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ANALYSES

Tension escalates in Russian-Belarusian relations

On 6 June, Russia blocked imports of most Belarusian dairy products. This caused escalation of the tension between Minsk and Moscow existing since late May. Both parties resorted to hard arguments and measures of pressure. Belarusian authorities for the first time called into question the multilateral security co-operation as part of the Collective Security Treaty Organisation.

This is another stage of the Russian-Belarusian conflict resulting from the Belarusian government's resistance against the pressure of the Kremlin, which wants to take over control of Belarusian economic assets and convince Minsk to recognise Abkhazia and Southern Ossetia as independent states, among other goals. Despite the clear increase of tension, none of the parties seems ready to make any radical moves which could significantly reduce co-operation and spoil the climate of mutual relations for a long time.

The aggravation of the conflict

On 6 June, the Russian phytosanitary inspection authority (Rosпотребнадзор) imposed a ban on imports of nearly 500 categories of Belarusian dairy products to Russian territory due to Belarusian manufacturers' failure to specify ingredients of products on the packaging. 800 more categories were added to the list on 8 June, which almost totally blocked exports in this branch of industry. In response to those allegations, Minsk accused Moscow of pressing on it to allow Russian investors to take over shares in the most profitable Belarusian dairies. Since no consensus had been reached, Belarus for the first time did not send its delegation to the Collective Security Treaty Organisation (CSTO) summit held in Moscow on 14 June, stating as an official reason that its "economic security has been jeopardised by another member state" (i.e. Russia). The Belarusian boycott of the summit strongly surprised Russia, especially because Belarus had never before called into question the need of multilateral security co-operation and was to assume presidency of the organisation in the second half of this year. On 16 June, Russian authorities decided unilaterally to suspend negotiations which started a day before, in response to which the Belarusian government ordered to impose on 17 June intensified control on the border with Russia, which was an act official discrediting of the Customs Union existing between the two countries since 1995.

In addition to official statements, Russian press published suggestions given by unnamed representatives of the Kremlin regarding Minsk, who raised such arguments as estimated losses ranging between US\$15 billion and 16 billion incurred by the Russian budget as a consequence of supplying gas to Belarus between 2004 and 2008 at preferential prices.

The Russian pressure

The imposition of the Russian embargo on Belarusian dairy products has to be classified as a politically motivated move. Moscow has used economic sanctions as a political tool on many previous occasions (for example, against Georgia, Moldova and Poland). It can be speculated that the Russian decision on the one hand is a consequence of increasing annoyance over Minsk's breaches of bilateral arrangements, including probably Belarus's failure to recognise the independence of Abkhazia and Southern Ossetia and to keep the promise to sell Belarusian dairy companies to Russian investors in exchange for loans. On the other hand, Russia most likely wanted to demonstrate that it did have means to be able to make direct influence on Belarus.

The goals of Belarus

The Belarusian government wants to retain as extensive as possible economic preferences in relations with Russia, including the possibility to sell its dairy products on the Russian market, which is a strategic outlet for this branch of Belarusian industry (more than 90% of Belarusian dairy product exports go to Russia, which yielded an income exceeding US\$1 billion last year).

At the same time, Alyaksandr Lukashenka is aware that if the Russian capital is given access to Belarusian enterprises on a large scale, his position in his dealings with Moscow may significantly weaken. Therefore, even contrary to the previous commitments made to the Kremlin, he has been consistently delaying the handover of shares (one exception was the sale of the 50% stake in Beltransgaz) as well as political decisions important for Russia, including especially the recognition of Abkhazia and Southern Ossetia as independent states.

Forecast

Although both parties have resorted to more serious arguments and means of pressure over the past few days than previously (Belarus had never before challenged the multilateral co-operation as part of the CSTO), a conflict affecting Russian-Belarusian co-operation as a whole still seems rather unlikely. Considering the existence of many unsettled problems in Russia's relations with Ukraine, Turkmenistan and Georgia, Moscow would rather not aggravate further the present dispute with Minsk. Belarus is not interested in an open confrontation as well because Russian economic and energy support is still vital for the functioning of the Belarusian economy. Therefore, the present trade dispute is likely to be softened and resolved amicably.

At the same time, numerous conflicts of interest existing in Russian-Belarusian relations will still cause occasional tensions, especially considering the fact that Moscow will not relinquish its pressure on Minsk. It also seems that Minsk will be interested in maintaining moderate tension in contacts with Moscow, thus hoping to receive additional loan support from international financial institutions, including the IMF, which on 10 June promised to increase the credit line offered to Belarus from the present level of US\$2.5 billion to US\$3.5 billion. Everything seems to suggest that Belarus will also use its problems in relations with Russia in its negotiations with the EU; Benita Ferrero Waldner, the European Commissioner for External Relations and European Neighbourhood Policy EU has informed that President Lukashenka had asked her in a telephone conversation to come to Minsk as soon as possible (her visit was officially scheduled for 22 June).

Kamil Kłysiński, Wojciech Konończuk

The construction of the BPS-2 oil pipeline starts

The construction of the Baltic Pipeline System (BPS-2) running from Unecha (Bryansk oblast) to Ust-Luga port (Leningrad oblast) started on 10 June in Russia. The oil pipeline project has been prepared and is being implemented at a very fast rate, which is proof of its high significance for Moscow and the strength of the lobby which supports the project. On the one hand, this is a political project since it will diminish the importance of Belarus as a transit country. On the other, the launch of a new route for export of Russian oil will cause a significant reduction of exports via the northern section of the Druzhba pipeline, which transports oil to Poland and Germany, or even closing this route of transport at all.

The project guidelines

The BPS-2 oil pipeline, which is planned to be 1170 km long, will be built in two stages. The first pipe, with the annual capacity of 30 million tons, will be completed by September 2012. The pipeline's capacity will be increased to 50 million tons by the end of 2013. The pipeline will be connected to the Kirishi refinery (see map). According to declarations by Transneft, the state-owned oil transport monopoly, the BPS-2 will be used to transport oil which is currently supplied in transit via the Ukrainian ports Pivdenny (7.8 million tons in 2008) and Odessa (almost 1 million tons) and the Polish Naftoport in Gdansk (1.8 million tons). Moreover, the new pipeline could take over some of the oil (approximately 6 or 7 million tons) which is now transported by the BPS-1 pipeline connecting West Siberia with the terminal in Primorsk. Russia has also declared that the new route could be used to transport up to 10 million tons of Kazakh oil (which is rather unlikely). However, the total quantity of oil will not be sufficient to fill the BPS-2. Considering the expected stagnation of oil production in Russia and decrease in exports (from 258 million tons in 2007 to 243 million tons in 2008), this means that part of the oil currently transported to Poland and Germany (last year 18.9 million tons and 16.8 million tons, respectively) via the north section of the Druzhba pipeline will have to be redirected to the new pipeline.

The extremely fast tempo...

The BPS-2 project is being implemented at an extremely fast rate. The concept of building a new pipeline appeared in January 2007 on the occasion of the Russian-Belarusian energy dispute. The final design was approved by Prime Minister Vladimir Putin in December 2008. Transneft issued bonds worth in total 35 billion roubles (approximately US\$1.1 billion) as early as this May which were bought by three Russian banks (Gazprombank, Vneshtorgbank and Uralsib). The monopoly is planning to place more bonds worth approximately 100 billion roubles (nearly US\$3.2 billion) by the end of this year, which will be a sufficient amount to finance the construction of the pipeline. This May, the Russian technical supervision authority Rostekhnadzor approved the ecological expert opinion regarding the BPS-2. Tenders for building most of the pipeline's sections were finished in the past few weeks (the construction will start in four places simultaneously).

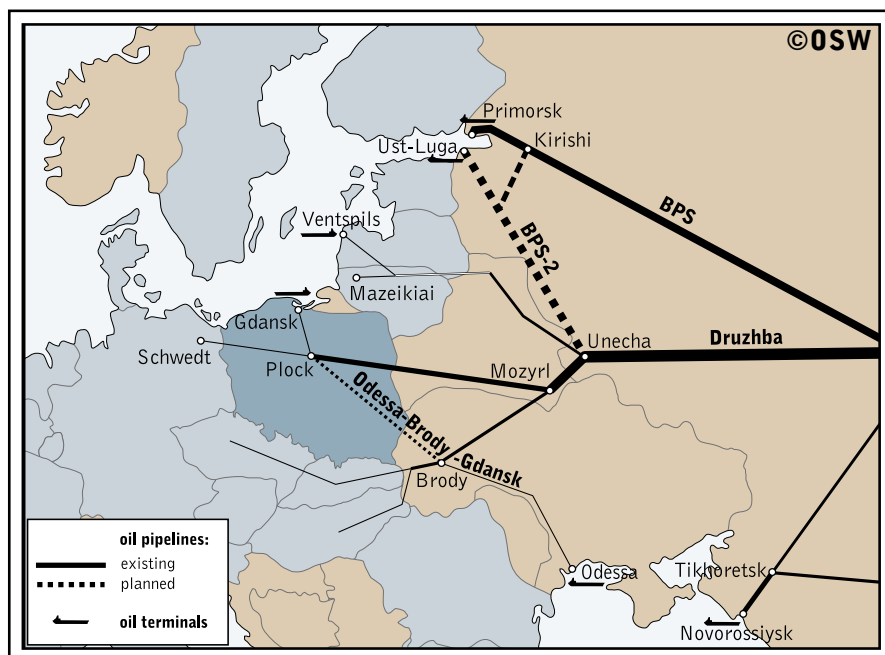
...owing to a powerful lobby

The BPS-2 owes the fast rate of preparations, which is unprecedented in the case of such large energy projects in Russia, to a powerful lobby supporting its implementation. The lobby includes part of the Russian political elite who have private interests in the energy sector and some corporations, including Surgutneftegaz (owner of the Kirishi refinery) and Gunvor (the largest agent in export of Russian oil; the company took over this March the commodities terminal which is being built in Ust-Luga). The lobby behind the BPS-2 has been able to push through the implementation of the project regardless of the current financial crisis and criticism from most Russian experts and the Russian Ministry of Industry and Energy (in April 2008).

Conclusions

For Russia, the BPS-2 pipeline is a political project, intended to minimise the significance of the transit states, Belarus, Ukraine and Poland. This project will especially affect relations between Russia and Belarus because it will deprive Minsk of one of the tools which have so far counterbalanced to a certain extent the asymmetry in its relations with Moscow as well as of considerable incomes generated by transit (nearly US\$ 700 million). The suspicion that the new pipeline is a politically motivated project is also supported by the fact that many experts call into question its economic feasibility. At the same time, the fast rate of the project preparations proves that the lobby behind it, who want to take over control of the new oil export route, is very influential. The building of the BPS-2 will cause a significant reduction of oil transported via the Druzhba pipeline. One may expect that only the southern (section of the latter pipeline, used to transport oil to Slovakia, the Czech Republic and Hungary (approximately 16 million tons annually) will be preserved. However,

The planned route of the BPS-2 oil pipeline



if the BPS-2 achieves its full planned capacity of 50 million tons, this will result in total closure of the northern section of the Druzhba running to Poland and Germany. This is additionally proven by the fact that the quantity of oil now transported in transit via the Ukrainian ports and the Polish Naftoport, redirected to the new pipeline will not be enough to fill it as well as by the stagnation of oil production in Russia. Therefore, the BPS-2 will have to take over the oil transported via the northern section of the Druzhba. Thus the launch of the new pipeline will create a new tool for Russia to make pressure on all of the aforementioned countries. The option to completely cut off the northern section of the Druzhba was suggested for the first time on 10 June by deputy prime minister Igor Sechin while mentioning the consequences of building a possible extension of the Odessa–Brody pipeline running to Plock.

Wojciech Konończuk

EVENTS

Crisis management, Putin-style

On 4 June, the personal engagement of Prime Minister Vladimir Putin helped to resolve the social problems in Pikalevo, one of the hundreds of Russian 'monotowns' based on a single large enterprise which have now been plunged into crisis. Putin has used the case of Pikalevo to handle the crisis situation in a spectacular way, and thus reinforce his image as the 'knight on a white horse', riding to the people's rescue. He has shifted the entire responsibility for these problems onto business circles and the regional elites, who are now in charge of preventing any social unrest in 'monotowns'.

In Pikalevo (Leningrad oblast), three interlinked factories ceased production, which led to violent popular protests. Vladimir Putin came to the town and 'resolved' its problems within a few hours. He forced the owners of the loss-generating factories to resume operation and pay outstanding wages, and ordered the state-owned bank Vneshtorgbank to grant loans to those factories in return. The blame for the town's problems was laid at the feet of the factory owners and regional authorities.

Putin's intervention has stirred up hopes for help in other 'monotowns' and increased the likelihood of escalation of social demands and protests. To avoid a repetition of this scenario, the central government has presented an ultimatum to the governors; those unable to prevent the destabilisation of the social situation in their regions will be punished with dismissal. Under such pressure, the regional governors will be more prone to use force in resolving conflicts, because their financial resources will not stretch to saving all the unprofitable enterprises. <JR>

Ukraine: Coalition talks between the Tymoshenko Bloc and the Party of Regions break down

Talks between the Yulia Tymoshenko Bloc (BYuT) and the Party of Regions (PR) aimed at creating a 'grand coalition' were finally broken off by the PR on 6 June. The main causes were the partners' strong mutual suspicions, the lack of a common position among the leadership of the PR, and the inability to reach a compromise over their competing political and economic interests. This is a serious defeat for Yulia Tymoshenko, who wanted to avoid holding general presidential elections, and to extend her power as the head of the government.

The planned coalition was expected to amend the constitution so that the president could be elected by the parliament (although up to 80% of Ukrainian citizens oppose this solution). These arrangements provided for the election of Viktor Yanukovich as president, the extension of the present parliament's term until the end of that of the newly elected president (autumn 2014), and Yulia Tymoshenko's retention of the position of prime minister until that time. When those conditions were revealed, the PR started withdrawing from the agreement, to finally break off the talks on 7 June. It is therefore certain that the presidential election will be held at the time prescribed by the constitution.

Viktor Yanukovych has emerged as the winner of this squabble. The attempt to strike a deal with Tymoshenko will not be received negatively by his electorate; nor will it undermine his image as a responsible politician. It is more beneficial for the PR to remain in opposition in the pre-election period.

In turn, Tymoshenko has suffered a serious defeat. A significant part of her electorate will see the attempt to enter the deal with the 'regionals' as a betrayal, and recent events have undermined her reputation as a successful politician. It is an open question now as to what extent she will be able to make up for the losses during the electoral campaign. <TAO>

Will the hard-line policy be resumed in the Northern Caucasus?

The security situation has worsened in Dagestan and Ingushetia over the past few weeks. This has led President Dmitri Medvedev to visit Dagestan on 9 June. During the visit, he supported a crackdown in combating Islamist military underground forces. The president's statements suggest that the Kremlin is considering a revision of its previous strategy towards the Caucasus and a return to a tougher policy, which law enforcement agencies have been lobbying for. If Moscow decides to make such a move, this will lead to even greater destabilisation of the situation in the region.

A series of terrorist attacks in which several high-ranking officials and representatives of law enforcement agencies were killed (including the head of Dagestan's Interior Ministry and a deputy presiding judge of the Supreme Court of Ingushetia) took place in late May and early June in Dagestan and Ingushetia. Militants also launched attacks against police stations and public administration buildings. The destabilisation of the situation forced President Medvedev to convene a meeting of the Russian Security Council in the capital of Dagestan. He demanded that law enforcement agencies launch extensive anti-terrorist actions, and put the responsibility for the destabilisation of the situation on the local authorities. This may be a sign that a state of anti-terrorist operation will be established in the region (or in selected republics), the powers of the republican authorities will be limited, and more federal troops will be deployed in the Caucasus.

A possible return to the hard-line policy which was in place in the first years of the second Chechen war (after 1999) must be linked to successful lobbying by the federal law enforcement services. However it cannot be ruled out that the Kremlin has deliberately accepted the destabilisation of the situation in Caucasus. Such a policy could be dictated by the desire to find something for the law enforcement agencies 'to do', and to put them in charge of administering part of the country's territory. Moscow may also thus attempt to distract public attention from the economic crisis, and gain an excuse for military intervention in Georgia or Azerbaijan (possibly pursuing groups of militants who found shelter there). If the Kremlin decides to resume its hard-line policy, the situation in the Caucasus will be further destabilised. Past experience indicates that mass repressions against the civilian population are among the 'side effects' of anti-terrorist operations. These may give rise to resistance among the population, and intensify anti-Russian and separatist sentiments, as well as support for radical Islam. <mf>

China promises enormous investments in Tajikistan

On 5 June, immediately after a visit by a Chinese governmental delegation, Tajikistan's presidential administration stated that China was ready to invest more than US\$1 billion in energy projects Tajikistan in the next three years. If the promised investments are implemented, this will have a substantial impact on Dushanbe, which is in conflict with Moscow and has been actively searching for foreign aid to overcome the consequences of the economic crisis and natural disasters.

According to initial agreements, China will invest US\$560 million in the construction of the Nurobad-1 water power plant, which will have a capacity of 350 MW, and US\$400 million in the construction of a thermal electric power station in Dushanbe, with a capacity of 200 MW. Additionally, Chinese firms will modernise high-voltage lines and the road between Dushanbe and Dangara (the total value of those investments is US\$112 million). At the summit of the Shanghai Co-operation Organisation on 15 June, Beijing also agreed to extend a non-repayable aid package of nearly US\$9 million to handle the crisis.

Those agreements are extremely important for Tajikistan, which is currently unable to attract foreign investments because of the global economic crisis. In turn, China seems to have been motivated to increase its investment activity by its desire to build stronger political influence in Tajikistan and the entire region through the use of economic instruments. The fact that Tajikistan has sought aid from China is also a sign of the weakening position of Russia in Central Asia, and of Beijing becoming an increasingly serious rival to Moscow in this area. <ola>

Tashkent fears destabilisation in the Fergana Valley

In late May/early June, the Uzbek authorities started setting up barbed wire fencing, digging anti-tank trenches and building a wall several metres high along the border with Kyrgyzstan. This activity by Tashkent proves that it fears that Islamic terrorist groups could attack the Uzbek part of the Fergana Valley, and that Russia could use the destabilisation of the situation in this area as a pretext for interference in Central Asia.

The direct cause that triggered the start of the work on tightening the border was the assaults and suicide attacks which had taken place in Khanabad and Andijan on 26 May (probably by militants from the Islamic Movement of Uzbekistan (IMU)). The Uzbek authorities claimed that the Islamic terrorists had had their base on Kyrgyzstan's territory. The Uzbek-Kyrgyz border has been closed since that time. Uzbekistan's activity indicates that it is seriously considering the risk of IMU attacks launched from the territories of Kyrgyzstan or Tajikistan. At present, most IMU militants are on the Afghan-Pakistani border, fighting alongside the Taliban. However, there is a risk that the Islamist international terrorist forces may take actions to destabilise the situation in Central Asia, thus impeding the peace enforcement operation in Afghanistan. Attacks in Uzbekistan are very likely to cause a retaliatory attack by Uzbek troops on Kyrgyz and/or Tajik territory. A destabilisation of the situation in Central Asia could provide a pretext for Moscow to increase its engagement in this area (even by sending Russian peacekeeping forces there) and thus reinforce its position in the region. Uzbekistan, which has been establishing increasingly close co-operation with the US and NATO while clearly distancing itself from Russia, faces a particularly strong risk of such actions from Moscow. <mf>

CES

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Ośrodek Studiów Wschodnich

Editors: Anna Łabuszewska,
Katarzyna Kazimierska
Co-operation: Jim Todd,
Witold Rodkiewicz
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