

EASTWEEK

ANALYTICAL NEWSLETTER
FOR EASTERN EUROPE, RUSSIA, CAUCASUS, CENTRAL ASIA

ISSUE 16(166)

29 APRIL 2009

PUBLISHED BY

CENTRE FOR EASTERN STUDIES /

OŚRODEK STUDIÓW WSCHODNICH

Inside:

ANALYSES

Moscow's response to the Energy Charter Treaty / 2

Russia's proposal concerning new rules for the global energy market will not lead to a change in EU energy policy, but it represents Moscow's stance in its dialogue with the European Union

We recommend our publications which can be found at the OSW website osw.waw.pl

EVENTS

Parliament endorses adjustments to the Russian budget / 4

Russia's institutions of force keep their grip on Chechnya / 4

Belarus takes measures to combat its trade balance deficit / 5

Turkey/Armenia: a step towards normalisation of relations / 5

Kazakhstan increases uranium production / 6

Iran's position in Russia's foreign policy and Russian-American relations

The German vision of NATO's future
- The Alliance as a building block of Germany and Europe's security

ANALYSES

Moscow's response to the Energy Charter Treaty

On 20 April, Russia issued a document entitled "A Conceptual Approach to the New Legal Framework for Energy Cooperation (Goals and Principles)" containing Moscow's proposals for new rules under which the global energy market should operate. The document, which has been submitted to the European Commission, the G-8 and G-20 states and the CIS members, is a collection of Moscow's postulates concerning the relations between energy resource suppliers and consumers, and places special focus on transit issues. Russia proposes a system of rules that would obligate the transit countries to unconditionally abide by the transit agreements. As regards energy market regulation, it wants the *status quo* to be preserved and the liberalisation of the EU market stopped. In its current form, the document has no hope of gaining international acceptance, and should rather be viewed as a propaganda demonstration indicating that Russia is resuming its energy dialogue with the European Union.

Russia's proposals

The 'Conceptual Approach' may be treated as Moscow's response to the Energy Charter Treaty (ECT). The section concerning transit is also a reaction to the Russian-Ukrainian conflict of January this year, as a result of which Russian gas supplies to Europe via Ukraine were interrupted. The 'Conceptual Approach' is also a response to the Brussels EU-Ukraine declaration concerning EU investments in Ukraine's gas pipeline networks.

This short, five-page document (including a two-page list of energy resources and products) appears at first to be a restatement of selected provisions of the Charter, concerning such market principles as transparency, predictability, non-discrimination, equality, etc. However, it diverges from the European Union's position on the two issues of greatest importance for Moscow, namely transit and the rules of the energy market.

- As regards transit, Moscow seeks above all to guarantee the smooth transmission of energy resources via the transit states for all energy producers, while ignoring the rights of those transit states. It asks for "unhindered energy supply to international markets, including through transit systems". It calls for the introduction of rules that would prevent the transit countries from impeding transmission or raising reservations concerning the deals already in place. It also proposes that parties failing to fulfil their obligations under the transit agreements should bear the responsibility for the losses incurred.
- With respect to the operation of the energy market, Moscow's document proposes rules which run counter to the liberalisation of the EU energy market planned by the European Commission and the provisions of the Energy Charter. They demand, *inter alia*, guarantees and predictability of sales (this

means that priority is given to long-term contracts as a key factor in ensuring energy security); the protection of investments, including new investments in all links of the energy chain (supplies, transmission and distribution), as well as “non-discriminatory access to international energy markets” (which could clash with EU plans to separate supplies and distribution in the EU market). Another proposal concerns the obligation to co-ordinate energy policies, including infrastructure projects and projected changes, such as regulatory changes, in any part of the energy sector.

Conclusions

Russia's vision of the energy market as presented in the ‘Conceptual Approach’ implies a restriction of competition in the field of supplies, the opening of the remaining segments of the gas market in particular to investments, and market regulation with some elements of ‘central planning’ in the sphere of sales (specifically the provision concerning sale guarantees). Moscow's proposals with regard to transit subordinate the role of the transit states to the needs of the energy suppliers and consumers. The ‘Conceptual Approach’ devotes much space to the need to respect “unconditional state sovereignty over national energy resources”, but it does not mention the rights of the transit states.

In its current shape, the ‘Conceptual Approach’ will not lead to any changes in EU energy regulations. If the document were to be implemented, a profound change would first of all be necessary in Russia's policy, as it is the only country in Europe and the CIS that does not allow international gas transit (Gazprom buys all the gas imported from Central Asia on the Russian border, and resells it on its own conditions). In line with the ‘Conceptual Approach’, the Central Asian producers should have the right to non-discriminatory gas transit to European buyers via Russian territory. For this reason, the document should be regarded as a propaganda demonstration of Russia's activity in its dialogue with the European Union. Nevertheless, the provisions of the ‘Conceptual Approach’ will probably inform Russia's position in this dialogue.

The European Union has already indirectly responded to Russia's proposal by reaffirming at the Sofia energy summit that regulation of the European market would be based on the Energy Charter. On 22 April, the European Parliament approved the so-called third package of regulations liberalising the energy market.

Ewa Paszyc

EVENTS

Parliament endorses adjustments to the Russian budget

On 22 April, the Russian parliament approved the adjustments to Russia's federal budget for 2009. Despite the worsening economic crisis and a decrease in budget revenue by nearly 30 percent compared to 2008 (to US\$190 billion), budget spending will increase in 2009 by 30 percent (to around US\$270 billion). As a result, Russia will report a budget deficit (7.4% of GDP) for the first time in ten years. The figures for the first quarter of 2009 suggest that the budget adjustments with regard to revenues are overly optimistic, and the real deficit may be much higher than planned.

The adjustments to the budget bill have been necessitated by the need to adapt the 2009 public finance plan to the difficult economic realities of the market. The modifications are based on the assumption that the average yearly oil price will be US\$41 per barrel. The budget priorities remain unchanged: more funds have been allocated to national defence (15% more than in 2008), national security (22.3%) as well as education (11%) and healthcare (20%). Measures to combat the crisis represent an important part of the budget (one-quarter of all spending). These funds will be used to support the economy as well as the public. The resulting budget deficit (around US\$80 billion) will be financed from the Reserve Fund (which currently stands at around US\$121 billion).

According to Russian economic forecasts, Russia will continue to report a deficit in the following years, but the possibility of financing it from the Reserve Fund will already be exhausted by next year. As a result, the country's public debt, and in particular its internal debt, will have to be increased. It is possible that the government will also contract loans abroad. <iwo>

Russia's institutions of force keep their grip on Chechnya

Although the National Anti-Terror Committee has announced the end of the anti-terror operation in Chechnya as of 16 April, the federal security structures are continuing their activities there. They are still conducting combat and policing operations, and periodically extend the anti-terror operation status to selected parts of the republic. These measures are undermining the political significance of the decision to transfer the responsibility for internal security to the Chechen president Ramzan Kadyrov, and prove that the Kremlin is not going to permit Chechnya to become fully autonomous.

The Russian Interior Ministry, the body in charge of leading the anti-terror operation, has been opposed to the lifting of the anti-terror regime, and since late March it has alleged that Chechnya is unstable, and questioned the feasibility of ending the operation any time soon. Shortly after the anti-terror regime was lifted, the Interior Ministry started reporting clashes between detachments of the interior troops and Chechen militants (mainly on the Georgian border) as well as attacks against units of the Interior Ministry forces.

The Kadyrov administration has denied these reports, and Chechen officials have suggested that they were fabricated. The fact that there has been no reaction from Moscow may suggest that the activities conducted by the Interior Ministry (despite the formal lifting of the anti-terror regime) are considered to be an important instrument for controlling Ramzan Kadyrov. <peż>

Belarus takes measures to combat its trade balance deficit

On 21 April, President Alyaksandr Lukashenka signed a decree temporarily increasing import duties on more than 100 categories of goods. The measure is part of the authorities' efforts to improve Belarus' steadily worsening trade balance.

The decree imposes higher import duties of 25-40% on consumer goods (foods and industrial products) for a period of six months. Much higher duties (180%) have been imposed for nine months on the imports of vegetables cultivated on a large scale in Belarus.

The principal objective of increasing these duties is to reduce imports, in order to improve the worryingly increasing negative balance in Belarus' foreign trade. In the first quarter of 2009, the negative trade balance reached US\$1.9 billion, with exports at the level of US\$4.1 billion. As has recently been the habit, Belarus reported the worst result in its trade with Russia, where the negative balance amounted to US\$3.1 billion in the first quarter. Given the country's dependence on energy resource imports from Russia and the existence of the customs union with Russia, attempts at reducing imports through increased duties may bring only very modest results. Experts emphasise that it will be difficult for Belarus to balance its foreign trade without another devaluation (a 20 percent devaluation was already implemented on 2 January 2009). However, the Belarusian authorities have so far been unwilling to take this step due to its negative social consequences. <agaw>

Turkey/Armenia: a step towards normalisation of relations

On 22 April the foreign ministries of Armenia, Turkey and Switzerland (which served as an intermediary in the talks) published a joint communiqué on the agreement reached with regard to the principles according to which the normalisation of relations between Ankara and Yerevan should take place. This is the first time such an important step has been taken to regulate Turkish-Armenian relations, and as such it has been welcomed by the USA and the EU. At the same time, however, it has come in for strong criticism by nationalist communities in Azerbaijan, Turkey and Armenia.

The short communiqué only states that the parties have made major progress and reached mutual agreement in the process of normalising relations, and that they have developed a road map to this end. The content of the agreement, though, has not been published because it might potentially have a bad public reception (especially in Armenia, where it has been argued for years that Ankara should recognise the 1915 genocide of the Armenians before any

agreement is concluded), or because of the political consequences, in case the document fails to mention the regulation of the Karabakh conflict (Azerbaijan is opposed to any normalisation of relations between Ankara and Yerevan before this condition is met). The very disclosure of the fact that a road map has been agreed upon has caused serious concern in Baku, and prompted Armenia's nationalist party Dashnaksutiun to leave the government coalition and move over to the opposition. Statements hostile to Turkey and the Armenian authorities have also been made by veterans of the Karabakh war. It seems that Armenia and Turkey are coming closer to normalising relations. The main obstacles remaining concern the unregulated Karabakh conflict and the strong nationalist sentiments in both states. <mf, bart>

Kazakhstan increases uranium production

24 April Kazakhstan's state-owned Kazatomprom, together with a group of Japanese companies including Toshiba and Canada's Uranium One, launched uranium production in the Horasan deposit near Shymkent. On 28 April, Kazatomprom and the China Guangdong Nuclear Power Corporation officially opened the Irkol uranium mine near Kyzylorda. Thanks to these investments, Kazakhstan has good chances of becoming the world's largest uranium producer before the end of this year.

The reserves of the Horasan deposit are estimated at more than 80,000 tons of uranium ore. The plan is to extract 180 tons this year and to reach the mine's full capacity of 3,000 tons a year (of which 2,000 tons will be exported to Japan) by 2014. Uranium production in the Irkol field is to reach 500 tons within the next 12 months. The mine is to be expected to operate for 25 years. Both projects are part of Kazakhstan's strategy to develop the uranium sector. During the last three years, Astana signed a number of nuclear co-operation agreements with Russia, China, Japan, India and the European Union. In most cases, the objective is not only to increase uranium production, but also for Kazakhstan to acquire know-how in the field of nuclear technologies and attract investments in other sectors of the economy. Kazakhstan, which controls around 17% of global uranium reserves, seeks to strengthen its position as a uranium exporter, but also to gain access to advanced nuclear technologies. In addition, Astana is using the growing global demand for uranium to diversify the Kazakh economy. <wol>

CES

The Centre for Eastern Studies (OSW) was established in Poland in 1990. OSW is financed from the state budget. Its task is to monitor and analyse the political, economic and social situation in the Central and Eastern European countries, in the Balkans, in the Caucasus and in Central Asia.

The main objectives of OSW research are:

- the internal situations and stability of the countries in the area of OSW interests,
 - foreign policies,
 - issues related to NATO and EU enlargement,
- how the states of the region aspire to integrate with Western structures,
 - energy supply security,
- existing and potential conflicts, and other issues pertaining to the security.

Publications:

PUNKT WIDZENIA POLICY BRIEFS

Short analytical papers, presenting opinions of OSW experts on current and important processes taking place in OSW area of interest



Large analytical studies on the important events in the area of OSW interests, published in Polish and in English approximately 6 times a year

© Copyright by
Ośrodek Studiów Wschodnich
Editors: Katarzyna Kazimierska
Co-operation: Jim Todd,
Marcin Kaczmarek
DTP: Katarzyna Kazimierska



**Ośrodek Studiów Wschodnich /
Centre for Eastern Studies**
ul. Koszykowa 6A
00-564 Warsaw, Poland
phone: +48 /22/ 525 80 00
fax: +48 /22/ 525 80 40