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Inside:

ANALYSES

Ukraine in the background of the Russia-EU summit / 2

By threatening the EU with a new gas crisis over Ukraine, Russia is trying to impose its own rules for energy co-operation on the Union

Problems experienced by Naftohaz: a potential threat to the stability of gas supplies to the European Union / 4

Without external financing, Naftohaz will not be able to ensure secure gas supplies

EVENTS

Russia: President Medvedev on Rossotrudnichestvo / 6

The crisis in Russia hits the 'mono-cities' / 6

Political impasse in Moldova / 7

Political crisis in Georgia continues unabated / 7

Attacks in Uzbekistan / 8

Turkmenistan: dismissals in key ministries / 9

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

The New Great Game - a breakthrough?

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- The Alliance as a building block
of Germany and Europe's security

ANALYSES

Ukraine in the background of the Russia-EU summit

The Russia-EU summit took place on 21–22 May in Khabarovsk in Russia's Far East. The meeting did not produce any concrete results and showed that Russia-EU relations are dominated by energy issues, and will remain so for the immediate future. Russia's intention has been to impose its rules for energy co-operation on the European Union; these include obtaining long-term guarantees of gas sales, gaining access to the EU retail market and minimising the role of transit states, especially Ukraine. Moscow is aiming to take over *de facto* control of Ukraine's transit gas pipeline system, while trying to impede the implementation of the EU-Ukrainian memorandum of 23 March concerning the modernisation of this system. Russia's warnings of the possible outbreak of a new crisis, for which Ukraine would be to blame, are intended to add strength to Moscow's arguments on this issue.

Russia's objectives

Moscow wants the current dispute on the rules for energy co-operation to be resolved in a manner that would consolidate its position on the EU energy market. To this end, it wishes to persuade the Union to create a new legal basis for energy co-operation, which would be beneficial for Russia. In Khabarovsk, President Dmitry Medvedev underlined that Russia did not intend to apply the rules laid down by the Energy Charter Treaty (ECT) in its current form (this Treaty has been signed, but not ratified, by the Russian Federation). Moscow wants to obtain guarantees for the smooth transit of energy resources, and wishes to limit the rights of the transit states. At the same time, it refuses to grant access to its transport infrastructure to all market participants (including the Central Asian states). In addition, Gazprom objects to the liberalisation of the gas market which is currently being implemented in the EU (the so-called third liberalisation package), is asking for guarantees of gas sales and access to the EU retail market, and also that the long-term contracts should be kept in place. Moscow has proposed moving away from the ECT by making deep changes to the document, or by concluding a new agreement that would take Russia's postulates into account.

Moscow also wants to discourage the EU from institutionalising bilateral energy co-operation with Ukraine, in particular by preventing Brussels from becoming involved in modernising the Ukrainian gas system, or Ukraine from acceding to the European Energy Community (as a result of which the EU rules would be extended to the Ukrainian gas market). Instead, Moscow wants a three-party gas consortium to be established which would manage the Ukrainian transit gas pipeline's under Moscow's aegis.

Furthermore, Russia wishes to promote its own gas pipeline projects (Nord Stream and South Stream) and persuade both state-owned and private EU companies to co-finance them. In addition, Russia wants the EU to recognise the South Stream as a Community priority project, and is seeking support for this proposal from the European energy companies established in those countries that would participate in the construction of the route.

Russia uses Ukraine as a threat

The main way for Russia to achieve these objectives is to threaten the Union with the possibility that a new gas crisis could break out as a result of Ukraine's attitude. Both President Medvedev in Khabarovsk and Prime Minister Vladimir Putin (during his meeting with the Ukrainian head of government Yulia Tymoshenko on 22 May in Astana, on the occasion of the CIS prime ministers' summit) argued that Ukraine had to purchase 19.5 billion m³ of gas (for nearly US\$5 billion) very soon in order to fill its gas tanks before the winter season. If this is not done, then, according to the Russian side, gas supplies to the EU market will be at risk (for more information, see 'Problems experienced by Naftohaz: a potential threat to the stability of gas supplies to the European Union').

Russia has declared that it would be willing to grant Ukraine a loan to purchase the gas, but it has doubts with regard to Ukraine's solvency and the stability of the Ukrainian government. For this reason, President Medvedev has proposed that the European Union and Russia should jointly make a loan to Ukraine, which might be interpreted as the first step towards creating a Russian-EU consortium to manage the Ukrainian transit gas pipeline network.

The EU reaction

The European Union's response to Russia's proposals has been cautious. According to the declarations made by the European Commission president Jose Manuel Barroso following the Khabarovsk summit, the Union is ready to discuss the Russian proposals concerning the rules for energy co-operation and take them into account at least partially, but it will only do so as part of the Energy Charter Treaty review taking place this year, and without creating any new legal bases or new rules. Moreover, the European Union wants to incorporate the Charter's provisions into the energy chapter of the new agreement on the legal framework for EU-Russia relations; this framework is currently being negotiated, and it would replace the existing PCA. From the European Union's point of view, the most urgent issue is the need to create an early-warning mechanism for oil, gas and electricity supplies. The EU has been raising this issue in its dialogue with Russia for more than a year now, but – contrary to Russia's declarations – no such mechanism has been established as yet.

Conclusions

Russia's attitude demonstrates that Moscow is continuing to try and impose its own rules on how the European Union's gas market should function. Ukraine has occupied a central position in Russia's strategy towards the Union since the January gas crisis, and Moscow is using as an instrument to put pressure on the EU. Russia's objective is to convince them that Kyiv is not a reliable partner for energy relations, and that its actions threaten further interruptions in gas supplies. Russia wants to impede the implementation of the EU-Ukrainian memorandum and convince Brussels of the need to establish an international gas consortium. Moscow wants to achieve these objectives by granting a loan to Ukraine jointly with the EU or on its own. Both solutions would in practice subordinate the Ukrainian gas pipeline system to Russia. If these efforts fail, a new gas crisis may occur, which will be used by Moscow to further discredit Ukraine.

Marcin Kaczmarek, Wojciech Konończuk, Ewa Paszyc

Problems experienced by Naftohaz: a potential threat to the stability of gas supplies to the European Union

Ukraine's prime minister Yulia Tymoshenko met the Russian PM Vladimir Putin on 22 May, but failed to negotiate Russia's support for the financing of the gas purchases needed to build up her country's gas reserves for the autumn and winter season. The current difficult financial situation in which the Ukrainian gas monopoly has found itself has forced the Ukrainian government to seek external sources of funds to finance the purchase. If its efforts fail, then without sufficient reserves in its gas depots, Naftohaz will be unable to fully meet the Ukrainian gas consumers' needs, which for technological reasons may also disrupt transit supplies to the European Union.

The tanks are running low

In order to ensure full gas supplies during the heating season when consumption is higher, Ukraine needs to collect around 20 billion m³ of gas in its underground depots. The absence of any such reserve may lead to serious difficulties in ensuring smooth transit supplies. During the autumn-winter season, Ukrainian consumers receive gas directly from Russian supplies, while supplies for consumers outside Ukraine are largely provided from the underground depots in Western Ukraine. Traditionally, these start to be filled on 15 April. However, this April Ukraine managed to purchase only 800 million m³, and in May no purchases to stock up the reserves will be made due to Naftohaz's financial problems. The reserves collected last year are running low because gas from the underground tanks has been used to replace current imports, especially in the first quarter, when its price was higher than that expected in subsequent periods. Naftohaz bought only 2.5 billion m³ of gas in the first quarter, while the quantity provided for in the annual supplies contract is 35 billion m³ and the average import in preceding years varied around 50 billion m³.

Naftohaz without funds to purchase gas

Due to the excessively low, regulated prices on gas that have been maintained in Ukraine, and the customers' lack of discipline, revenues from the sale of gas to Ukrainian consumers may be insufficient to cover the charges for gas imported for current consumption. This will make it even more difficult for Naftohaz to finance gas purchases to build reserves. In the first quarter of this year, the Ukrainian monopoly has already relied on state budget support and loans which the government forced the state-owned banks to provide, in order to settle its dues with Gazprom. Supplies in April have largely been charged against future transit fees. If the Russian side wishes to weaken Naftohaz further, it will have another instrument at its disposal; it may demand penalties for undelivered gas under the 'take or pay' provision, which are estimated at US\$2 billion for the first quarter alone. At the same time, Naftohaz has to handle the burden of its foreign debt: for example, in September it will have to buy out its expiring bonds for US\$500 million. Without external financing, it will therefore be unable to buy any gas to build up the necessary reserves.

The government seeks support for Naftohaz

Prime Minister Tymoshenko has for some time been making efforts to obtain a US\$5 billion loan to finance the purchase of gas from Russia. In mid-February, Russian government officials expressed fairly positive opinions about her request, although no information was provided on conditions on which the loan would be granted, or on Tymoshenko's response to such conditions. During Tymoshenko's meeting with Putin on 29 April, the parties also discussed charging the supplies of gas to Ukraine's underground storage against future transit fees. However, during the most recent meeting between the two prime ministers in Astana on 22 May, Putin withdrew from the previous (preliminary) arrangements. He also said that the Russian side had made a proposal to Brussels concerning jointly financing the gas supplies to the Ukrainian depots, but the proposal was not accepted. The Russian prime minister underlined that Ukraine would not be able to solve the problem on its own; therefore the European Union and the Russian Federation should jointly support it, and thus share the responsibility for the security of gas transit.

Prospects

Naftohaz has no funds to buy the gas to be stored in the underground depots, and Ukraine's ability to solve this problem will largely depend on the position Russia adopts.

The following scenarios are possible:

1. Moscow agrees to charge the gas supplies against future transit payments. This would ensure security of supplies, but at the same time impede the implementation of the project envisaged in the Brussels declaration, signed by the European Union and Ukraine on 23 March, for EU assistance to modernise Ukraine's gas pipelines, because Ukraine would be unable to create an independent transit operator functioning according to market principles. Such an operator would not receive any revenue from transit services for the next five years.
2. Russia and the EU jointly award a loan to Ukraine. In this variant, Russia's strategy would be to involve the EU in solving the gas problems in a manner that would be in line with Moscow's interests. This might be the first important step towards creating a three-party consortium to manage the main transit gas pipelines.
3. Ukraine fails to collect adequate gas reserves, leading to a new gas crisis. The Ukrainian side would then be blamed for causing the crisis.
4. The Ukrainian government finds a source of funds to finance the gas purchase without Russian involvement. This variant would be most favourable for Ukraine and for transit security; however, in the current difficult economic situation it is the least likely one.

Anna Górska

EVENTS

Russia: President Medvedev on Rossotrudnichestvo

On 25 May President Dmitry Medvedev met Farit Mukhametshin, chief of the Federal Agency for the Commonwealth of Independent States, Compatriots Living Abroad and International Humanitarian Cooperation (Rossotrudnichestvo). The Russian president emphasised that relations with the CIS countries were a priority in Moscow's foreign policy, and recommended that the Agency take actions to consolidate Russian influence, especially in the light of "the active efforts of other states in the post-Soviet area". This might confirm that Rossotrudnichestvo is becoming a key instrument of Russian policy towards the CIS countries.

Established in September 2008, Rossotrudnichestvo's mission is to co-ordinate all aspects of Russia's cultural and humanitarian co-operation with the post-Soviet countries, as well as the activities of the Russian diaspora. The organisation is subordinated to the Ministry of Foreign Affairs and co-operates with all major state institutions in Russia. Mukhametshin said that Rossotrudnichestvo had opened research and cultural centres in Chisinau, Baku and Yerevan in recent months (currently it has representations in 67 states), and is working on a new programme to promote the Russian language abroad.

The fact that President Medvedev is pressing Rossotrudnichestvo to step up its activities in the CIS may be linked to his statement at the EU-Russia summit in Khabarovsk on 22 May, during which he warned the EU against using the Eastern Partnership as an anti-Russian instrument. <Wojk>

The crisis in Russia hits the 'mono-cities'

On 20 May, violent demonstrations triggered by the declining economic situation took place in Pikalevo, a small town in the Leningrad District. The unrest in Pikalevo is an example of rising social frustration caused by growing unemployment, which most severely affects the so-called 'mono-cities', where employment rates depend on the condition of just one, or a small number of establishments.

The reason for social discontent in Pikalevo came from the closure of the three largest enterprises, as a result of which one-third of the town's population lost their jobs. The demonstration, during which the protesters forcefully broke into the administration building, ended peacefully when the authorities committed themselves to restoring the municipal hot water supply, which had been disconnected because of the power plant's debt. The tension which has prevailed in Pikalevo for several months illustrates the difficult situation of those Russian cities that developed around monopoly local employers. If those enterprises – on which the surrounding areas depend not only for jobs, but also for other welfare benefits – experience problems, this often triggers a catastrophic deterioration in local standards of living.

The decline in Russia's labour market (where unemployment has risen from 8.5% to 10.2% between February and May this year) may lead to more protests, especially in these so-called 'mono-cities'. Such protests, nevertheless,

seem unlikely to grow into demonstrations on a national scale. The reasons for this include the absence of opposition leaders capable of leading mass protests, as well as the fact that in many other Russian cities the local job markets are much more diversified. At the same time, the example of Pika-levo, which received 20 million roubles from the federal budget in the aftermath of the protest, demonstrates that the Russian authorities are willing to provide *ad hoc* financial aid in order to appease social tension. <adu>

Political impasse in Moldova

The Communist majority in the Moldovan parliament has failed to elect its candidate as the new state president. A fresh vote is to take place on 28 May. If this one, too, ends in failure (which is the most likely outcome), the parliament will be disbanded and new elections will be held in Moldova.

Contrary to almost universal expectations, the Moldovan Communists failed to gain the one vote they missed to elect its candidate, PM Zinaida Greceanii, who is believed to be loyal to the outgoing president, the Communist party leader Vladimir Voronin. Given the widespread conviction about the pragmatism of Moldovan politics, it seemed that Voronin would have managed to persuade at least one opposition deputy to vote for the Communist candidate.

The opposition is determined to block the election of the head of state and have a new parliamentary election organised. If it demonstrates the same unity on 28 May, this will be an enormous success, which should give it extra power before the new elections which will then become inevitable.

Voronin's team seems to have already come to terms with the fact that the elections will have to be repeated. This is visible in the newly intensified propaganda campaign against the opposition (in which the president of Romania is being referred to as "the Romanian neo-fascist Basescu" and the Moldovan opposition as his "paid terrorists"), and in the constitutionally dubious plans for the current parliament to appoint a new government of the Communist majority before it is disbanded. <wrod>

Political crisis in Georgia continues unabated

On 26 May, Georgia's Independence Day, Tbilisi became the scene of the largest of all opposition demonstrations organised since the anti-presidential protests started on 9 April, which brought together around sixty thousand people. The opposition does not intend to accept the package of political concessions offered by the state leadership, and has pledged to continue protests until President Mikheil Saakashvili steps down. The prolonged political crisis in Tbilisi has weakened Georgia both internally and internationally.

The opposition, which has been protesting for the last six weeks, badly needed an event that would help to keep social tension high and allow it to continue its efforts aimed at forcing Saakashvili to resign, as the temperature and popularity of the protests had recently clearly subsided. The choice of the date, 26 May, when all of Georgia celebrates the anniversary of its independence and military parades pass down the main streets of cities, was not accidental. The demonstration did indeed gather the largest number of protesters

since the start of the protests; the demonstrators filled up the Tbilisi football stadium. From there they moved to the capital city's main church (the Holy Trinity Cathedral), where mass was celebrated by the patriarch of Georgia, Elias II. After the mass the president's opponents walked towards the parliament building where the demonstration ended.

The demonstration on 26 May was undoubtedly the largest and the most serious of all the protests organised so far. As a result, the opposition will be able to maintain a tense situation in Tbilisi, and will gain a stronger bargaining position in the talks with the government. On the other hand, the opposition's main objective, namely forcing the president to resign, seems to be beyond its reach, because the authorities do not feel that their position has been undermined: the protests have only taken place in the capital city and the opposition is disparate and divided. The ongoing political crisis is weakening Georgia's position both internally and in relation to the Western states (who are the main donors and careful observers of developments in Tbilisi) and Moscow (for which a further weakening of the Georgian state would be in line with its interests). <bart>

Attacks in Uzbekistan

A series of sabotage and terrorist attacks against buildings occupied by the Uzbek institutions of force took place on 26 May in the Uzbek section of the Fergana Valley. No reliable information is available on the effects of the attacks, but more than ten people may have been killed. Additional forces have been deployed in the region affected by the attacks, and the border with Kyrgyzstan has been closed. New attacks and destabilisation in the Fergana Valley are likely.

During the night of 25 May, the buildings of the Uzbek Border Service and the National Security Service and police in the border town of Khanabad came under attack. There is no information on casualties, and the perpetrators (3 to 25 people) have escaped. The next day, one or two suicide bomb attacks against the police station in Andijan took place; several people are officially reported to have been injured, but unofficial statements say that 16 people have been killed. According to the Uzbek authorities, the attacks were carried out by Muslim radicals from the Islamic Movement of Uzbekistan or the Islamic Jihad, who until now had not been present in the area. The information coming from the region is scarce and unclear as a result of the effective information blockade imposed by the Uzbek authorities. President Islam Karimov decided not to postpone his visit to Brazil because of the events of 26 May; this move was probably intended as a gesture to calm the situation.

The attacks took place in an extremely volatile part of the Fergana Valley, where Islamic radicalism has strong traditions and where it has been brutally suppressed by the authorities for many years (the massacre of protesters in Andijan in 2005 led to several hundred casualties). The situation is further complicated by the threat of Uzbek mujahideen returning from Pakistan and Afghanistan, the possibility that NATO will make greater use of Central Asia for the needs of its mission in Afghanistan, Russia's efforts to step up control of Central Asia (including in the security sphere), and finally, the deepening economic and social crisis. In this context it is probable that Islamic radicals will step up their activities, and that they will be used in the region's political manoeuvring. <ks>

Turkmenistan: dismissals in key ministries

The Turkmen minister for national security, Charymyrat Amanov, was dismissed on 21 May, officially, due to 'irregularities in his work'. Amanov's ousting was preceded by the dismissals of the chiefs of the Interior Ministry and the Border Service, as well as that of the deputy directors of strategic energy companies. Such dismissals in such important spheres of the state's functioning as security and energy demonstrate that Turkmenistan is undergoing a serious political crisis, and that at a time of difficult and tense relations with Russia, the president has lost confidence in some members of the political elite.

Before the minister for national security lost his post, the interior minister and the Border Service head were dismissed on 11 May, followed by the deputy directors of the energy companies Turkmengaz (gas extraction and export) and Turkmienneft on 18 May. Since no information is available on new appointments, these posts are probably still vacant. There is also no information on the fate of the dismissed officials. This wave of dismissals has occurred at a time when relations with Russia are particularly tense due to the conflict over the terms of gas co-operation, and in a situation in which Turkmenistan's gas export revenues have fallen drastically (Turkmenistan has not sold any gas to Russia since 9 April). In this context it appears likely that the immediate reason for the dismissals may have come from President Gurbanguly Berdimuhammedov's fear that some members of the *nomenklatura* could have been trying to make arrangements with Russia that would undermine his position. <ola>

CES

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