Russian fiscal crisis: The personal is political and financial

Russia has not been immune from the trading shocks associated with the current international financial turmoil; its MICEX index and RTS exchange have suspended trading on several occasions and have seen losses of over 70 percent, since highs in May 2008. At first, Russia's political leadership seemed to have a clear vision of where to lay blame for the crisis and focused attention on American mismanagement and poor leadership. However, as the chorus of demands for personal and sectoral bailouts hit the Kremlin and the government, the deep divisions of the Russian leadership’s clan system reappeared, as personal connections and photo ops became the hottest commodities in Moscow.

President Dmitri Medvedev, speaking at the World Policy Conference, extended Russia's foreign policy mantra of "multi-polarity" to encompass the economic sphere: "[E]conomic egoism is also a consequence of the unipolar vision of the world and of the desire to be its megaregulator. It is a dead-end policy in terms of global development…. … We need to use this opportunity to clean out our systems and prolong and maximize the growth periods in our economies. The chance is still there for the taking, but we need to realize the multi-polar nature of the world and the complexities of globalization. The unipolar economic model had already proven its ineffectiveness…." (1)

If there was any doubt as to the target of Medvedev's criticism, Prime Minister Putin pointedly identified his culprit: "It's irresponsibility - not of particular individuals, but irresponsibility of the system which, as is known, aspired to
leadership. … Not only [is] the U.S. system unable to secure leadership, but it is also incapable of ensuring adequate, necessary decisions to overcome crisis phenomena." (2)

It is interesting to note that a dissenting voice to the presidential and prime ministerial line came from one of the authors of the hoped-for foreign policy of multi-polarity, Yevgeni Primakov. While Primakov still faults the US for the current financial crisis, he suggests the Russian government encouraged bad fiscal behavior: "First and foremost, the state erroneously invested in American securities rather than the national economy. … Fact is, Russian banks were all but encouraged to borrow money abroad." (3)

While Russia's response to the crisis domestically has lacked an integrated approach, it has thrown light on the hierarchy of political influence. Russia's banks and market funds offer little by way of guarantees to investors. The Russian government recently has moved to augment protection, such as increasing the coverage amount for deposits in insured banks, (4) but the system is new and unproven, and the Russian government, too, seems more an ad hoc collection of economists and siloviki friends of the prime minister, than a solid and reliable protector of investor assets.

Key members of the Russian executive, however, are capable of assuaging the fears of investors, and their identities have been made known by the steady line of supplicants outside their doors. As oligarchs, business owners, and investors in Russia seek to inspire confidence in their businesses, holdings, companies, or future plans, it appears that holding high profile meetings, preferably televised, with top officials affords the greatest return – not such a surprise, given the highly personalized nature of government and business dealings in Russia. By mid-September already leading oligarchs and business owners were lining up to meet with President Medvedev and Prime Minister Putin. However, if any one government member has demonstrated the strength and durability of his
"krysha," clearly it is Igor Sechin who not only has held multiple meetings with oil and gas company leaders, but speaks out repeatedly on measures to protect certain sectors and industries. Part of his visibility at this time is due to his sphere of responsibility as Deputy PM – his tasks focus on state policies in industry, but in Russia, a moment of crisis makes clear who holds not just the authority but the power. Sechin, as he joins the President for negotiations with the Secretary General of the Organization of the Petroleum Exporting Countries (OPEC) Abdalla Salem El-Badri, makes clear he has both (5)

If Sechin has emerged as a clear power broker in bailout and confidence measure dealing from the Russian government, Dmitri Kozak well may have dropped several rungs down the ladder. Once (then) President Putin’s super reformer, Kozak recently was "promoted" to Deputy Prime Minister in charge of the Olympics at Sochi, specifically for construction and other projects associated with the Olympics. He will not, however, be tasked with the sporting side of the Olympics, that remit remains with Deputy Prime Minister Zubkov. (6) In the midst of a financial crisis, and with cost overruns and construction delays more likely than ever, Kozak's new job appears to be a remarkably difficult and thankless position. Kozak will be replaced at the Regional Development Ministry by former Deputy Presidential Envoy for the Urals Viktor Basargin. (7)

For ordinary investors, without access to the government officials who might be able to make that special bailout happen, President Medvedev has decreed the creation of a crisis commission to address the financial turmoil: the Financial Market Development Council is tasked with responsibility for the "stability" of the financial market and the drafting of anti-crisis and stabilization legislation. The Council is chaired by First Deputy Prime Minister Igor Shuvalov with Vladimir Milovidov from the Federal Service of Financial Markets as Secretary. The Council, whose membership includes Finance Minister Aleksei Kudrin, Economic Development Minister Elvira Nabiullina, and Presidential Aide Arkadi Dvorkovich,
among others, is required to meet "at least once every six months," but may meet in emergency session, as well. (8)

Russia's Finance Minister, Aleksei Kudrin, did have one bit of good news this week: His former deputy, Sergei Storchak, who was accused (some say for political reasons) of embezzling state funds was released from custody on October 21st and warned not to leave the country. His release comes as the investigation into his actions winds up and a trial is (theoretically) set to begin. Storchak previously supervised foreign debt negotiations and led talks with the Paris Club. (9)

Source Notes:
(2) "Russian premier accuses USA of inability to handle financial crisis," ITAR-TASS, 1 Oct 08, 537 pm EST via Lexis-Nexis Academic.
(3) "Putin declares new govt measures to protect Russian economy," ITAR-TASS, 10 Oct 08, Friday 6:25 PM EST via Lexis-Nexis Academic.
(4) "Counting on vacation," Moskovskiy komsomolets, 14 Oct 08; What the Papers Say (WPS) via Lexis-Nexis Academic.
(5) See, for instance: Dmitry Medvedev discussed the situation on the world oil market with Secretary General of the Organisation of the Petroleum Exporting Countries (OPEC) Abdalla Salem El-Badri, 22 Oct 08 via www.kremlin.ru; Russian President Dmitri Medvedev held a meeting with the leading Russian businessmen in the Kremlin, 17 Sep 08, RBC Daily, No. 174, 16 Sep 08 via Lexis-Nexis Academic; "Putin to meet heads of leading companies operating in Russia," 18 Sep 08, ITAR-TASS via Lexis-Nexis Academic.
(6) "Returning to Olympus," 15 Oct 08, Vedomosti, No. 195 via Lexis-Nexis Academic.
(7) Ibid.
Beyond industry: The global financial crisis hits home, sort-of

The Russian market is in the midst of its worst economic crisis since 1998. Falling oil prices and the global credit crunch have caused the USD-dominated RTS stock index, a compilation of leading Russian securities that serves as the country’s major market indicator, to decline by 71 percent since the start of the year, establishing itself as the worst performer among global emerging markets. These factors, along with declining consumer confidence, political unrest exacerbated by the August war between Russia and Georgia, and unease about the role of the increasingly authoritarian central government have incited foreign investors to flee the Russian market, taking with them more than US $30 billion dollars to date, (1) with more expected, and dimming prospects that the country will see another year of major growth. Last Friday, global investment banking and securities firm Goldman Sachs predicted that Russia’s outlook for GDP growth would decrease to 4 percent in 2009, a three percent drop from 2008 forecasts. (2)

Despite the serious damage done to the Russian economy, ordinary citizens are in a unique position among their global counterparts. At this point, there have been no major wage or job cuts. Further, unlike the inhabitants of most western
countries, most Russians manage to live within their means, despite the fact that many are not well paid and few have any savings. (3) These factors, along with the fact that most people also refrain from investing their own money in the stock market, have alleviated the pressure of personal debt felt by citizens in other countries. However, this does not mean that ordinary people are not feeling the repercussions of the financial troubles affecting markets around the world.

Just as the current situation has raised images of the 1929 American stock market crash and subsequent depression in the United States, the economic slowdown in Russia has begun to manifest itself in rising food prices and shortages of imported goods, forcibly reminding some Russians of their Soviet past. Over the past month, shoppers at several small Moscow supermarket chains, including Samokhval and Mosmart, have seen diminishing stocks of items like meat, poultry and fish, fresh fruits and vegetables, and cigarettes. (4) In fact, the only products readily and inexpensively available at many small local food stores are flour and grains, which come from the country’s “grain belt” region, one of Russia’s few remaining bright spots of international investment, thanks to high global grain prices. (5)

It is not that food is unavailable for purchase from suppliers, but as banks are forced to raise rates and limit lending, smaller chains are finding that the credit on which they relied for daily expenses and supplies is more difficult, and in some cases nearly impossible, to obtain. (6)

So where does this leave Russian grocery shoppers? For starters, it should be noted that the current situation should not be confused with the food shortages of the early 1990s. There has been no reemergence of bread lines, nor are any currently expected. However, the lending slowdown has resulted in some families’ inability to get food deliveries, due to outstanding debts.
A much more tangible concern to most Russian citizens is inflation, which is expected to exceed January’s official prognosis, 11.8 percent, as a result of government programs that will add billions to the economy, in order to increase its liquidity. (7) If this prognosis holds true, food and service prices will increase sharply, making day-to-day life even more difficult. In many small villages, consumers already have begun to curb spending, cutting daily purchasing by as much as 10 percent. (8)

For its part, the Kremlin is eager to ensure the stability of the current political system during this economic crisis. (9) However, instead of mitigating over-optimistic expectations by preparing Russian citizens for the very real possibility that the current situation may be more than a hiccup, the government has been working to forestall the type of consumer unrest that would result in a crisis of consumer confidence. Through its control of the media, particularly electronic media, the government has managed to ensure that most Russian citizens have no concept of the seriousness of the financial crisis. This is facilitated by the fact that while some Russian companies and investors are involved heavily in the country’s stock market, the majority of citizens are not.

Many networks are avoiding complete reports on the economic crisis. For example, even though the RTS stock exchange is falling so fast that trading has been forcibly halted repeatedly over the past month, three channels have chosen not to cover the markets, even ignoring the massive 19 percent drop on October 13, the largest one-day plunge since the RTS was established. Instead, the news featured a discussion between President Medvedev and Mikhail Fridman, chairman of the Alfa Group, about the many investment opportunities that the current economic situation has created. (10)

Radio, print media, and blogs also have been “encouraged” to keep the peace. In a recent blog entry, Vladimir Varfolomeyev, an editor at Ekho Moskvy radio, explained that the Kremlin had ordered all broadcasters to follow new standards
on-air. These included a ban on the words “collapse” and “crisis” and the order that “decline” would henceforth be substituted for “fall.” (11) Varfolomeyev’s blog promptly went down after these details were made public. (12) A similar memorandum “requesting [news outlets] to stop covering queues at banks and a shortage of banking funds,” as well as other “provocative reports” for fear of “causing panic” was handed down to state-run print media outlets, including ITAR-TASS. (13)

This mandate did not entirely prevent newspapers from covering the crisis, as a few continue to print stories of frozen accounts and collapses of private banks. Izvestia, which usually can be counted on to support Kremlin policy, even advised readers to hide three months’ worth of cash in their homes. (14) However, the ban has effectively fostered a remarkable gap between perception and reality. In a survey of 1,500 people in 102 cities conducted last month, 57 percent of the participants were satisfied with Russia’s economy, an increase of four percent since July. More tellingly, over one-fourth of the participants were not aware of the global financial crisis. (15) Even if one assumes that a majority of these individuals were residents of smaller, less-connected villages and not from Russia’s major economic centers, it is still a startlingly large number of persons.

Despite media coverage (or lack thereof), the Duma acted on an anti-crisis package approved last week. By setting aside more than $86 billion ($50 billion in budget funding to help refinance foreign debt and $36 billion in loans to major domestic banks), the government is attempting to halt and reverse the destruction of the past few months. (16) However, some are concerned that this measure is merely a stopgap designed to sustain the high expectations of the Russian public. In that case, two questions remain: how long will the government be able to maintain the illusion of financial solvency, and what will the people say when it no longer can?
Source Notes:
(3) “Kremlinomics: Why the Russian markets have fared worse than others”, The Economist, 18-24 Oct 08 via
http://hosted.ap.org/dynamic/stories/E/EU_RUSSIA_WHAT_CRISIS?SITE=NCJAC&SECTION=HOME&TEMPLATE=DEFAULT.
http://www.businessweek.com/magazine/content/08_42/b4104050842599.htm.
(9) Financial crisis seen as challenge to society’s inflated expectations, 15 Oct 08, Gazeta.ru via Johnson’s Russia List, 2008-189, 16 Oct 08.
(11) Ibid.
(12) Ibid.
(13) Ibid.
(14) Financial crisis seen as challenge to society’s inflated expectations, ibid.
Assassination or warning?
Karina Moskalenko is a well-known Russian attorney. In the last few years, she has made a name for herself by representing what amounts to a laundry list of former President (and current Prime Minister) Vladimir Putin’s biggest opponents and critics.

In 1998-2000, prior to his defection, Moskalenko defended Alexandr Litvinenko against charges of abuse of office. Then, in 2005 she acted as lead trial counsel for Yukos boss Mikhail Khodorkovsky (1) and in the spring of 2007, she successfully defended former chess champion Garry Kasparov after he was arrested for leading a political demonstration. In October 2006, Moskalenko was hired by Anna Politkovskaya’s family, with the remit to act as their representative in any legal proceedings associated with the murder investigation. (2) In the last ten days, it has become clear that Moskalenko, partially based in France due to her work at the European Court of Human Rights, also may be a target for retribution by Russian authorities.

On Sunday October 12, Moskalenko contacted police in Strasbourg, because she was suffering from an extreme headache, nausea and dizziness. When authorities searched the vehicle she had been in, a number of mercury pellets were discovered. (3) Moskalenko and “members of her family” were taken to hospital immediately for tests, (4) but were released relatively quickly, after...
doctors determined that life threatening levels of the substance were not present in their bloodstreams.

In a telephone interview with Ekho Moskvy Radio last Tuesday, Moskalenko raised a number of points in relation to the incident. First, she noted that her reaction to the mercury prevented her from traveling to Moscow to attend the pre-trial hearings of several individuals charged with conspiring in Politkovskaya’s murder. (5) More importantly, she addressed the question of what the intent behind the incident was: “Was it a demonstration, which I only noticed too late, or on the contrary, did I notice it too soon, and the plan was that it should travel with us longer?” Answering her own question, Moskalenko stated that she believed the incident to have constituted a warning because there were so many pellets that one could not “fail” to spot them. Chillingly, the family members in the car with Moskalenko were her husband and children. (6)

One would have hoped that Russian Security Services would try to avoid “collateral damage” in carrying out an assassination attempt. However, the Litvinenko case and the number of people treated for radiation poisoning in that instance seem to indicate that precise targeting is not a primary concern. That being said, Moskalenko probably is correct in viewing this as a warning, due to the obviousness and visibility of the poison.

This latest incident brings several stark and important facts to the fore. First, the Secret Services, and by extension those holding political office in Russia, do not care if certain of their actions are brought to light—indeed, they may prefer it to be thus. What better way to silence critics than by making the point that “we can reach you…anywhere?” Secondly, and more importantly, this latest event demonstrates that Putin’s move to the Premiership was purely cosmetic. The character of the regime has not changed. No one who speaks out, or engages in activities that could have any detrimental effect on Putin or Medvedev should consider themselves safe.
Ryaguzov’s “legend?”

In the fall of 2007, authorities made a significant arrest in the Politkovskaya murder case when they detained FSB Lieutenant Colonel Pavel’ Ryaguzov. According to the Prosecutor General’s Office, Ryaguzov had carried out advanced target reconnaissance of Politkovskaya for an as yet un-located triggerman. The government’s narrative was that Ryaguzov had gone rogue, and was acting on behalf of the conspiracy’s sponsor, a wealthy individual (i.e., Boris Berezovsky), living outside Russia. (7)

There were multiple problems with this theory that were not addressed. First, there was no evidence that Politkovskaya’s murder was ordered or funded by someone living in exile. Secondly, the idea that Berezovsky (an opponent of Putin) would order the death of another regime opponent in order to make a political point is nefarious logic at best. Thirdly, and most importantly, the Prosecutor’s theory failed to address one crucial question: on the day of her death, Politkovskaya was under satellite surveillance. (8) Could Ryaguzov have targeted such an asset without approval or orders from a superior?

On 13th October, Aleksandr Bastrykin, Director of the Investigation Committee of the Prosecutor’s Office (SPK) made a stunning announcement in regards to the murder case. Speaking to a German newspaper, he nixed the Berezovsky theory, noting that authorities had “no reason” to make the “presumption” that the oligarch was behind the murder. (9) That this announcement was coming cannot have been a surprise.

A day before Bastrykin made his comments, substantive information about Ryaguzov found its way into the Russian press. Joining the FSB at the age of 26 in 1996, Ryaguzov rapidly worked his way up the promotion ladder, to the agency’s “super-elite UKOI (Directorate for Coordinating Operational Information) subdivision” for “strategic planning.” (10) According to his biography, Ryaguzov
was abruptly removed from this division in 2001 for reasons that “remain secret,” and was transferred to the Moscow Directorate of the FSB, where he worked on organized crime cases. (11)

While in both posts, Ryaguzov apparently was sent to Chechnya a number of times, possibly to act as “handler” for a paid FSB informant – one of the four Makhmudov brothers. (12) According to the official narrative of Politkovskaya’s murder, Rustam Makhmudov was the triggerman, (13) while his three brothers were involved in planning the hit. With the exception of Rustam, who is still on the run, the brothers have been arrested and are awaiting trial on conspiracy-murder charges. (14) This part of Ryaguzov’s biography constitutes an attempt to explain his actions in terms of simple corruption, for the Makhmudov brothers allegedly are important figures in the Chechen based “Lazan crime group.” (15)

Although not directly stated, two elements in this account of Ryaguzov’s career have some bearing on the Politkovskaya case. The first is that, having served in the UKOI, he would have known how, and had the authority to task a satellite, and the second is the possibility that, bitter at being transferred out of this elite unit, Ryaguzov decided to go rogue and sell his expertise to the highest bidder, namely an organized crime gang that wanted Politkovskaya dead.

Ryaguzov’s biography is certainly interesting, but the details revealed fail to address questions of means and motive for Politkovskaya’s murder, and indeed open whole new lines of inquiry. First, why would the Lazan Crime Group have sought Politkovskaya’s death? Were they working on someone else’s behalf or independently? Given that Ryaguzov’s trial likely will be secret, these questions may never be answered.

Source Notes:
(1) “Kremlin Targets Champion of Hopeless Causes,” The Times of London, 20 June 07 via www.timesonline.co.uk/tol/news/world/europe/article1957604.ece

(3) Ibid.

(4) “Russian Rights Lawyer ‘Poisoned,’” BBC News, 14 Oct 08 via www.news.bbc.co.uk/2/hi/europe/7670518.stm


(7) See The ISCIP Analyst, Volume XV, Number 2 (9 October 08)

(8) “Man Who Ordered Politkovskaya Murder is Outside Russia, Says Chief Prosecutor,” Channel One Worldwide (for Europe), Moscow, in Russian, 27 Aug 07; OSC Transcribed Text via World News Connection.

(9) “Probe Has No Evidence Of Berezovsky’s Involvement in Politkovskaya Murder—Investigative Committee,” Interfax, 13 Oct 08; OSC Transcribed Text via World News Connection.

(10) “Russia: Background of Ryaguzov, Figure in Politkovskaya Murder, Examined. Report by Andrei Soldatov, Novaya observer, and Irina Borogan, Agenta.Ru; ‘What The Lieutenant Colonel Knows,’” Novaya gazeta, 12 Oct 08; OSC Translated Text via World News Connection.

(11) Ibid.

(12) Ibid.


(14) Ibid.

(15) “Russia: Background of Ryaguzov, Figure in Politkovskaya Murder, Examined. Report by Andrei Soldatov, Novaya observer, and Irina Borogan, Agenta.Ru; ‘What The Lieutenant Colonel Knows,’” Novaya gazeta, 12 Oct 08; OSC Translated Text via World News Connection.
Russian military power projection: sustainable?
Russia’s military has continued its effort to project a strong military force to both its allies and competitors on the global stage. The activities have followed a broad front with an eye towards highly publicized conventional deployments outside the territory of the former Soviet Union, and advanced exercises and weapons tests within its so-called Near Abroad.

The Russian navy is maintaining course towards the Caribbean Sea for a November 2008 rendezvous with the Venezuelan military. The task force, which represents the largest Russian naval deployment to the Western Hemisphere in over twenty years, departed on 29 September 2008. The Russian naval squadron is led by the missile cruiser Peter the Great and accompanied by an anti-submarine destroyer, an intelligence-gathering ship, and a tanker. (1) In addition, the Russian Black Sea Fleet’s escort vessel Ladny and the Italian frigate Granatiere conducted bilateral “maneuvering and practicing [of] tactical procedures” for the “Ioniex-2008.” This small-scale exercise ended successfully on 14 October with “protocol visits” for the Russian ship’s crew being scheduled to take place in Sicily. (2)

More significant was a series of strategic missile launches that took the full attention of President Dmitri Medvedev. On 11 October, while aboard the aircraft carrier Admiral Kuznetsov, the Russian president watched the televised launch of a submarine-based “Sineva” (NATO designation SS-N-23 Skiff) strategic missile. The missile was fired from the Barents Sea and traveled nearly 7,200 miles to its target near the equator in the Pacific Ocean. (3) President Medvedev was seen on Russian television telling sailors that, “Not one missile of this class has ever flown so far.” (4) The following day, the Russian navy fired two more missiles almost simultaneously from the Barents Sea northeast of Norway and the Sea of
Okhotsk north of Japan, with a third land-based Topol intercontinental ballistic missile being fired in northwest Russia. (5) These strategic missile launches, part of a larger Russian military exercise code-named “Stability 2008,” enabled Medvedev to exclaim, “Respected comrades ... you have fulfilled your task and I congratulate you.” (6) In addition to sending missiles flying around the Pacific in various tests, the Russians recently have transferred the 26-year old nuclear submarine Ryazan from the Northern Fleet, in order to bolster the Pacific Fleet, where Navy General Staff Admiral Aleksandr Tatarinov is optimistic of having a “combat ready group of submarines and ships” in the next few years. (7)

The Russian Air Force also has maintained its presence through exercises and battle drills. Japan’s Air Self-Defense Force scrambled F-15 fighters to intercept Russian Tu-22 “Backfire” bombers. The bombers, on a training exercise in support of “Stability 2008,” were intercepted over the Sea of Japan. A Russian spokesman maintained that the Tu-22s remained in international airspace over neutral waters. (8) On the other side of the world, the Russian Air Force reportedly flew 30 aircraft, including bombers, fighters, and air refueling tankers over Russia and Belarus. The strategic bombers, according to Russian Air Force sources, flew with conventional ordnance and launched standard-issue cruise missiles for the first time in over two decades. (9) The Russian Air Force also deployed fighter and attack aircraft to three bases inside Belarus with the purpose of conducting “operational and tactical exercises” with Belarusian air and ground units. (10)

Sustaining a well-publicized power projection seems to imply the requirement for either increased efficiencies and/or increased operational tempo for both Russian military personnel and equipment. In recent days, the Defense Ministry announced that the general staff will be slashed by nearly 60 percent, general officers reduced by nearly 20 percent, a number of training schools will be consolidated, and that the overall manpower of the armed services will be reduced from 1.13 million to 1 million servicemen. (11) If this reform plan is
implemented, these actions likely will produce some efficiency within the military system. However, there are potential pitfalls if the military transforms too quickly. Overhauling training programs, rewriting doctrine, reorganizing forces, rebuilding infrastructure, leading research and development, and enhancing command/control are inherently staff-intensive activities. When the added burden of increased deployments and exercises is present, it may prove to be a challenging balancing act.

From an equipment perspective, the Russian military, at least rhetorically, is in the midst of a massive overhaul and this is not a cheap option, especially in light of the global financial crisis. President Medvedev stated, “We are not going to spare our financial resources. It is extremely important to maintain the combat capacity of our armed forces.” (12)

In the meantime, Russian military power projection exercises continue in earnest with an obvious eye at eliciting reaction from the West. Yet, the United States Navy and other states supporting Combined Task Force 150 have been monitoring a captured Ukrainian ship off the Somali coast for nearly a month, awaiting the arrival of Russia’s Baltic Fleet missile frigate Neustrashimy. (13) Russia’s preoccupation with provocative maneuvers, coupled with its less than hurried pace to make common cause in this piracy dispute, speaks volumes about its intentions and role in the international community.

Source Notes:
(3) “Russia test-fires ballistic missile to mid-Pacific,” Canwest News Service (The Ottawa Citizen), 11 Oct 08 via Lexis-Nexis.
(4) Ibid.
(5) “Russia fires missiles, Medvedev says strategic defences 'in order,'” Agence France Presse, 13 Oct 08 via Lexis-Nexis.
(7) “Russian Pacific Fleet receives new nuclear sub,” BBC Monitoring, 08 Oct 08 via Lexis-Nexis.
(9) “Russian strategic bombers complete week-long drills,” RIA Novosti, 14 Oct 08 via Lexis-Nexis.
(10) “Russian combat aircraft to join military drills with Belarus,” RIA Novosti, 15 Oct 08 via Lexis-Nexis.
(13) “Russia warship heads to Africa after pirate attack,” Associated Press, 26 Sep 08 via http://ap.google.com/article/ALeqM5ipBJseu0GVLta5D6t_1zOpaKSiwD93EJ9700.

The thoughts and opinions expressed in this article are those of the author and do not necessarily reflect the official position of the United States Air Force, Department of Defense, or the United States government.

Russian Federation: Foreign Relations

By Shaun Barnes

Diplomacy by proxy
Since recognizing Abkhazia and South Ossetia as independent states and signing friendship and cooperation agreements with each this September, Russia increasingly is acting as a diplomatic intermediary for the two Georgian breakaway regions. Given that only Russia and Nicaragua have normalized relations with the two, it is no surprise that they are reliant on their great power patron to plead their cases in the international community. Russia has “represented” Abkhazia and South Ossetia in a number of international settings and may have no choice but to continue to do so for the foreseeable future.

Moscow’s greatest effort on behalf of Abkhazia and South Ossetia has been directed toward the multilateral talks on the Caucasus conflict held in Geneva on October 15th, per the Medvedev-Sarkozy Agreement of August 12th. These discussions were meant to bring together representatives of Russia, Georgia, the UN, the EU, and other interested parties, in order to resolve the outstanding issues of the Russo-Georgian conflict. However, the format and agenda of the talks were defined only vaguely, leaving ample space for Moscow to try to shape the discussions. (1)

Russia repeatedly called for Abkhaz and South Ossetian representatives to be included in the meetings, a move that would bolster the size of the pro-Russian delegation in the talks, as well as lend a degree of legitimacy to the secessionists’ claims of sovereignty. Russia’s representative to NATO, Dmitri Rogozin, argued for including the breakaway regions, stating, “Our Western counterparts are trying to marry me off without my presence.” (2) An aide to President Medvedev reiterated this point, stating that “Russia’s stand is clear” that the two provinces “must surely be included” in any negotiations affecting their security. (3) Moscow also has been pushing for a binding agreement by Georgia to renounce the use of force in Abkhazia and South Ossetia; a demand it bases on its own interpretation of the Medvedev-Sarkozy plan’s language. (4)
When the consultations began, an attempt was made at a compromise on representation, with Abkhaz and Ossetian officials invited to one of two plenary sessions in Geneva. But, the Georgian representatives shunned the session that included the breakaway regions, while the Russian delegates refused to attend the session without them. (5) Russian efforts to secure a non-aggression pact between Tbilisi, Tskhinvali, and Sukhumi also were rebuffed by Georgian officials who were understandably reluctant to sign treaties with regions they consider Georgian sovereign territory. (6) Ultimately, the talks collapsed into mutual recriminations, due to distance between the parties’ positions. (7) They have been rescheduled tentatively for November 18th.

The dearth of results at Geneva is of little consequence to Moscow and its clients; time appears to be on their side. Given that Russia’s stated priority in the talks was the rather unrealistic goal of persuading Georgia to renounce the use of force in an area it considers its own territory, Moscow must have expected the talks to fail. That failure created an opportunity to paint Tbilisi as an obstacle to progress, while buying further time to strengthen the “independent” status of Abkhazia and South Ossetia. With the West’s attention largely devoted to managing the global financial crisis and US leadership in limbo until after the presidential election, chances of serious action being taken against Russia or its clients in the Caucasus are minimal.

Beyond Geneva, in recent weeks a number of Russian officials have scolded the international community for aiding Georgia to the detriment of the true “victims” of the conflict in the Caucasus, Abkhazia and South Ossetia. Foreign Ministry spokesman Andrei Nesterenko lashed out at the International Monetary Fund for providing a $750 million loan to Georgia, claiming it would only underwrite the “regime’s militaristic ambitions.” (8) Another Foreign Ministry official, speaking anonymously, denounced the United Nation’s call for $109.3 million in aid to Georgia as “one-sided,” in spite of assurances that similar requests for the breakaway regions are forthcoming. Humanitarian organizations are mandated,
the source said, to “avoid politically motivated decisions” and “help those who need it most.” (9)

Abkhaz Foreign Minister Sergei Shamba revealed that Russian patronage of the separatist provinces soon may receive a more official treatment. Shamba stated that “According to world practice, we want to prepare a special agreement for the Russian side to represent Abkhaz interests abroad.” (10) As of the time of writing, there has been no official Russian follow up to Shamba’s comments, but such an agreement would constitute little more than an extension and formalization of Moscow’s current role as a diplomatic proxy for the breakaway region.

**Medvedev’s Euro-Atlantic security proposal**

Russian President Dmitri Medvedev attended the World Policy Conference in Evian, France on October 8th. While there, he delivered a foreign policy address in which he reiterated his past calls for a new Euro-Atlantic security framework, in light of the Russian conflict with Georgia. (11) In this instance, however, he revealed some of the specific ideas that he would like to see included in such a treaty.

Medvedev offered five key points for an agreement, including elements of the president’s now familiar mantra concerning international norms, such as respect for sovereignty, inadmissibility of the use of force, and increased arms control. (12) Of more interest is point three of his proposal, in which he stated the treaty should:

“guarantee equal security... base[d] on three ‘no’s... no ensuring one’s own security at the expense of others. No allowing acts (by military alliances or coalitions) that undermine the unity of the common security space. And finally, no development of military alliances that would threaten the security of other members of the treaty.” (13)
It is not difficult to surmise to what “alliances or coalitions” Medvedev might be referring. He went on to say, in his fourth point, that “no state or international organization can have exclusive rights to maintaining peace and stability in Europe.” And, lest his listeners forget, the president hastened to add that “[t]his applies fully to Russia as well.” (14)

It is clear from these statements that a Euro-Atlantic security agreement as envisioned by Moscow would have as its aim challenging NATO and the United States as actors in European security affairs. Such language merely would codify existing Russian claims concerning such issues as NATO expansion and the planned US deployment of a ballistic missile defense system in Central Europe. To be rid of those perceived threats, Moscow gladly would tie its own hands with such a treaty. After all, it has relatively little to lose by doing so, in comparison to its more powerful western neighbors.

However, even if Medvedev’s proposal was not aimed at reining in NATO, the likelihood of other European states reaching a consensus on it is questionable. In the wake of Russia’s military intervention in the Caucasus, European opinion is divided on the proper course to follow toward Russia. This was made clear by the failure of the European Union to reach agreement on whether or not to renew negotiations with Russia on a strategic partnership. (15) With the European Union split on relations with Russia, and American opposition likely, regardless of who is elected president, Medvedev’s grand proposal for a new Euro-Atlantic security arrangement is going nowhere fast.

Source Notes:
(1) “Implementation of the Plan of Russian President Dmitry Medvedev and French President Nicolas Sarkozy, August 12, 2008,” Ministry of Foreign Affairs Information and Press Department, 8 Sep 08 via

(2) “S Ossetia, Abkhazia should take part in Geneva talks-Russia’s NATO envoy,” Interfax, 24 Sep 08; BBC Worldwide Monitoring via Lexis-Nexis.

(3) “Abkhazia, S Ossetia must be present at consultations on Caucasus,” ITAR-TASS, 7 Oct 08 via Lexis-Nexis.


(6) “Russia accuses Georgia of avoiding signing agreement on non-use of force,” Interfax, 16 Oct 08; BBC Worldwide Monitoring via Lexis-Nexis.


(8) “Russia questions IMF decision to grant a loan to Tbilisi,” ITAR-TASS, 19 Sep 08; BBC Worldwide Monitoring via Lexis-Nexis.


(10) “Russia should represent Abkhazia abroad,” Interfax-AVN Online, 17 Oct 08; OSC Translated Text via Lexis-Nexis.


(13) Ibid.

(14) Ibid.
Government taps energy export revenues for economic rescue package

Keen to dispel any notion that Russia's current financial crisis is the result of inherent weakness in the national economy, ministers in the very small circle of Russian economic policymakers have been careful to draw parallels between the situation at home and the turmoil in the national economies of fellow G8 members. The Russian government added its own national rescue package to an international compendium of plans for stabilizing global markets when it passed a slate of measures aimed at opening credit lines and expanding liquidity in the first half of October. “In that respect Russia is not very different from the other economies,” Prime Minister Vladimir Putin remarked, before adding testily, “except for the fact that our capabilities are real, that they are built not on the quicksand, that they are really available.” (1) Putin's insistence upon Russia's special capacity to deal with the global financial crisis is a boast delivered from atop a pile of gold and hard currency that has been accumulating in the country’s federal Stabilization Fund which is made up of oil and gas export revenues. The Russian government has tapped into its capital reserves in recent months in order to finance a package of anti-crisis measures that inject liquidity back into the energy sector.

Recent weeks have seen many governments resorting to massive injections of federal capital to buttress languishing domestic markets. The US Federal Reserve and the European Central Bank both have pumped huge sums of money into deflated financial markets and set aside federal funds for bank bailouts. The Russian government has committed federal resources to aid its
troubled financial markets, too, but its rescue plan differs significantly from plans put forward by Western governments, both in means and in ends.

In terms of means, Russia's anti-crisis project taps into the world's third-largest reserves of gold and hard currency, a $540 billion trove known as the Stabilization Fund, where, for the past four and a half years, the Russian government has allowed a portion of its oil and gas revenues to accrue untouched. (2) The government’s recent initiatives to salvage the domestic economy aim to channel those streams of liquid capital directly into the country’s banks and financial markets. In terms of ends, the government’s chief focus in drafting its economic rescue package is on state corporations and the all-importance of maintaining the primacy of strategic industries, exemplified by companies like Gazprom and Rosneft, as pillars of the Russian national economy.

In a period of just over two months since the government began approving anti-crisis measures to rescue Russia’s financial markets, the Central Bank has drawn approximately $130 billion, or one-third of the country’s total foreign currency reserves, from federal coffers. The government has moved approximately $57 billion onto the books of the country’s leading lenders, Sberbank, VTB, Rosselkhozbank and Gazprombank, to shore up the banking system for the short-term. In mid-October, Russia’s Federal Assembly voted to amend the country’s banking laws, in order to give the Central Bank discretion to issue another $50 billion in loans through the end of the year. Putin personally shepherded the measure through parliament, in order to guarantee speedy passage of the law designed to protect state corporations operating in Russia’s strategic sectors from the credit drought parching international markets. With the injection of cheap money into the real economy, state-controlled companies like Gazprom and Rosneft will be able to service some of their massive foreign debts by the close of 2008, making them the primary beneficiaries of the government’s aid package. (3)
Whether or not the injections of federal capital prove sufficient to buttress the banking and credit sectors, it is clear that so far, government funds have done little to stabilize Russian financial markets MICEX and RTS. From May to mid-October, investors withdrew an estimated $74 billion from the country’s stock markets, stripping the index of two-thirds of its former value. (4) In a bid to restore investor confidence in Russian financial markets, Finance Minister Aleksei Kudrin announced in September that the government would invest $20 billion in federal funds over coming months if markets did not stabilize. (5) Kudrin, a sober-minded strategist who favors a policy of fiscal austerity, was one of the leading proponents of Russia’s Stabilization Fund when it was established in 2004. He has, in the past, been reluctant to expose federal reserves to the vagaries of the open market. However in September, faced with a catastrophic sell-off of Russian assets, he put aside his reservations and endorsed a government proposal to use capital from the federal pension fund, a subsidiary reservoir within the Stabilization Fund, to buy up undervalued shares of state companies like Gazprom. (6) The plan to tap into the federal pension fund serves the government on several levels. First, the fund is a handy mop that the government can use to soak up strategic energy assets; secondly, the fund can be used to prop up the price of Gazprom shares currently selling at a discount; and finally, assuming the company’s shares can be resold for profit at some point in the future, those revenues would replenish the government’s coffers, plus interest.

When the Stabilization Fund was established in 2004, it was conceived as a buffer protecting the Russian economy from the shocks of global oil price volatility. It also was seen as a macroeconomic rainy day fund. Today, Russia simultaneously is facing wild fluctuation in global oil prices and a gloomy economic forecast. The government has responded by tapping into the Fund’s reserves to finance its package of anti-crisis measures to keep Russian markets afloat, with limited success. That decision has put Kudrin, a staunch defender of
the Fund's integrity, in the peculiar role of spokesman for the federal spending spree, a position in which he is clearly uncomfortable, notwithstanding his own unconvincing claims to the contrary. "When I defended the oil fund, I always said we can spend it during the crisis," he explained. “Maybe I was expected to always say that we should not spend the oil fund, but this is wrong." (8) If the spending measures fail, it is Kudrin who is poised to take the blame.

In the four and a half years since the Stabilization Fund was established, the price of oil has climbed, bringing in a steady stream of export revenue for the government. When the price of oil peaked at $147 per barrel in July, reserves in the Stabilization Fund had swelled to $580 billion. (9) The Fund is not inexhaustible, however. Reserves already have fallen to $540 billion in the past two months, and revenue inflow has slowed as global oil prices have dropped. In October, Kudrin announced that the Ministry of Finance had scaled back earlier projections for the price of crude used to calculate the state budget, from $95 per barrel, down to $90. (10) Although he stressed that the budget will maintain a surplus as long as the price of oil remained at or above $70 per barrel, the Fund that Putin called Russia's "safety airbag" is being depleted at such a rate that it its reserves may be effectively diminished in a period of about two years, according to some estimates. (11)

As the global economy teeters, the Russian government remains blithely confident that the national economy is insulated from external shocks, due to its vast federal reserves. It appears, however, that the Russian economy is not as ironclad as the government claims, despite years of resource renationalization and similar protectionist policies. Russia needs oil and gas export revenue to keep its coffers full. At the same time, the government is using those very same capital reserves to keep the nation's oil and gas industry afloat. The question is whether the sea of oil upon which the national economy has been floating for nearly a decade suddenly has become a whirlpool from which Russia cannot extract itself.
Newly Independent States: Caucasus

By Robyn Angley

ARMENIA

Turkish-Armenian relations improving, but Karabakh still lies at root

On September 6, Turkish President Abdullah Gul paid an unprecedented visit to Yerevan, Armenia, to visit his Armenian counterpart, Serzh Sarkisian. The Armenian leader had invited Gul to watch a World Cup qualifying match between
the Turkish and Armenian national teams. Although Turkey won the soccer match (2-0), the visit could mark a historic gain for both Turkey and Armenia and could indicate a rise in Turkey’s influence in the Caucasus. The visit is the first such interaction between an Armenian and Turkish leader since Armenia became an independent state following the collapse of the Soviet Union.

There are several key issues complicating Armenia’s relationship with Turkey. The first is Armenia’s demand for Turkish recognition of the mass slaughter of Armenians in the Ottoman Empire, beginning in 1915 (what the Turkish Foreign Ministry website refers to as “the 1915 events”). The second issue is the closed Turkish-Armenian border. Ankara closed the border in the early 1990s in response to the conflict between Armenia and Turkish ally Azerbaijan over Nagorno Karabakh, an ethnically Armenian (although legally Azeri) enclave. In the Nagorno Karabakh war, Azerbaijan lost control over considerable amounts of its territory to Armenia and the Karabakh (Armenian) separatists. Azerbaijan insists that Karabakh and the surrounding occupied provinces constitute sovereign Azeri territory, while Armenia holds that resolution of Karabakh’s status should be based on the principle of self-determination. Turkey, in the meantime, has kept its shared border with Armenia closed. The importance of this sealed border has been highlighted in recent months—the Russian invasion of Georgia has emphasized the risks of having Georgia as Armenia’s only viable land route for goods (with the Azerbaijan border also closed because of the Nagorno Karabakh conflict and Iran a poor option because of its isolation from the world community).

Despite the thorny outstanding issues in Turkish-Armenian relations, Gul’s September visit to Yerevan marks a significant milestone. The Turkish president was accompanied by his foreign minister Ali Babacan. Officials held meetings prior to the game, with the two foreign ministers meeting until three a.m. after the sporting event. (1) In their meeting, Gul and Sarkisian discussed the Nagorno Karabakh situation, although, significantly, Sarkisian did not raise the issue of the
According to Gul, the presidents also did not discuss opening the border, although reportedly Sarkisian gave his approval to Turkey’s Caucasian Stability and Cooperation Platform, a regional initiative proposed by Turkey in the wake of Russia’s incursion into Georgia. Gul has invited Sarkisian to repay the visit during another soccer match to be held in October 2009.

The visit immediately yielded token signs of increased cooperation. Unit, a privately-owned Turkish company, signed a deal during Gul’s visit with Armenia’s state-owned High Voltage Power Lines to receive 1.5 bn kWh of electricity a year. (3) More importantly, shortly after the visit, the foreign ministers from Turkey, Armenia, and Azerbaijan scheduled a meeting on the sidelines of the United Nations General Assembly in late September. It was the first in what looks to be an ongoing discussion between the foreign ministers.

Another critical development is that Serzh Sarkisian has stated that Armenia will not hold Turkish recognition of the 1915 genocide as a pre-condition for diplomatic relations with Turkey or for opening the border shared by the two countries. (4) This position makes Sarkisian vulnerable to attack from domestic political parties and the influential Armenian diaspora, for whom recognition of the genocide is a central concern. Perhaps in response to this gutsy move, former Armenian president and current opposition leader Levon Ter-Petrosian has announced that he and his followers will suspend protest rallies for several months, in order not to weaken current president Serzh Sarkisian as he deals with negotiations over Nagorno Karabakh. (5)

Armenia’s relations with Turkey appear inevitably linked to resolution of the Nagorno Karabakh issue. Gul and Sarkisian may be working on improving relations, but Azerbaijan’s newly reelected president Ilham Aliyev does not seem open to altering his country’s course with regards to Armenia or Karabakh. In fact, Aliyev recently reiterated his policy aimed at the “total isolation” of Armenia, as long as the Karabakh issue remains unresolved. (6) Since support of
Azerbaijan is Turkey’s ostensible motive in keeping the border closed, Azerbaijan’s opposition to opening it is a hefty barrier to overcome.

There have been some rumors recently regarding the possible exchange of an Armenian role in the projected Nabucco pipeline for a settlement of the Nagorno Karabakh conflict. (7) The logic behind this conjecture is that the recent war in Georgia increased Armenia’s attractiveness as a potentially more stable transit country for the Nabucco pipeline. An Azeri government spokesman has denied the possibility of Armenian inclusion in the Nabucco project, reiterating Baku’s determination not to work with Armenia until the issue of Nagorno Karabakh is resolved. (8)

Any examination of the Nagorno Karabakh conflict would be remiss to exclude the potential impact of the Russian role in the Caucasus. Indeed, Russia’s invasion of Georgia has served as a warning to both Armenia and Azerbaijan regarding Russia’s determination to play a significant role in its so-called “near abroad.” Russian Foreign Minister Sergei Lavrov made some instructive remarks following his recent meeting with Armenian Foreign Minister Edward Nalbandian. “Any attempt to resolve crisis situations by force are doomed,” said Lavrov. His comment clearly makes an example of Georgia and is intended as a warning to Azerbaijan, which has significantly beefed up its defense budget in recent years, ostensibly in preparation for an attempt to recapture its lost territories. (9) While Turkey is looking for a heightened role in the region, Russia also seems determined not to be ignored. These two are not the only countries looking to play a role in the Karabakh conflict – Iran also recently offered its services as a mediator for Nagorno Karabakh. (10)

Source Notes:
(1) “Council on Foreign Relations address by Ali Babacan, Minister of Foreign Affairs, Republic of Turkey,” 22 Sep 08 via Lexis-Nexis.
Newly Independent States: Central Asia

By Monika Shepherd

Regional Central Asian water politics may benefit Kyrgyz president domestically

On October 10, Bishkek played host to three international summits: the annual Commonwealth of Independent States (CIS) summit, a Eurasian Economic Community (EurAsEC) meeting, as well as a meeting of all five Central Asian presidents to discuss how to handle their shared water and energy resources
during the upcoming winter months. Although the CIS and EurAsEC meetings produced few tangible results, the “water summit” met with mild success.

With the presidents of all five (including Turkmenistan’s President Gurbanguly Berdimuhamedow) Central Asia countries in attendance and the prospect of new energy and water shortages ahead of them this winter, the “water summit” produced concrete agreements aimed at meeting each country’s minimal requirements for water and power supplies at least through the first quarter of 2009. One of the summit’s main goals was to ensure that the Kyrgyz government would be able to meet domestic demand for electricity without being forced to release more water from the Toktogul Reservoir, in order to generate additional hydropower. To that end, the Uzbek and Kazakh presidents promised to provide Kyrgyzstan with natural gas and coal this winter, respectively. (1) In fact, Uzbekistan’s head of state not only pledged an additional 150 million cubic meters of gas over last winter’s amount, but to ensure that the gas would be delivered “without interruption,” (2) a promise the Tajik government no doubt also would appreciate (Uzbekistan is a major supplier of natural gas to both Kyrgyzstan and Tajikistan and has taken to reducing gas supplies in the winter months, ostensibly due to payment arrears). If Uzbek and Kazakh energy imports enable Kyrgyzstan to meet domestic demand for electricity and heat, then water levels in the Toktogul Reservoir may have a chance to recover from the drought and harsh conditions of last winter in time for the spring planting season, when Uzbekistan and Kazakhstan will require more water to irrigate their crops. (3)

A follow-up meeting between the five countries’ deputy prime ministers in Almaty on October 18 (4) generated additional agreements designed to secure Tajikistan’s power supply for the months ahead, as well as bolster existing plans for the delivery of electricity to Kyrgyzstan. The Turkmen government promised to sell additional electrical power to both countries, while the Uzbek deputy prime minister assured his counterparts that his country would guarantee the transit of
Turkmen electricity across its territory. (5) Kazakhstan is in the process of building a new reservoir of its own in the South-Kazakhstan oblast’, in order to guarantee sufficient water supplies for the agricultural industry in that part of country, (6) but for the immediate future, it is dependent on the upstream countries for irrigation water.

During the news conference following the October 18 meeting, Kazakh Deputy Prime Minister Umirzak Shukeev also announced that the Kyrgyz government intended to implement a very strict policy of electricity conservation, particularly with regard to those power supplies generated by its hydropower stations. (7) The Kyrgyz delegation did not contradict this statement, even though just a few days earlier, Kyrgyzstan’s Prime Minister Igor Chudinov had assured President Bakiev that the rolling black-outs which had been imposed throughout the country in August, in order to save electricity, would end once the heating season begins in November. The president responded by issuing a near-ultimatum, stating: “The heads of relevant ministries and agencies will be personally responsible if they fail to take all necessary measures and provide people with heat and light during the winter.” (8) Prime Minister Chudinov, if not his entire government, now seems to be stuck between a rock and hard place – if more hydropower generation is required in order to avoid the power black-outs of last spring, then the upstream countries likely will impose severe sanctions against Kyrgyzstan for failing to live up to its part of the October 18 agreement. On the other hand, if new electricity rationing must be implemented to preserve the current water level in the Toktogul Reservoir, thereby depriving residents and businesses of heat and light, then Chudinov and/or his cabinet seem guaranteed to lose their posts.

President Bakiev, however, just may have found not only a very convenient scapegoat for the country’s future (and virtually certain) economic problems, but also provided himself with an iron-clad excuse to oust everyone and anyone who displeases him in the Kyrgyz government. It is unlikely that Kyrgyzstan’s
economic woes are over – thus far, Central Asia has been insulated from the global financial crisis, but as the credit market continues to tighten, Kyrgyzstan and Tajikistan could be severely affected. Various Russian companies, such as Gazprom, RusHydro, and Inter UES, (9) have promised large investments into both countries’ energy industries, including their hydropower sectors, but if these companies find themselves unable to pay for their existing projects, their plans in Central Asia may be stalled indefinitely. In fact, even without the threat of the global credit crunch, if this winter once again brings below average temperatures to Central Asia, there may be widespread power outages throughout the region, as gas lines freeze and local authorities find themselves unable to meet even domestic energy demands.

The fact that all five Central Asia heads of state were able to sit down together and come to a short-term agreement to preserve the status quo regarding water usage by trading promises of energy delivery (by the downstream countries) for pledges of water conservation (by the upstream countries) is a historic event and provides a ray of hope for continued and perhaps long-term cooperation on this and similar issues. Unfortunately, it may be too little, too late, except for President Bakiev’s political ambitions, which may have just been infused with new life.

Source Notes:
(1) “Central Asian leaders discuss water, energy problems,” 10 Oct 08, ITAR-TASS via Lexis-Nexis Academic.
(2) “Kyrgyz President Says Uzbekistan To Increase Natural Gas Supplies,” 10 Oct 08, 24.kg; BBC Monitoring International Reports via Lexis-Nexis Academic.
(4) “Five C Asian countries agree to jointly use water resources,” 20 Oct 08, ITAR-TASS via Lexis-Nexis Academic.
Newly Independent States: Western Region

By Tammy Lynch

Groundhog Day, all over again

On 21 October, Ukraine’s parliament reconvened after it was un-dissolved “for a few days” by the same president who had dissolved it two weeks earlier. In a televised address, President Viktor Yushchenko explained that his previous decree dissolving parliament must be rescinded in order to allow lawmakers “to adopt a number of laws aimed at minimizing world financial crisis impact on Ukraine.” (1) Presumably, the need for such laws did not occur to Yushchenko or his advisors 13 days earlier.

Yushchenko also suggested that previously announced new election set for 7 December to replace the sitting Rada would be postponed to allow “necessary preparation.” This preparation primarily includes locating between $80-$100 million to finance the measure in the budget. Such changes must be approved by the parliament – something that apparently also did not occur to the president 13 days earlier.
It appears that the president had hoped to receive approval from the now (technically) “acting” Prime Minister for the use of Ukraine’s emergency fund for the election. Prime Minister Yulia Tymoshenko, however, balked.

Instead, she called the move “reckless” and announced firmly that the elections “won’t be held.” (2) Speaking in a live television interview, she said, “At a time when the entire world is uniting its teams to battle the financial crisis, when two hundred year old banks are failing around the world, when governments, parliaments, the opposition and coalition all are uniting and even postponing regular elections, we categorically can not hold snap elections.” (3)

On 8 October, the president had dissolved parliament because of what he called the inability of legislators to form a working majority coalition. In a prerecorded address broadcast while he was in Italy, he lashed out at the prime minister for her “ambition,” and criticized her for populism and a lack of reforms.

Just four years ago, both Viktor Yushchenko and Yulia Tymoshenko captured the respect and admiration of many around the world when they led the Orange Revolution against an allegedly fraudulent election in Ukraine.

But the partnership soon descended into disagreements over the pace and depth of necessary reforms and concerns by both that the other was attempting to undermine their political support base. Simply put, it quickly became clear that Yushchenko and Tymoshenko just don’t like each other.

Since then, the country has developed what can best be described as a real-life manifestation of Groundhog Day. In that movie, Bill Murray is doomed to repeat the same day – Groundhog Day – over and over, until he gets it right.
When the Prime Minister’s bloc refused to support legislation condemning Russia for its actions in Georgia and instead voted in favor of legislation making it easier to impeach the president, Yushchenko reacted by demanding his bloc withdraw from its majority coalition with Tymoshenko’s bloc. Tymoshenko later backtracked on her support for impeachment provisions, but would not agree to the president’s language on South Ossetia. Instead, she signed the European Union’s more cautious – and some would say less effective – statement on the conflict. Yushchenko’s office called this step inadequate.

On 5 September, the President’s Our Ukraine-People’s Self Defense parliamentary bloc followed Yushchenko’s lead by withdrawing from the majority coalition. This triggered a ten day procedural window to allow the parties to work out differences and possibly reformat the coalition. The effort failed, and on 16 September, Parliamentary Speaker Arseniy Yatseniuk told legislators: “I officially announce the collapse of the coalition of democratic forces. I am obliged to fulfill my constitutional duty.” A new 30-day window then began, in which all parties involved had the opportunity to form a new majority coalition, in order to save the parliament elected one year ago.

To those whose perception of Yushchenko remains based on the events of 2004, when his statesmanlike behavior and willingness to negotiate during the revolution were credited with avoiding violence and restoring calm, thirty days to negotiate a new majority coalition seemed plenty of time. But, the Yushchenko of 2008 is not the Yushchenko of 2004. Today’s President has shown himself unable or unwilling to work with four successive governments and three prime ministers. He has presided over an almost complete turnover of high-level personnel within his own administration. The majority of those who stood beside him during his presidential campaign and during the cold days of the 2004 protests are no longer there. It has been a long four years for the man once hailed as Ukraine’s savior.
Moreover, Yulia Tymoshenko is no longer standing in Yushchenko’s shadow. She has created her own support base and uses it effectively and – some would say – ruthlessly. There is little doubt she is planning to challenge Yushchenko in the 2010 presidential election and has used her office well to begin her campaign early.

Therefore, on 8 October, after refusing to meet with Tymoshenko or her allies, the president acted against parliament and the prime minister it had chosen. The dissolution occurred just one day after Tymoshenko tried in vain, in front of journalists, to reach the president by phone. Tymoshenko claimed not to have been granted a private meeting with the president for six months.

The Prime Minister, who is not known for half-measures, launched an assault on the president’s decree, challenging it in the press, in the courts, and in the back rooms of the country’s most powerful political institutions, as well as in the court of public opinion.

Tymoshenko’s bloc immediately lodged a complaint against the president’s decree in Kyiv’s District Administrative Court, which quickly ruled in favor of the bloc. The court did not release its ruling, leading to suggestions that the decision may have been politically motivated.

However, there is little doubt that the constitution allows 30 days for the creation of a new coalition before the president is given the right to dissolve parliament. Since the coalition officially was dissolved on 16 September, and the decree was issued on 8 October, there are clear grounds for concern. Yushchenko, however, claimed – probably correctly – that the Administrative Court has no jurisdiction over constitutional matters and appealed to the Kyiv Appellate Court.

Much more disturbing, though, was the president’s decision not to wait for a ruling, but instead simply to liquidate the Administrative Court. Moreover, the
prosecutor’s office announced almost simultaneously that the judge who signed the order would be investigated for “knowingly passing an unlawful ruling.” (4)

This measure rang alarm bells in international circles, as concerns increased over the direction of both Ukraine’s democracy and economy. The economic repercussions of Yushchenko’s decision potentially could be felt far outside Ukraine.

At a time when the world is facing the greatest global financial crisis since the 1930s, any instability in energy markets could have serious consequences. Just days before Yushchenko’s dissolution of the parliament—and by extension the cabinet chosen by that parliament—Prime Minister Yulia Tymoshenko and Russia’s Prime Minister Vladimir Putin signed a seven-point memorandum on gas delivery to Ukraine and transit to Europe. For the first time in many years, the two countries seemed on the path toward settling their gas differences before the expiration of their current agreement – and without the use of shady intermediary companies, which had been severely criticized both by Europeans and by Russians. The memorandum clearly stated that gas would be delivered directly from Gazprom to Ukraine’s Naftohaz.

Now, the fulfillment of that agreement is in question. Even directly after the memorandum was signed, numerous questions remained – most importantly, the price Ukraine would pay for its gas. However, both Putin and Tymoshenko confirmed that the deal allows three years before Ukraine will be required to pay market prices for gas. This provision was greeted as a major victory in Ukraine, with many sources suggesting a potential price of $250-$300/1000 cubic meters of gas, instead of the over $400 suggested by Gazprom for many other countries.

It is unclear, however, how new elections or a new government would affect this agreement. Since Ukraine is the primary conduit for Russian and Central Asian gas to Europe, the issue is of great concern for Europeans who remember
Russia’s unilateral gas shut-off to Ukraine in 2006. That move inadvertently caused gas shortages in several Western European countries, and led to calls for more transparent relations between Ukraine and Russia. And yet, just days after it appeared these calls finally were beginning to be met, the situation was thrown into question by Yushchenko’s actions.

This may be one reason why a visit to Brussels by Tymoshenko on 15 October produced a clear denunciation of Yushchenko’s decree by the European People’s Party. This umbrella organization includes the national parties of German Chancellor Angela Merkel, French President Nicolas Sarkozy, Polish Prime Minister Donald Tusk, and Italian Prime Minister Silvio Berlusconi, among others.

In a statement released by EPP President Wilfred Martens on behalf of the party, the organization suggested, “What Ukraine needs today is NOT [emphasis as written] new elections, but a responsible leadership and a stable government. Now is the time for unity, not for division. We express our full support for those leaders in Ukraine who are doing everything to stabilize the governmental coalition, those who continue with social market reforms. Political instability and the economic crisis are a direct threat to the Ukrainian people.” (5)

Faced with legal challenges, international criticism, a myriad of polls suggesting that Ukrainians are not in favor of new elections, and the need for support from the IMF in order to combat the economic crisis, Yushchenko blinked and allowed parliament to resume working.

However, when the body reconvened, it was not anti-crisis economic measures that were placed on the agenda by the president, but measures to fund a new election. Tymoshenko’s bloc began a blockade of the parliament, shutting all work down and giving the impression that, at this point, just about every major state institution in the country has broken down, is unable to function, or is under
threat. Although Tymoshenko has called for a new "unity" coalition, which could include a reshuffled cabinet, and although—unlike the president—she has refrained from any actions that would alarm international observers or investors, few believe the full force of her actions has served to calm the situation.

Today, it is unclear when Ukraine will conduct a new parliamentary election, but there is little doubt that it will occur. For Tymoshenko, the longer the delay, the easier it will be for her to demand simultaneous parliamentary and presidential elections. For Yushchenko, the longer the delay, the clearer it becomes that his power to influence events effectively—which was always tenuous—is almost completely gone.

The latest opinion polls tracking presidential election preferences in Ukraine show Tymoshenko and Yanukovych virtually tied in first place, with Yushchenko trailing far behind in single digits. Similarly, his parliamentary bloc now commands between 4 and 7 percent of support in most polls, as Tymoshenko and Yanukovych also battle for first place.

Ukraine's voters simply may be waiting for the day when they can move past Groundhog Day.

Source Notes:
(2) Internet Press Service of Yulia Tymoshenko, 2153 CET, 12 Oct 08.
(3) Ibid.
(4) “Judge prosecuted for suspending Yushchenko's early poll decree,” The Financial, 1008 EST, 13 Oct 08.
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