMD), claiming that this would endanger the 1972 ABM treaty and possibly spark what Putin has termed "dangerous proliferation." (AGENCE FRANCE PRESSE, 31 Oct 00; via lexis-nexis)

Similarly, in an effort to maintain influence in Yugoslavia, Putin also received newly elected Yugoslav President Vojislav Kostunica in Moscow on 27 October. Despite giving belated recognition to the new president after last month's election, Kostunica -- who also met with the head of the Russian Orthodox Church -- emphasized Russia's and Yugoslavia's historic relationship and expressed his hope that Russia would continue to play a role in the region. (REUTERS, 31 Oct 00; via RussiaToday.com) In exchange, Putin pledged to resume gas supplies and argued against Western support for an independent Kosovo. No doubt Kostunica's rhetoric was happily welcomed by Putin, since it had been unclear if Kostunica would gravitate westward, allowing others to "usurp" Russia's influence in the region.

As a result of these initiatives, Russian diplomacy appears to be regaining some momentum. For now, Russia is right to concentrate on bolstering as many economic ties as possible while simultaneously invigorating its involvement in areas of international concern, even if the immediate returns are not immense. In the long run, none of these efforts is incompatible with Russian interests in regaining its footing both economically and politically.

Russian Federation: Domestic Issues and Legislative Branch

By Richard Miller

Policy entrepreneurship of envoys to federal districts continues to develop
Much has been made of Putin's creation of federal districts and their potential for expanding his power into the regions. What has not been discussed as often are the effects of the envoys themselves on the centralization of power. For instance, Viktor Kazantsev, envoy to the Southern District, took matters into his own hands and said that he is not satisfied with how things are run in the Chechen republic and intends to change it.

Kazantsev claimed that the current administrative structure in Chechnya "has already exhausted itself by now," and he blames this for the increased violence in the area.

Speaking as if he were the president himself, Kazantsev noted that, "We will not allow the third Chechen war. The force agencies are working in a planned regime, and no one creates conditions for the reinforcement of the bandit formations in Chechnya. However, with such administration and in the existing disarray, the rebels actually can intensify their activity. That is why explosions, firing, hostage-taking [still occur]."

"We favor absolute centralization of the republic's administration. There must be a coordinator who will assume responsibility for the economy, control over financial flows, activity of the force agencies -- for everything." (INTERFAX, 1005 GMT, 14 Oct 00; FBIS-SOV-2000-1014, via World News Connection)

Federation Council speaker Yegor Stroev has proposed a law defining the roles of the seven presidential envoys in the federal districts. The proposal was largely ignored, although Konstantin Pulikovsky, the envoy to the Far East district, commented that the law was unnecessary because the envoys may need to expand their roles should the need arise. (NEZAVISIMAYA GAZETA, 28 Oct 00; via Russian Regional Report, EastWest Institute)
Pulikovsky is absolutely right, and this is why the powers of the presidential envoys should be written into law. Putin instituted the system of districts and envoys ostensibly to prevent regional leaders from setting up little fiefdoms. It is unclear if he has succeeded. It is clear, however, that the potential for seven super-fiefdoms is present. Putin's unwillingness to define the roles of his agents in the seven federal districts is disturbing. It appears that, although Putin claimed that he wanted to implement a "dictatorship of the law," a simple dictatorship would also suffice.

FEDERAL ASSEMBLY

Duma deputies call for monitoring of US presidential elections

Yuri Nikiforenko of the Communist Party faction, Gennady Kulik of the Fatherland-All Russia faction, Georgy Tikhonov and Viktor Alksnis of the Russian Regions group, and independent deputy Nikolai Ryzhkov drafted a bill to demand that the United States accept international observers to monitor the American presidential elections.

The bill expresses "profound concern about the danger of falsification of the results of the U.S. presidential elections, particularly in Texas and California and other territories that were forcibly joined to the United States and where the forces campaigning for broad autonomous status for these territories within the U.S. have come under pressure that infringes upon their inalienable democratic rights."

The bill also argues that, because of the great influence of the United States on world affairs, American federal elections should not be considered purely internal matters. The UN, the authors reckon, should monitor who wins and how. Should the United States not agree to international monitors, the authors urge the world not to recognize the elections and to call for new elections under the auspices of the UN. (INTERFAX, 0612 GMT, 24 Oct 00; FBIS-SOV-2000-1024, via World News Connection)
Coming from such emblems of the Soviet past as Alksnis, the "Black Colonel," the draft is ludicrous. For the world’s oldest constitutional democracy to submit to international verification of its democratic procedures (which were erected and in full operation a century or so before much of the world had ever heard the term democracy), and at the behest of such "champions of the democratic process," requires the pen of George Orwell. But perhaps the United States and the other established democracies should encourage Russian observation to demonstrate how free and fair elections are held.

**Russian Federation: Armed Forces**

By Richard Miller

**Russia once more focuses on arms industry reform**

The tumultuous changes in Western defense industries driven by the Cold War's demise and associated market forces have manifested themselves through numerous rounds of consolidations between large defense contractors, selling-off of selected defense segments by some companies, and abandonment of defense work altogether by others. Russia, which inherited 70-80% of the former Soviet Union's defense research and production complex, has been very slow to see similar changes materialize. (Vladimir Shamberg, SOVIET DEFENSE INDUSTRIES: HISTORY AND IMPLICATIONS AFTER THE COLLAPSE OF THE SOVIET UNION, Institute for National Security Studies, US Air Force Academy, 2000). In fact, serious attempts to deal with this issue were not begun until 1997-98 with the Federal Program for Restructuring and Conversion of the Defense Industry, but the initiative was stymied and essentially put on hold by the financial crisis of August 1998. Russian leadership is again attempting long overdue actions to evolve the defense-industrial complex from the Soviet state-run economy to an era of reduced resources and a highly competitive international arms market. Recent actions and decrees indicate a multi-
dimensional approach to arms industry reform and survival. The principal aspects appear to be: industry consolidation, export sales, and production and modernization for domestic use.

Industry consolidation
With over 1,700 separate arms producers, design bureaus and defense related research institutes inherited from the Soviet Union trying to sustain themselves on decreased domestic defense spending (less than 10% of the Soviet level in 1991), the Russians realize that in order to survive, defense industry components must consolidate. The duplicative design and production capabilities, and their associated overhead costs, are enough to consume the meager spending on new procurement each year without achieving any recapitalization of the force structure. A recent presidential decree "on measures to ensure concentration and rationalization of defense production in the Russian Federation" authorized the merger of defense industry enterprises into major holdings - the first real step in achieving these reforms. This has resulted in the proposed merger of the two large arms exporters, Rosvoorouzhenie and Promexport. The state is to retain a 51% share in these large holdings to "create favourable conditions for the efficient fulfillment of defense orders and of export contracts for shipments of military products." (ITAR-TASS, 2123 GMT, 26 Oct 00; FBIS-SOV-2000-1026, via World News Connection)

Export military sales
Another desired avenue to boost defense industries is through increased overseas sales. This aspect apparently is under consideration in conjunction with the consolidation efforts. Prime Minister Mikhail Kasyanov chaired a meeting of the Presidential Commisssion for Military-Technical Cooperation with Foreign States on 27 October. One outcome of the session was a determination that liaisons with foreign states over arms sales and military cooperation need "modernizing."
Also discussed was a proposal to create a single state agency for conducting foreign arms sales. (ITAR-TASS, 1056 GMT, 27 Oct 00; FBIS-SOV-2000-1027, via World News Connection) (See Executive Branch section)

While data on specific Russian arms-producing enterprises are not readily available, given the aggregate level of annual military exports from Russia, it is safe to assume a merger of Rosvooruzhenie and Promexport would rank in the top ten arms-producing companies worldwide.

The 27 October meeting also decided to focus on increasing the effectiveness of Russian military exports and the associated research and development initiatives to achieve these results. (ITAR-TASS, 0829 GMT, 27 Oct 00; FBIS-SOV-2000-1027, via World News Connection). This is increasingly important in an effort to gain an increased market share as the quality of weapons purchased takes on greater significance in a shrinking world arms outlet.

Another strong indicator of Russia’s desire to promote its weapon systems overseas is reflected by Moscow’s ongoing negotiations with Turkey over armed helicopter sales. The Russians not only have cut prices of the KA-50-2 helicopters to make the purchase more appealing, but also have made concessions, including production licensing and ceding third-country export rights, in an attempt to take the lead over the most serious competitor, Bell Helicopter of the United States. The Russian delegation to Turkey was led by Prime Minister Kasyanov, indicating a strong desire to conclude large export contracts. (INTERFAX, 0929 GMT, 25 Oct 00; FBIS-SOV-2000-1025, via World News Connection)

In some cases, Russian military commanders are looking to sell weapons from their current inventories as a means of additional financing for military programs. The Air Force chief, General Anatoli Kornukov, recently discussed the possibility of selling over 800 warplanes including the MiG-23 and MiG-25 fighters and SU-
25 bombers. (RIA, 2009 GMT, 11 Oct 00; FBIS-SOV-2000-1012, via World News Connection)

**Production and modernization for domestic use**

The final aspect of defense industrial support recently under discussion has been the concept of recapitalization through production and modernization of existing systems for the Russian armed forces. This policy is linked also to the previously discussed export sales of weapons since new accounting procedures would allow for foreign sales proceeds to be channelled directly back to Russian military accounts.

Even with export sale proceeds, current and planned defense budgets call into question the ability to carry out a substantial rebuilding program. Nonetheless, these ambitions have been expressed repeatedly. However, there has also been an increasing prevalence of statements concerning modernization of existing weapon systems. This may be in recognition of the fact that, given the current budget environment, limited new production with increased emphasis on modernizing existing weapon systems is a more desirable way to sustain credible force levels and support the defense industrial base. For example, speaking at the Novosibirsk Chkalov aviation production association in August, Deputy Prime Minister Ilya Klebanov told workers that the armed forces had all of the S-24 aircraft required, but the plant would gain a significant workload by repairing and modernizing the planes. (RIA, 2340 GMT, 2 Aug 00; FBIS-SOV-2000-0803, via World News Connection)

**Military-civil conversion**

Decidedly absent from the recent discussions has been further consideration of the conversion of defense enterprises to civil use. This was a significant component of the discussion in 1997-98, although the program costs from 1998-2000 were then estimated to be $25.5 billion rubles (in 1998 prices) with half of that cost allocated from the federal budget. (SIPRI YEARBOOK 1999)
Conversion of defense workers through re-training, and re-tooling the industries for civil production, would require significant time and capital investment. It is obvious from recent Russian budget discussions that this capital is not forthcoming from the government. Whether external sources are willing to finance this initiative remains to be seen.

**Obstacles**

What are the obstacles to successful reform? There are several related to the initiatives outlined.

With modest defense spending increases in next year's proposed budget primarily directed to supporting operations in Chechnya and an attempt to fund long-neglected personnel accounts, it can only be assumed that investment in new defense production will not increase substantially over last year. (ITAR-TASS, 1138 GMT, 26 Oct 00; FBIS-SOV-2000-1026, via World News Connection)

The de-valued ruble may temporarily entice foreign purchases from both Russian production and current inventory. The drawback would be over the long term: as portions of production exports are used to help finance foreign debts, state indebtedness would increase. Additionally, the diminished real value of the sales would generate fewer proceeds to help finance the proposed military budget.

Furthermore, it is difficult to find a possible source of significant capital investment which would enable conversion of defense sector enterprises to civil production. Even if factories could be converted, the crumbling logistics infrastructure in Russia probably would add to production and distribution costs of goods produced, making them less competitive in the world market.

Conversion and reduction of defense industries also would conflict with a competing vision of restoring Russia's status of military greatness. Numerous
Russian officials have called for programs to "rebuild" the military. The Navy has called for increases in shipbuilding to repair what the Navy chief, Admiral Vladimir Kuroedov, has referred to as a "dismal" current state of affairs, and to boost the shipbuilding facilities which have largely sat idle. (INTERFAX, 1327 GMT, 25 Jul 00; FBIS-SOV-2000-0725, via World News Connection) His call for a 10-year shipbuilding plan is consistent with the long-term, far-reaching maritime strategy outlined in a March 2000 presidential decree. (KRASNAYA ZVEZDA, 24 May 00; WPS DEFENSE AND SECURITY, via lexis-nexis) This mismatch between vision and resources seems to complicate the decision-making process on defense-industrial reforms.

Moreover, as these difficult decisions are delayed or avoided, the defense industry continues to wither. Workers are let go as insufficient funds force project cancellations and shutdown of facilities. As in the West, the perception of a decaying industry also makes recruitment of new talent into the research and production jobs more difficult. In a highly specialized industrial base such as defense, this has insidious effects. This personnel problem is starting to be recognized in Russia as the average age of the defense industry personnel has risen to between 54-58 years, close to male life expectancy in Russia. (BBC, 1345 GMT, 20 Jun 00; via lexis-nexis)

Ultimately, the decision to utilize the defense industry as a means to stimulate economic recovery and growth comes down to a judgment which even the Russian authorities may not be able to apprise accurately. On one hand, the defense industries are a burden on the economy and must be significantly reduced; on the other, the defense industries represent the best of Russian technology and talent and therefore must be used as an economic engine to stimulate growth. To some extent, both of these views have merit. However, it is difficult to obtain data on Russian defense spending and armaments industries to conduct any long-term trend analysis on which a rational decision should be based. The body of work available in this field suggests Russian hopes for a
defense stimulus to non-defense related economic development may be overambitious. Utilizing various methodologies, modeling indicates at best a minimal positive effect of defense spending on civil sector economic development. In fact, in most cases studied, the ultimate effect is a negative burden on the economy. (Todd Sandler and Keith Hartley, THE ECONOMICS OF DEFENSE, Cambridge University Press, 1995) This suggests increasing consolidations, conversion and elimination of defense-related enterprises will be required to foster positive economic development in Russia.

The questions remain: Will the Russian leadership, maintaining a controlling 51% interest in these new private-state driven defense industries, have the will to force true industry consolidation with the inevitable cutbacks in jobs and programs to achieve efficiencies in their defense industry? Perhaps more importantly, will Moscow be willing to temper visions of a military renaissance to the reality of constrained resources?

Newly Independent States: Western Region
By Tammy Lynch

UKRAINE
Here a bank, there a bank
Both good and bad news can be gleaned from Prime Minister Viktor Yushchenko's recent threat to resign because of questions concerning his energy reform plans. On the one hand, the reforms must be making an impact, judging from the level of vitriol they are generating from some of Yushchenko's colleagues. On the other hand, the type of impact they are making is unknown and, in some ways, highly questionable. Regardless, the reforms have created a pretext for Yushchenko's rivals to launch an all-out attack.
On 2 November, Yushchenko appeared at a press conference, angrily suggesting, "If my work in this job becomes ineffective, then let someone else do it." He continued, "I simply will not allow a rape of the government. But I will not fight, because I know against whom the war would be. I do not have the means." (DEUTSCHE PRESSE-AGENTUR, 2 Nov 00; via lexis-nexis) The comments came largely in response to scathing criticism of his energy reforms by two Yushchenko rivals who may or may not be working in concert.

On 31 October, Ihor Pluzhnykov, former chairman of the government-run Oschad Bank, released a statement claiming Yushchenko and Deputy Prime Minister Yulia Tymoshenko had used the bank to award lucrative contracts to well-connected energy distribution companies. "The supervisor board of the bank has in its possession documents that prove that Yushchenko and Tymoshenko have given direct orders for the bank to finance the purchase of fuel from certain business entities," Pluzhnykov said. (KYIV POST, 1 Nov 00; via KPNews.com) He also suggested that Yushchenko had used the bank "as a money bag, not for civilized credits, but for the financing ... of doubtful projects." (FINANCIAL TIMES, 1 Nov 00; via lexis-nexis) Pluzhnykov's statement, not coincidentally, came just days after Yushchenko ousted him from his position. Regardless of its self-serving timing, however, the attack hit its mark -- especially when grouped with other well-timed attacks on Yushchenko's policies.

Directly before Pluzhnykov released his barrage, former Prime Minster Yevhen Marchuk released a report suggesting that the cabinet was using "artificial means" to create the false impression of increased cash revenue from energy payments. Principal among those means, according to Marchuk, was the use of certain banks to grant credits to make up cash collection shortfalls.

While many in the press have suggested that Pluzhnykov and Marchuk are in some way working together at the behest of their ally, President Leonid Kuchma, that claim seems overstated. Pluzhnykov, who is a parliamentary member of the
pro-presidential Social Democratic Party, most likely is working at least with the approval of Kuchma. Whether Marchuk would put aside completely his past differences with Kuchma (most notably being dismissed as prime minister and beaten in the last election) is questionable. Although Marchuk is the national security advisor and a reform-minded member of the cabinet, it is doubtful that he would go so far as to do Kuchma's bidding -- particularly if he could do some of his own. More likely, both Pluzhnykov and Marchuk are capitalizing on the vulnerability created by Yushchenko's attack on energy oligarchs. It is no secret that companies now receiving state revenue from lucrative energy deals are vehemently opposed to the prime minister's privatization and transparency plans.

Kuchma himself has recently joined the bandwagon, criticizing the government's relationship with Oschad Bank, and it now appears that after over a year of private animosity hidden under starched public smiles, the two men are displaying openly their dislike for each other.

What will come of this is the big question. It seems obvious that Kuchma is attempting to use the situation to tarnish Yushchenko's popularity with the public. The Kyiv Post recently reported that "Inter," Ukraine's most popular news program airing on state television UT-3, "has been airing lengthy daily reports criticizing the Cabinet's efforts to reform the energy sector..." (KYIV POST, 1 Nov 00; via KPNews.com) It seems unlikely, however, that Kuchma would go so far as to replace Yushchenko at such a critical point in Ukraine's history.

All of these machinations, of course, are managing to overshadow the real issue -- whether Oschad Bank was used improperly by the government, and whether, in the huge scheme of energy reform, the answer is truly important.

**Shell to the rescue?**

It appears that there may be a late entry in the European Union-Russia pipeline race -- Shell Gas & Power (SG&P). At a press conference on 1 November,
SG&P's business development manager suggested that, in lieu of privatizing Ukraine's pipeline system, the network should be leased to a foreign company. Hans Vos suggested that, if the system of "international gas transportation" were offered as a "concession," his company would be interested in operating it. (INTERFAX-UKRAINE, 1 Nov 00; via lexis-nexis) Many have suggested that if an efficient, well-financed firm like Shell were to become involved, the capacity of the pipeline system could be increased by up to 30 percent. This would increase Ukraine's participation in any EU-Russia gas deal.

Vos also suggested "concessions" both of the system for internal gas transportation as well as of the underground storage facilities. These, he suggested, could also be managed by international firms, although he expressed no interest on Shell's behalf.

The Shell conference came at the same time as an interesting article in Vremya novosty. In the article, the new US ambassador to Ukraine, Carlos Pasqual, is quoted as suggesting that "the privatization of energy systems and rational management of the gas transportation networks" is a priority for the United States. In the same article, a Gaz de France representative is paraphrased as saying that the privatization of the Ukrainian pipeline system with the participation of foreign companies might mean an end to the idea of a pipeline bypassing Ukraine. (KYIV POST, 1 Nov 00; via KPNews.com)

While the Ukrainian leadership has not commented on the reported statement of the Gaz de France representative, it has responded positively to the Shell Gas & Power idea. Prime Minister Viktor Yushchenko recently said that the cabinet does not support the outright privatization of the pipeline system, but that the leasing option is being considered. His statement that "issues agreed on with interested parties" will be discussed later, however, suggests that an arrangement may be announced soon. (INTERFAX-UKRAINE, 31 Oct 00; via lexis-nexis)
The discussions about Ukraine's pipeline make it clear that one party is not interested in managing the system -- Russia's Gazprom. Although President Leonid Kuchma last month asked the company to participate in the system's privatization, with hopes of using the deal to lower Ukraine's gas debt, Gazprom does not seem to have taken up Ukraine on its offer. Instead, it has concentrated on creating the structure for its proposed bypass pipeline, shutting out Ukraine. If Ukraine can work effectively with foreign companies to modernize its own pipeline, there is a slight possibility that Gazprom may regret its decision. Regardless, Ukraine's pipeline future looks much brighter in November than it did in October.

Newly Independent States: Caucasus

By Miriam Lanskoy

KA-BOOM

Last week the defection of Aleksandr Litvinenko, an FSB lieutenant colonel, again focused attention on the questions surrounding the authorship of the bombings in Buinansk, Moscow and Volgodonsk which killed hundreds of Russian citizens and served as the pretext for Russia's invasion of Chechnya last fall. Litvinenko said that repeated threats and "ceaseless persecution by the Russian special services" were the reasons for his defection. His attorney commented that Litvinenko "fears for his life also because he knows about a lot of things, including the explosions of the apartment buildings in Moscow last year." (Jamestown Foundation MONITOR, 2 Nov 00)

The defection has raised expectations of sensational revelations about FSB involvement in assassinations (the so-called "wet affairs," terminology the KGB had borrowed from the prison slang "zamochit"), high-level corruption in the FSB and information about security services complicity in the Moscow bombings. For
instance, a very well-regarded Russian journalist, Masha Gessen, writes in US News and World Report, "People close to the case say that he can prove what has been rumored: that the bombings were organized by the FSB, which was then headed by the man who is now Russia's president, Vladimir Putin." (US NEWS AND WORLD REPORT, 13 Nov 00)

While Kremlin insiders, the Russian public and Russia-watchers the world over await new information with bated breath, it is useful to review the available information linking the security services with the bombings. Although the explosions were blamed on the Chechens, no evidence of their complicity has surfaced so far. What we have instead is fragmentary and circumstantial evidence of FSB involvement. These details constitute the background to any revelations which may be forthcoming from Litvinenko.

**What do we know?**

1) The sites of the bombings in Moscow were demolished very quickly, leaving doubts as to whether the investigation had been completed. An early report by Michael Waller suggested that the FSB rushed to bury the crime scenes. "The Moscow Times notes in an editorial that the Ulitsa Guryanova bombing site was buried just 10 days after the explosion, and the Kashirskoye Shosse site was never secured before rubble clearance began the day of the blast. 'Is this ignorance?' asks the Times. 'In the capital city of a country where the current prime minister, Vladimir Putin, was once its top security official, the assumption sells the FSB short. The Federal Security Service has the equipment, know-how and political clout required to perform a proper investigation.... Few bombing sites are destroyed as quickly as those at Ulitsa Guryanova and Kashirskoye Shosse."" (RUSSIAN REFORM MONITOR, 1 Oct 99)

2) Writing in the Independent on 6 January 2000, Helen Womak described film footage brought out of Dzhokhar in December. In the film, a military intelligence (GRU) officer, Alexei Galtin, says: "I did not take part in the explosions of the
buildings in Moscow and Dagestan but I have information about [them]. I know who is responsible for the bombings in Moscow (and Dagestan). It is the FSB (Russian Security Service), in cooperation with the GRU, that is responsible for the explosions in Volgodonsk and Moscow." Since Galtin had been taken prisoner by Chechen fighters, it is possible that his testimony was given under duress.

3) The most serious allegations of FSB involvement in bombing apartment buildings concern a bomb that did not go off in the provincial city Ryazan. As related by the respected Russian human rights activist, Sergei Kovalev (at Harvard University's Davis Center for Russian Studies on 23 February), local residents called the police fearing they had discovered explosives in the basement. They were evacuated from the building and spent the night outdoors. First the authorities said that the substance found in the basement was sugar. Then they said there were explosives and the sugar was there to facilitate the reaction. Then the police identified the suspects. Then they said it was all a training exercise for the local police and MVD. "The nation shuddered at this test of vigilance but, ultimately, believed the story," Kovalev explained.

Chechen Foreign Minister Ilyas Akhmadov related the events in similar terms but added a few revealing details (at a 25 January appearance at the Davis Center). Neither the Ryazan police chief nor the Ryazan civil defense chief were aware of this "exercise." The MVD went to work in earnest looking for the culprit -- and arrested an FSB agent. At that point there emerged the need to concoct the story of the vigilance exercise.

4) In March 2000, during the runup to the presidential elections, Unity, which was Putin's party, blocked efforts by the opposition to launch a legislative investigation into the Ryazan "exercise." In March Moscow newspapers Novoya gazeta and Versiya had investigated the possibility that the FSB was engaged in a cover-up in Ryazan. Based on those reports, the YABLOKO Duma faction
moved to hold a parliamentary inquiry into the Ryazan incident on 17 March. The initiative was blocked by other Duma factions, Putin's Unity faction chief among them. (www.yabloko.ru)

5) An NTV broadcast about the events in Ryazan brought to light other revealing details.
After the tenants discovered a bomb in the basement, the local police and local FSB immediately evacuated the building and forced its inhabitant to spend the night outdoors. An investigation was opened. In the morning the local FSB chief, Gen. Sergeev, congratulated the tenants, saying that today is "your second birthday." In Moscow MVD Minister Vladimir Rushailo made a statement thanking the tenants for their heroic vigilance and saying that an investigation was in progress.

Two days after the bomb was discovered, FSB Minister Nikolai Patrushev came out with the statement that there was no bomb: just an FSB training exercise. Apparently the MVD in Ryazan had detained an FSB agent for questioning in this case. After Patrushev's statement, he was released immediately.

The NTV program brought together the tenants from the building, FSB experts and spokesmen, and various persons from Moscow for a very stormy discussion. Five hours of filming on 17 March (during which the tenants flung four-letter epithets at the FSB personnel) was condensed into a 45-minute program which was aired on 24 March.

The show put the FSB and by extension the government on the defensive. Public officials had to confront irate citizens -- a rare occurrence of public accountability in Russian society. Moreover, by giving vague, contradictory and evasive responses, the FSB officials and spokesmen looked dumb, callous and hostile in front of a national audience.
The tenants expressed bitterness and anger over the fright they experienced and what they regard as the FSB’s shameless lies. Moreover, the audience raised several very troubling questions which the FSB were simply unable to answer. Why is there still an open investigation into "terrorism" in Ryazan if it was a training exercise? (Having an open criminal case under the terrorism statute allows the FSB -- not the MVD -- to carry out the investigation and to keep their files secret.) Under Russian law, training is supposed to involve the personnel being trained only; on what legal basis were ordinary citizens used in this "exercise"? If this was training, why wasn't there an observer present at the scene? How can you draw conclusions if there is no one watching the performance of those being tested? Why the two-day delay before Patrushev's announcement? How could the local officers mistake sugar for the explosive hexogen which they initially said was in the bomb? [NEZAVISIMOYE RASLEDOVANIYE (Independent Investigation), NTV, 24 Mar 00]

The show humiliated the FSB, including top officials like its spokesman Alexander Zhdanovich, and seriously undermined the official dogma. If a real bomb in Ryazan was set by the FSB, perhaps the other, very deadly bombs in Russian cities were also set by the FSB. At least, that is what the tenants of that Ryazan building told the nation.

6) Igor Malashenko, the deputy director of Media Most, the parent company of NTV, said that the "Ryazan Sugar" broadcast was a major irritant in the company's relations with the FSB and the government. (Speaking at the JFK School of Government, 24 Oct 00) Information Minister Mikhail Lesin had told Malashenko on several occasions that by airing that show NTV "crossed the line and that we were outlaws in their eyes." Similarly, on 12 May Moskovski komsomolets, one of Moscow's largest papers, commented on the "Ryazan Sugar" broadcast and noted "Putin took it very personally." According to the paper, the broadcast prompted the raid against the corporate headquarters of
Media Most, during which employees were held at gunpoint for several hours while masked men ransacked the offices.

Newly Independent States: Central Asia
By Lt. Col. James DeTemple

UZBEKISTAN
Uzbekistan's role in Central Asian security
The security situation in Central Asia has been taking shape through several developments including Russia's security pact with three Central Asian states -- Kazakhstan, Kyrgyzstan and Tajikistan -- "for collective defense within the CIS Collective Security Treaty (CST)." Shared security concerns over the Taliban and terrorist organizations such as the Islamic Movement of Uzbekistan (IMU), which continue probing the borders of Uzbekistan and southern Kyrgyzstan from bases in Tajikistan, were important factors in producing the pact. The collective security system, however, lacks cohesion due to the absence of Uzbekistan, the strongest local military power in the region according to military analysts. Uzbekistan opposes Russian hegemony in Central Asia and recently signed a bilateral security agreement with Kyrgyzstan, the first of its kind between two Central Asian states. Additionally, Uzbekistan has signed military cooperation agreements with other regional powers, such as China and Turkey, challenging Russian influence in the region. Russia's latest efforts to form a Central Asian bloc inside the CIS contrasts sharply with Uzbekistan's push to look for countervailing forces outside the CIS. Uzbekistan seeks to preserve its state sovereignty, as well as to prevent the Central Asian states from falling like "dominoes" into Russia's sphere of influence.

In October, Russia and its five CST partners -- Armenia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan -- signed a security pact to create a collective security system, including the use of regional forces to defend CST territory against non-
traditional security threats such as international terrorism. (See THE NIS OBSERVED, 25 Oct 00) The collective security system consists of three geographic components, including a Central Asian sector (Russia, Kazakhstan, Kyrgyzstan and Tajikistan). This latest effort by Moscow to consolidate security in Central Asia within the CST framework is designed to legitimize Russian intervention and preserve Russia's lasting military presence on its southern periphery. Although Uzbek President Islam Karimov has stressed that the Central Asian states should exercise responsibility for their own security, Russian control is steadily increasing. Even Uzbekistan agreed to join the CIS Integrated Air Defense System in March.

The Uzbek president has criticized Moscow for using the threat of Taliban expansion into countries bordering Afghanistan as justification "for pushing the region's countries to join forces and urging Uzbekistan to accede to the CIS Collective Security Treaty," from which it withdrew in 1999. (NEZAVISIMAYA GAZETA, 28 Sep 00; via the Current Digest of the Post-Soviet Press) After leaving the CIS collective security pact, Uzbekistan joined GUUAM (Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova), a group that was formed in 1997 in response to concerns about the upward revision of CFE flank ceilings. (NIS OBSERVED, 13 Sep 00) GUUAM member states consult on political, economic and security issues. The existence of GUUAM could indicate the "hollowness" of the CIS Collective Security Treaty framework and prove a useful alternative to the Russian-controlled CST collective security system. Indeed, GUUAM has often been viewed as an anti-Russian bloc within the CIS. However, Moscow's continued efforts to obtain Tashkent's submission to Russia in the CIS and Uzbekistan's membership in a Russian-led collective security system have already begun to weaken the GUUAM alliance. (The Central Asia-Caucasus Institute ANALYST, 14 Sep 00)

President Karimov has also called for greater United Nations involvement in regional stabilization efforts. The Taliban's advances in the northern territories all
but erased the buffer that existed on the CIS's southern borders with Afghanistan. According to Karimov, the international community, including Russia and the UN Security Council, need to discuss the "Afghanistan problem" to prevent a spillover of the conflict into Central Asia. The Uzbek leader further stated "the UN Security Council closely monitors the situation in Kosovo and Yugoslavia, but pays no attention at all to Afghanistan." (NEZAVISIMAYA GAZETA, 28 Sep 00; via the Current Digest of the Post-Soviet Press) Karimov, who has been a harsh critic of the Taliban, recently softened his position, stating "in order to keep the peace in Central Asia it is essential to take into consideration the position of the Taliban movement, which is the leading force in Afghanistan." (ITAR-TASS, 1120 GMT, 13 Oct 00; FBIS-SOV-2000-1013, via World News Connection) Uzbekistan's president is reportedly considering a diplomatic exchange: recognition of the Taliban's authority in Afghanistan for a Taliban pledge not to support Islamic militants who are opposing his government. Other Central Asian states, however, through the collective security agreement, support the use of force to prevent further expansion of Taliban influence. (EURASIANET, 31 Oct 00)

Along with internationalizing Central Asian security problems, Uzbekistan is looking for help from regional powers outside the CIS. As recently as October, Turkey and Uzbekistan agreed to work together to fight terrorism, drug trafficking and organized crime. Tashkent already is expanding its security cooperation with Ankara by sending Uzbek counter-terrorism units to Turkey for training in mountainous areas, places where guerrilla forces are known to operate. (INTERFAX, 1515 GMT, 18 Sep 00; FBIS-SOV-2000-0918, via World News Connection) Moreover, Uzbekistan is seeking Western support through its membership in the Organization for Security and Cooperation in Europe and NATO's Partnership for Peace program.

Uzbekistan also has accepted military support from China, which has supplied Uzbekistan with hundreds of sniper rifles, flak jackets and other materiel to
suppress IMU incursions into the Ferghana Valley, a "melting pot" of ethnic
groups in the heart of Central Asia. China and Uzbekistan also signed a military
cooperation agreement in August. (ITAR-TASS, 2042 GMT, 29 Aug 00; FBIS-
CHI-2000-0829, via World News Connection) Beijing has stated its concern that
fighting in Uzbekistan could precipitate renewed terrorist attacks in China's
northwestern province of Xinjiang, where the Uighur separatist movement is
based. Beijing also has forged closer ties with the Central Asian states through
the Shanghai-5 organization.

Non-traditional security threats, particularly militant incursions, have been a
major source of instability in Central Asia. Uzbekistan is tailoring its armed forces
to counter these attacks effectively by conducting more realistic training,
improving command and control, upgrading equipment, as well as becoming
more compact, highly flexible and mobile. Uzbek armed forces have learned new
tactics from terrorist attacks in Uzbekistan and elsewhere in the region. (JANE'S
INTELLIGENCE REVIEW, 23 Aug 00) Counter-terrorism exercises have already
been conducted in Tashkent and other regions bordering Afghanistan. These
exercises were designed to increase border security and improve Uzbekistan's
ability to defend strategically important areas. Additionally, the Uzbek military is
training with other security forces for rapid-reaction roles. (JANE'S
INTELLIGENCE REVIEW, 23 Aug 00)

While Russia remains the dominant regional power, Uzbekistan will continue to
play a major role in Central Asian security, particularly against non-traditional
security threats. Most likely Tashkent will continue to expand regional
cooperation inside the CIS framework in areas such as air defense and through
security partnerships with other Central Asian states, without acceding to a
Russian-led collective security structure. President Karimov will continue also to
pursue alliances with regional powers outside the CIS and the West to battle
Russia's strengthening influence in Central Asia. The Carnegie Endowment
foresees Uzbekistan and Russia remaining the two major players of any Central Asian security arrangements.