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Russian Federation: Executive Branch and Military Reform
By Susan Cavan

EXECUTIVE BRANCH

Putin’s brain trust
The Russian President has signed and promulgated a decree, ostensibly to thank those who helped him write his presidential address, but which has instead sparked speculation as to the "pecking order" of advisers within the Kremlin. Seven "intellectuals" (defined in opposition to the designation "siloviki") grace the list of trusted advisers: Vladislav Surkov, Deputy Chief of the Kremlin Apparat; Igor Shuvalov, Presidential Aide; Simon Kordonsky, Presidential Adviser; Arkadi Dvorkovich, Head of the President’s Expert Administration; Dzhakhan Pollyyeva, Presidential Aide; Andrei Illarionov, longtime Kremlin economic guru and Presidential Adviser; and Elvira Nabiullina, President of the Centre for Strategic Development Projects. (1)

The decree, "On the encouragement of active participants in the preparation of the Russian President’s 2004 message to the Federal Assembly," (which begs the question about passive participants), was issued just in time for Russia Day on 12 June. Granted, Putin delivered a remarkable address (see previous NIS Observed, Executive Branch for earlier remarks), but the act of naming and listing (alphabetically) the writers and advisers he trusted to prepare the speech naturally elicits reflections on the inner Kremlin hierarchy, and the place of this "think tank" within the newly-streamlined structures.
Nezavisimaya gazeta journalist Maksim Glikin writes that this inner circle development harbingers the end of the "Yel'tsin Family" versus "Siloviki" split in the Kremlin. (2) Glikin postulates that new fissures focus around the intellectual versus the security officer, or the theoretical versus the practical. If the address that sparked this decree is a guide, presumably the intellectuals will be trusted to raise the president’s rhetoric to confident social democratic tones with solid concern for health care, education and jobs. Implementation and practical application however, are to remain the domains of the power organs and their multitude of representatives in Russia’s executive structures.

Sovbez in transition?
The Security Council, which has clearly had opportunities to exercise tremendous authority at various stages since its creation in 1992, is currently in the throes on another transition. As was noted in the Foreign Policy section of the last NIS Observed, Igor Ivanov, former Foreign Minister and current Secretary of the Security Council, seems intent on remaining a major figure in Russian foreign policy formulation and execution. While it is unlikely that a figure with the stature of Foreign Minister Sergei Lavrov would have accepted the Foreign Ministry chair without a clear elucidation of his primary position in international affairs, Ivanov does seem to be intruding on Lavrov’s new turf.

Perhaps the kernel of the issue involves a revamped identity and role for the Security Council. Several news reports have, in recent months, reviewed the membership of the Council. The permanent staff, according to a recent presidential decree, includes the following members, ex officio: RF President (Putin); State Duma Chair (Gryzlov); Security Council Secretary (I. Ivanov); Foreign Intelligence Director (Lebedev); Presidential Administration Head (Medvedev); Federation Council Chair (Mironov); Interior Minister (Nurgaliyev); Federal Security Service Director (Patrushev); and the Government Chair (Fradkov). The following individuals are also included in the current membership: Anatoli Kvashnin, General Staff Chief; Aleksei Kudrin, Minister of Finance; Yuri
Osipov, Academy of Sciences President; Vladimir Ustinov, Procurator-General; Yuri Chaika, Minister of Justice; Sergei Shoigu, Minister of Emergency Situations; as well as the president’s plenipotentiary representatives in the regions. (3)

A glimpse at the composition would suggest that the Security Council might be better equipped (or perhaps staffed) to handle security matters, rather than details of foreign policy. Perhaps a true test of the Council’s direction will appear in the aftermath of the latest bombing incursions into southern Russia. Despite attempts to put the war in Chechnya on the back burner and internationalize Russian actions through the war on terror, Putin may now be forced once again to tackle the war head on. The Security Council would seem to be the natural coordinator for Chechen policy. It would also provide a mechanism to distance the president, personally, from either unpopular or ineffective policy decisions.

MILITARY REFORM

Paper unity in military management
The Duma has approved, in a vote of 382 to 4, the "reform" of military structures that will strip the General Staff of several of its traditional functions in military planning and command. The bill, which passed in its third reading, now moves to the upper house for anticipated approval. (4)

The most controversial provisions of the new regime in military affairs remove the General Staff from operational control of the Russian Armed Forces and invalidate the articles in the previous Law on Defense, which spelled out the General Staff’s functions, leaving further determination of the role of the General Staff to the Defense Minister. (5)

Defense Minister Sergei Ivanov apparently prefers to have the General Staff focus on "strategic planning, mobilization, combat training, detection of new challenges…and proposals…to eliminate the challenges." (6)
Anatoli Kvashnin, Chief of the General Staff, is unlikely to accept this extreme diminution of Genshtab authority. A source with the General Staff notes, "Anatoli Kvashnin is not the kind of person who can just swallow this decision." (7) Making a stand, of sorts, Kvashnin addressed a Cabinet meeting and reeled off details of military expenditure shortfalls and the effects on force readiness. Kvashnin’s command of issues of concern to military personnel and commanders stands in marked contrast to the impression most have of Defense Minister Sergei Ivanov. (8) Ivanov will need to familiarize himself thoroughly with the full range of military finance, equipment, readiness and command issues (and be perceived as competent on the issues), if he hopes to have these far-reaching reforms in control over the Armed Forces exist anywhere but on paper.

Source Notes:

(1) Nezavisimaya gazeta, 18 Jun 04; BBC Monitoring International Reports via Lexis-Nexis.
(2) Ibid.
(3) RIA Oreanda, 26 Apr 04 via ISI Emerging Markets, 1 Jun 04.
(4) What the Papers Say (WPS) Observer (Digest report), 18 Jun 04; WPS Defense and Security via ISI Emerging Database.
(5) Ibid.
(6) Vremya Novostei, 16 Jun 04; WPS via ISI Emerging Markets Database.
(7) Nezavisimaya gazeta, 21 Jun 04; WPS via ISI Emerging Markets Database.

Russian Federation: Security Services

By Fabian Adami

Danilov to face retrial
In February 2001, Valentin Danilov, a nuclear physicist working at a Krasnoyarsk research facility was arrested and charged with high treason and fraud. According to the security services, Danilov had passed top secret satellite information to a front company tied to the Chinese government. (1)

After two years of incarceration, during which he suffered a serious heart attack, Danilov’s case was brought to trial in the fall of 2003. His defense team argued that the information Danilov had passed was unclassified and freely available in the public domain. If convicted of the charges however, Danilov could face up to 30 years imprisonment.

The trial was one of Russia’s first ‘spy trials’ to be determined by a jury, and resulted in an acquittal in December 2003. According to various sources, the FSB was so enraged by the result of the trial, that it rigged the subsequent trial against Igor Sutyagin (see previous NIS Observed for details), resulting in a 15 year sentence, which was to serve as "a warning" to Russian scientists. (2) It now appears, however, that the FSB is not satisfied with the conviction of Sutyagin alone, and the agency is making renewed efforts to achieve a conviction in the Danilov case.

At a hearing on 9 June at the Supreme Court, the prosecutor appealed for a new trial against Danilov. According to press reports, the appeal was based on several 'significant procedural violations' that occurred during the trial. First, the jury apparently left its room during deliberations, a fact that the prosecutor claims might have allowed the jury somehow to be corrupted. (3) Second, prosecutor Yevgeni Naidyonov claimed that Danilov’s defense team had tainted the jury by "discussing material that had not been accepted as evidence in court." (4) Third, the prosecutor alleged that three jurors claimed that they had privately been approached by the defense team in an effort to exert pressure. (5) After a hearing that lasted less than an hour, the Supreme Court accepted the prosecutor’s arguments, and ruled that there should be a new trial, which is to be
held in Krasnoyarsk with a new judge and jury, at a date still to be determined—
but in the near future. (6)

The Supreme Court’s decision predictably has caused outrage and consternation
among domestic and international human rights activists and Russian scientists
alike. Grigori Pasko, who commented recently on Sutyagin’s conviction, has
stated that Russia is witnessing a "rapid regression into totalitarianism." (7)
Danilov’s peers have also spoken out, including Aleksander Nitkin, an
environmental analyst, who stated that the "reputation of the FSB was
undermined" by the Sutyagin verdict, and Vitali Ginzburg, a academician at the
Russian Academy of Sciences adding that he was convinced that Danilov "is
innocent." (8)

Danilov reacted to the Supreme Court’s ruling with surprising equanimity, telling
the press that he was not surprised by the decision, but that he believes a new
jury will "come to the same conclusion: that I am innocent." (9) It is difficult to
agree with such optimism. If the Sutyagin case proved anything, it was that the
FSB is prepared to go to any lengths to achieve the desired results. It is highly
unlikely that the new jury will be left alone with its deliberations, or that the result
will be an acquittal.

Danilov’s case is not the end of Russia’s spy trials: on June 16, Moscow’s
Regional Military Court set 21 June as the date for preliminary hearings in the
case of Igor Vyalkov, a former FSB officer accused of passing secret information
to foreign intelligence services. Vyalkov has been held in Lefortovo prison since
his arrest in the fall of 2002. (10)

FSB spreads its wings—yet again
On June 5, Prime Minister Mikhail Fradkov appointed former FSB General
Nikolai Volobuyev to the post of Deputy Head of the State Customs Committee
(SCC). During his time in the FSB, Volobuyev headed the counterintelligence
operations department of the Federal Security Service. In publishing the news, Kommersant stated that Volobuyev’s role most likely will be to oversee the transformation of the SCC into the Federal Customs Service, which he will then head. (11)

There are two possible reasons for Volobuyev’s appointment. First, it may be a precursor to a formal takeover by the FSB of the SCC. Or, more likely, it is a ‘political’ move: nominally, the agency will be controlled by the Ministry of Economic Development and Trade, but in reality, it will be subordinate to the FSB. (12) In conjunction with the piece on Volobuyev’s appointment, Kommersant published a list of ministries and agencies in which members of the Siloviki hold senior positions. Of eleven ministries listed, former FSB officers are in charge of ten. Three of these, as expected, are so-called "power ministries," namely Defense, Interior and Justice. At the Defense Ministry, it is unclear whether Sergei Ivanov exerts any influence over the GRU, while Rashid Nurgaliyev’s appointment at the Interior Ministry can be seen as a second attempt to gain control of the MVD after the removal of Boris Gryzlov. (13)

There are two things about the report that are disconcerting: first, that former FSB officers control, or have senior positions in seven ‘minor’ ministries such as the Agency for State Reserves, and second, since the March elections, the siloviki have been given control over a major new ministry, that of Culture and Mass Communications, where Leonid Nadirov as First Deputy Minister has been directly responsible for writing Russia’s new media licensing laws. (14) This means that former FSB officers now not only control Russia’s security and foreign policies, but also state finances, and the organs for dissemination of news and information. President Putin’s former KGB and FSB colleagues now have the capacity to control every important aspect of life in Russia, and, as such, there can be no more doubt that the country once more is a police state.

Source Notes:
(2) See NIS Observed: An Analytical Review Volume IX Number 7, 28 Apr 04.
(3) Vremya Novostei, 9 Jun 04 via ISI Emerging Markets Database.
(4) "Russian Court Overturns Acquittal in Spy Case," New York Times, 10 Jun 04.
(5) The Moscow Times, 10 June 04 via ISI Emerging Markets Database.
(6) "Russian Court Overturns Acquittal in Spy Case," New York Times, 10 Jun 04.
(7) WPS-Defense and Security, 11 Jun 04 via ISI Emerging Markets Database.
(8) WPS-Defense and Security, 11 Jun 04 via ISI Emerging Markets Database.
(9) WPS-What The Papers Say, 11 Jun 04 via ISI Emerging Markets Database.
(10) ITAR-TASS, 16 Jun 04; FBIS-SOV-2004-0616 via World News Connection.
(11) Kommersant, Izvestia Press Digest, 5 Jun 04 via ISI Emerging Markets Database.
(12) Ibid.

Russian Federation: Foreign Relations

By Maolmordha McGowan

Putin and the sharks in Georgia

At his closing press conference from the Group of 8 (G-8) Summit at Sea Island, Georgia, President Putin noted with regret that he was unable to take his anticipated swim in the warm southern water, due to the presence of sharks. Putin insisted, despite the doubts of the RTR media entourage, that he had seen
a shark’s dorsal fin with his own eyes off the beach at Sea Island. (1) To find sharks at Sea Island that week, there was no need to stare offshore.

The Russian president came to Georgia with a clear agenda: He would court the leaders of the world’s wealthiest nations, protect Russia’s interests where they overlapped with the summit’s international security agenda, and generally depict himself and his country as an equal among giants.

To begin his campaign, Putin’s meeting with President Bush ran well overtime — an anomaly for the notoriously regimented Bush. According to Presidential Aide Sergei Prikhodko, Iraq was the focus of their discussion, though North Korea and were also mentioned. On all three issues, Putin remained dedicated to his previous positions — the U.N. for Iraq, multilateral negotiations for North Korea, and nuclear energy for Iran. (2)

At the end of the first day of the conference, Russian Presidential Advisor Andrei Illarionov told reporters that Russia’s suggested approach to reform in the Middle East had been adopted as official G-8 policy. (3) As a result, the G-8’s partnership with the broader Middle East will assist in building democracy in the region — but only at a host country’s request, in contrast to President Bush’s proposal of a slightly more imperious Middle East initiative. (4)

G-8 members were also able to agree that they will not initiate new transfers of uranium enrichment and reprocessing technology to countries not already receiving them for the next year, falling well short of the permanent ban on transfers that was the stated goal of the Bush administration. In addition, several developed nations were added to the Global Partnership working to secure and decommission nuclear materials, increasing potential for additional foreign aid. (5)
Except for the sharks between him and the warm water, President Putin essentially got what he wanted from his trip to Sea Island. He was able to stand among the leading world powers, bolstering the perception of power and prestige for Russia that he demands. (6) Finally, agreements on non-proliferation and Middle East reforms will scarcely diminish his position in the Middle East itself. The former compromise allows Russia to continue with its lucrative $800 million Iranian nuclear energy contract, despite the opposition of the U.S. and an investigation by the International Atomic Energy Agency. The latter compromise preserves Russia’s campaign to achieve observer status at the Organization of the Islamic Conference (OIC), which Foreign Minister Sergei Lavrov attended in Astana, Kazakhstan the following week. (7)

President Bush had to settle for these compromises, in which Russia (among other G-8 members) gave little ground, though he did get something in return from his "good friend" Vladimir Vladimirovich.

**Oh, and by the way, I should mention…**

At the closing moments of his final press conference, without provocation, Putin defended President Bush against attacks from democrats over his war in Iraq, saying "they have no moral right to do so," while citing President Clinton's attack on Serbia in 1999 as justification for this perspective. This comment stunned the media entourage, though it is unclear whether they were surprised that Putin would make such a statement in apparent contradiction to his longstanding Iraq policy, or if they were surprised that the Russian President ever weighed moral considerations. Putin assured reporters that he and Bush still disagreed on many Iraq issues. He reiterated that the U.N., not NATO, should play the key role in resolving problems there, joking that if NATO were to tackle the problem, "it would be good...NATO would end up with a new enemy." (8)

Then, on 18 June, at a forum of the Eurasian Economic Community, Putin announced that Russian security services had warned U.S. counterparts on
several occasions that Iraq was planning to execute terrorist attacks in the U.S., and against U.S. interests abroad, in the months between 11 September 2001 and the start of the current war in Iraq. (9) Putin’s comment essentially confirmed a claim released by Interfax the previous day "by a reliable source in the Russian security services" that such information had been forwarded to the U.S. on more than one occasion in the Fall of 2002. (10)

The Russian Foreign Ministry, Federal Security Service and Foreign Intelligence Service all refused to comment. (11) The U.S. Department of State and White House also had no comment, and State Department Deputy Spokesman Adam Ereli referred all further requests to the CIA. (12) Putin stressed that his agents had no evidence that Saddam’s government was actually involved in any terrorist actions. U.S. President Bush reportedly thanked one of the heads of Russia’s security services for information, which the Americans deemed particularly useful. (13)

In order to cast doubt over President Putin’s assertions, we could begin by asking why he had hitherto insisted that the Russian and American special services shared information on non-state international terrorist organizations and Afghanistan, while cooperation on Iraqi counterintelligence has never been mentioned. (14)

Secondly, the timing of Putin’s comments at Sea Island and Astana straddle a 9/11 Commission statement, on 16 June, citing no evidence linking Saddam Hussein with Al-Qaeda, a contention that the Bush administration continues to dispute. President Bush’s various rationales for launching the war have come under increasing attack on both strategic and moral grounds, and Putin’s statements might ease the pressure on the embattled American president.

Finally, one might wonder why, if Putin was aware that the Iraqi regime was planning terrorist attacks against the U.S., he would side with France in blocking
the U.N. resolution authorizing the war in the first place. Assuming his statement to be fact, President Bush could be seen as attacking Iraq to defend his country from terrorism, ostensibly Putin’s own rationale for reoccupying Chechnya in 1999. When asked whether the Americans might be justified in acting based on this information, the ever-evasive Vladimir Vladimirovich replied with a less-than-satisfying "I don’t know. That is another matter." (15)

Putin’s dive into a contentious American political debate will do nothing to bring clarity to the issue. However, we can rather safely assume that the Russian President is not among the elusive list of ‘foreign leaders’ that John Kerry claims support his candidacy for President of the United States.

**Returning the favor**

Despite the NATO-Russia Council discussions scheduled for the NATO Summit in Istanbul on 28-29 June, President Putin has backed out of his planned appearance. NATO spokesman James Apparatou confirmed that the Russian president would not arrive as expected, and that Foreign Minister Sergei Lavrov would attend in his absence. (16)

Lavrov, visiting Norway at the time, confirmed the report but was careful to reassure Ankara that Putin’s passing on the Summit should not be taken personally. Rumors that the President would visit Turkey personally floated in the Russian media. (17) Lavrov will represent Russia at the NATO-Russia Council (NRC) and will also attend a ministerial-level summit of the Euro-Atlantic Partnership Council (EAPC) in Istanbul, according to an MFA press release. (18)

After spending a few days sharing a circular conference table with the world’s great powers, President Putin has no interest in sharing the back of the room with nations like Albania and Moldova, looking up at Slovenia and Lithuania. More generally, Putin’s rebuke is probably intended to signal his frustration at NATO’s recent actions. NATO should need no such signal. Encroachment by the
Western alliance on the former Soviet sphere of influence reached a new climax with the accession of the three former Soviet Baltic states and three former Warsaw Pact countries on 29 March. NATO member state foot-dragging on ratification of a revised Conventional Forces in Europe Treaty (CFE) leaves open the theoretical possibility of a NATO military build-up on Russia's very borders. Putin has also been annoyed by the interest of CIS members Ukraine and Georgia in joining NATO. (19)

These issues have been particularly sore for Putin, whose inability to force NATO to accommodate all of Russia's interests has been embarrassing for his prestige. The Russian interest, in this case, is almost entirely psychological. The new NATO member's armed forces are of little threat to Russia. By passing on NATO assistance for the Afghanistan campaign and easily living without it for the Iraqi campaign, the U.S. has demonstrated that it views most of its NATO allies as occupation and mop-up forces, incapable of and undesirable for war-fighting purposes. Also, by engaging in a holding maneuver — criticizing and opposing any NATO action despite its irrelevance - Putin might keep Western criticism and opposition to his actions against Yukos or Chechnya to a minimum. While NATO ignoring Russia on these fronts might be a non-issue for a pragmatic observer, Putin would rather ignore NATO to show just how much he cares.

Source Notes:

(1) RTR, 11 Jun 04 via Lexis-Nexis.
(3) RTR, Ibid.
(4) "G-8 Partnership with the Broader Middle East," http://www.g8usa.gov/d_060904c.htm.
(6) Ibid.
On third thought...

Earlier this month, the Russian State Duma passed in its third reading a revised amendment to the law "On meetings, rallies, demonstrations, marches and picketing," with a vote of 336 to 97 (2 abstentions). The original amendment proposal had launched a loud public outcry, as it had banned assemblies from virtually any location where they would have any effect at all. The final form bans gatherings outside hazardous materials production facilities, main railway lines, border areas, courts and prisons, and residences of the RF president. The
revisions reportedly were sent down directly from Putin. In an earlier NIS Observed (28 Apr 04), the question was posed why the Duma seemed intent on holding a harder line than the president appeared to promote. A recent interview with Federation Council Speaker Sergei Mironov may provide at least a partial answer.

"Some of my colleagues from the State Duma, regardless of their party affiliation, have a kind of pseudo-bureaucratic enthusiasm. So I am not surprised that initiatives are appearing that the president must impede. Yes, the deputies adopted amendments to the laws on the mass media, guided by noble considerations after the terrorist act in Dubrovka. But the effect of the amendments amounted to giving complete freedom to the bureaucrat, who essentially decides the problem of freedom of speech — to allow it or not to. The same thing applies to the law on rallies. Yes, we have problems with terrorism, and those who rally near the organs of state government are creating a commotion. So what of it — what are they supposed to do, rally in the woods perhaps? Once again, the consequences have not been calculated. Without malicious intent, it is only pompous triviality," Mironov said. (1)

To be sure, Mironov is an adamant supporter of Putin; indeed, he ran one of the more bizarre presidential campaigns this spring, pledging his support of the incumbent president and his unwillingness to unseat him. So Mironov is motivated to paint the parliamentarians as culprits in the series of overwhelmingly restrictive legislative proposals being discussed. However, given the level of Soviet bureaucratization in which these parliamentarians — and other Russians — were reared, Mironov’s statement has a ring of truth. Yet, not the whole truth: The original proposal for the amendments to the law on demonstrations stemmed from the cabinet of ministers, not the Duma.

A CIVIL SOCIETY?
‘Strangers’ aren’t the enemy
If you're eager to exercise your civil rights, Russia may not be the ideal location to do so. While not everyone is necessarily ready to attack the darker-skinned individual, there is a clear case of xenophobia — with anyone who looks slightly different being considered a foreigner — running rampant. "Racially motivated crimes are growing in number and brutality by the year," said Aleksander Brod, director of the Moscow Bureau for Human Rights. Recent studies by the bureau and other groups have indicated that there are approximately 50,000 skinheads in Russia, and that the number of attacks by them is increasing at a rate of 30 percent each year. Moreover, the Moscow Bureau for Human Rights warns that the number of skinheads could reach 100,000 in the next two years unless the authorities actively seek to combat the problem. (2)

Alas, no solution is being proposed in Moscow, where an estimated 1,500 skinheads reside. The problem doesn’t rest only with those considered "hooligans," either. The head of the Moscow City Duma’s Commission on Legality and Security, Yuri Popov, recently proposed the "temporary restriction of the right of Russian citizens to travel freely in certain parts of the Russian Federation and freely choose places of temporary and permanent resident in certain locations," to halt the "disruption of the current ethnodemographic balance" and the "erosion or eradication of the national spiritual, cultural, and religious traditions of the native population." (3) What this means, in plainer text, is to keep the capital free of everyone but ethnic Russians, on the belief that immigrants from other parts of Russia and the former Soviet Union, are eroding the rights of native Muscovites. Popov’s proposal did not generate much support in the Moscow City Duma, though it is sure to have given comfort to those who see "foreigners" as the bogeymen responsible for all evil.

Source Notes:

(1) Moskovskiy Novosti, No. 19, 28 May-3 Jun 04; FBIS-SOV-2004-0604 via World News Connection.
Newly Independent States: Caucasus

By Ariela Shapiro

GEORGIA

South Ossetia on center stage

President Mikheil Saakashvili has succeeded in forging a viable working relationship with RF President Putin on issues concerning the Georgian breakaway region of South Ossetia. In return for Tbilisi’s recognition of Moscow’s economic interests in Georgia, Russia promises to maintain restraint in regards to South Ossetia. The recent warming of Georgian-Russian economic relations, as demonstrated by the 1 June appointment of Russian entrepreneur Kakha Bendukidze as Georgian Economic Minister, coincides with continuing pressure on South Ossetia by Tbilisi. While Georgian officials are continuing political and economic pressure on South Ossetia, by operating checkpoints designed to eliminate illicit trade between South Ossetia and Georgia proper, Tbilisi is also strengthening its peacekeeping force to 500 in the Georgian-South Ossetian conflict zone. According to the Georgian media, popular support for South Ossetian leader Eduard Kokoity is insecure and his recent actions are driven by a concern over his loosening grip on power in South Ossetia. For example, on 6 June, the Rustavi-2 Georgian TV channel reported that South Ossetian authorities had arrested a Kokoity political antagonist, Kostya Dzugayev, on charges of collaborating with Georgians. Considering that Dzugayev served as head of South Ossetia’s legislature during the tenure of Lyudvig Chibirov (a South Ossetian separatist), such absurd charges carry little weight. Additionally, South Ossetian officials have tried to disrupt...
Saakashvili’s plan to reopen a direct rail-line between Tbilisi and South Ossetia’s capital, Tskhinvali.

After taking over from Chibirov in December 2001, Kokoity moved quickly to consolidate his political authority, as indicated by the local legislative elections of 23 May, which gave Kokayev control of both the executive and the legislative branches of the South Ossetian government. Yet the absence of strong political opposition in South Ossetia does not mean Kokoity’s administration enjoys overwhelming support, a fact Saakashvili recognizes. Instead of seeking to stir public protest against the regional government, as Tbilisi did in the case of Abashidze, Saakashvili is providing incentives for South Ossetia to accept Tbilisi’s authority. Saakashvili is seeking actively to reassure South Ossetian residents that their rights will be protected in the event of South Ossetia’s full reintegration into Georgia, as indicated by his offer of economic incentives such as free fertilizer and reduced price farming equipment (5) and his usage of soft political terms such as "South Ossetia" [rather than the more controversial term the "Tskhinvali Region," which some Georgian leaders used to downplay sovereignty aspirations (6)] public statements. (7)

Kokoity’s ability to withstand Tbilisi’s pressure depends heavily on Russian support for his authority, which may falter in light of the budding economic links between the Moscow and Tbilisi governments. Meanwhile, Kakha Bendukidze’s appointment has concerned many Georgians as his tenure as Economics Minister began with an announcement that he is planning to embark on a sweeping privatization campaign. (8) During an interview with Georgia’s Rustavi-2 on 9 June, Bendukidze stated that he wanted all state-owned companies except for the railway, postal service and the trunk gas pipeline, as well "energy facilities in the conflict zone (i.e. South Ossetian-Georgian conflict zone)" to be sold to the highest bidder. (9) Although Bendukidze, Zurab Zhvania and Saakashvili reject suggestions that Bendukidze is a Kremlin hand in Georgia who would give preferential treatment to Russian investors, Bendukidze’s Russian
ties are undeniable. In a press release with Imedi TV on 13 June, Saakashvili claimed that in a conversation with Putin, the Russian President stated that Bendukidze has also been considered for the job of Russian economics minister. (10) In addition to political connections, Bendukidze has lived and worked in Russia since 1990 while heading Russia’s largest manufacturing company, United Heavy Machinery. (11)

Bendukidze’s plan to deregulate and reform the Georgian economy along a model of ultra-liberal capitalism is good news for Russian corporations in the energy and transport spheres, many of which are aggressively pursuing opportunities in Georgia. While United Energy Systems (UES) already controls a large stake in Georgia’s electricity network, Russian Gazprom plans to ship 1 billion cubic meters of gas to Georgia this year while displaying interest in Tbiligaz, Tbilisi’s gas network. Oil and natural gas company Itera has announced plans to supply 350 million cubic meters of gas to Georgia this year, as well as to invest $250 million in the construction of a chemical plant outside either Poti or Batumi. In return for writing off a $46 million debt held by Georgia, the Russian company wants to secure 90 percent of the Georgian chemical plant Azoti. (12) Meanwhile, Aeroflot has confirmed talks to buy out the Georgian national carrier Airzena. (13)

The decision to appoint Bendukidze was made during a May 28-29 conference in Tbilisi to discuss investment opportunities in Georgia. Among the participants were executives from Russian corporate heavyweights including UES, LUKOil, Aeroflot, and TransNeftGaz. Vladimir Chkhikvishvili, Russia’s ambassador to Georgia, described the forum as an "historic event" in relations between the two countries. (14) In a move apparently designed to encourage Russian investors’ interest further, Zhvania announced on May 28 that advisers from the Russian Ministry of Economic Development and Trade would help Georgia rewrite its tax code. (15) According to Economics Minister German Gref, the changes would encourage Russian businesses to invest in Georgia. "There will be no
investments in Georgia, if there is no transparent and liberal tax code," Gref told the Tbilisi conference. (16) Russia’s economic interest in Georgia is based on its foreign policy goals of stabilizing and dominating the South Caucasus, and aims to counteract U.S. political influence in Georgia. Additionally, the recent large-scale acquisitions in Georgian industry may be the price Saakashvili’s government will have to pay to in return for Moscow’s support for Tbilisi’s efforts to restore its authority in South Ossetia and Abkhazia.

**Saakashvili bails out TV tycoon:**

In a surprising turn of events, the founder and owner of the Rustavi 2 television station, Georgia’s leading media source, Erosi Kitsmarishvili, filed for bankruptcy in the Vake-Saburtalo district court on 8 June. Rather unsurprisingly, Saakashvili pledged support to the Rustavi 2, claiming, "We will not make any TV company bankrupt irrespective of the amount they owe to the state." The company owes a current debt of roughly USD 4.8 million. (17) Saakashvili’s public exoneration of Rustavi 2 sharply contrasts his anti-corruption campaign, in which he takes to task politicians and businessmen for tax evasion and corruption. However, Saakashvili is concerned about not only maintaining good relations with Erosi Kitsmarishvili, the chair of the Georgian Chamber of Commerce and Industry, (18) but also guaranteeing a dependent and loyal media source.

Source Notes:

(1) Kommersant, 2 Jun 04; What the Papers Say via Lexis-Nexis.
(2) Rustavi-2, Tbilisi, 3 Jun 04; BBC Monitoring via Lexis-Nexis.
(3) Rustavi-2, Tbilisi, 6 Jun 04; BBC Monitoring via Lexis-Nexis; Nezavisimaya Gazeta, 7 Jun 04; What the Papers Say via Lexis-Nexis.
(4) Ibid.
(5) Rustavi-2, Tbilisi, 2 Jun 04; BBC Monitoring via Lexis-Nexis.
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