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## ANALYSES

## Russia practices war in the west

The last ten days of September have seen the final phase of the Zapad-2009 and Ladoga-2009 military exercises of the Russian Armed Forces in cooperation with the Belarusian army. The two drills were the largest exercises to be held on the western borders of Russia and Belarus since the end of the Cold War. The field exercises taking place in Russia and Belarus' border districts from Murmansk to Brest, in the Kaliningrad oblast and on the Baltic Sea featured a total of at least 30,000 soldiers and navy servicemen. From the military perspective, the exercises were a test of the Russian army's new organisational structure and its ability to move troops between potential military theatres. In the political dimension, they should be viewed as a demonstration of force towards Russia's western neighbours and an assertion of the significant role that the military factor will play in the Russian Federation's long-term policy, irrespective of the country's economic situation.

### The military aspect

The Zapad-2009 and Ladoga-2009 operational-strategic exercises, although they were formally independent of each other, were part of a single drill cycle, and should be treated as a whole because they overlapped in several areas, they involved the same structures of command, and their culmination took place within the same period.

The Zapad-2009 exercise, which was organised together with the Belarusian army, referred back to the analogous drill organised in 1999, although the scale of this operation was much larger. The Zapad-99 exercise, which was the only drill on an operational-strategic scale to be organised at that time, involved a total of around 7,000 army and navy troops in all the military districts and fleets of the European part of Russia. This year, a similar number of Russian troops exercised on Belarusian territory alone. The whole exercise involved a total of 15,000 Russian soldiers and navy servicemen (and a further 6,500 Belarusian troops), equipped with 1,000 pieces of heavy military equipment (tanks, armoured fighting vehicles and artillery), at least one hundred combat planes and helicopters, and twenty battleships. Similar numbers of troops and weapons were involved in the Ladoga-2009 exercise organised by the Armed Forces of the Russian Federation on their own.

The two exercises demonstrated that the structural and organisational changes in the Russian army, announced back in late 2008, are being implemented as planned. Most of the units taking part in the exercises were newly-formed brigades (at least six such brigades took part in the drills). Also notable was the Russian Armed Forces' improving ability to move troops quickly. The firing-range phase of the Ladoga-2009 field exercise, which took place in the Leningrad Military District, involved a brigade from the Volga-Urals Mili-

tary District; also, as part of the Zapad-2009 field exercise, units from the Moscow Military District were moved to Belarus and the Kaliningrad Oblast. The drills on the Baltic Sea involved battleships from the Northern and Black Sea Fleets, as a result of which it was possible to stage the largest maritime landing exercise since 1981.

## The political aspect

By organising the (previously announced) Zapad-2009 and Ladoga-2009 exercises, Russia chose to stage the largest demonstration of force to date towards its closest western neighbours and also, indirectly to the North Atlantic Alliance and the European Union. The active phase of the Zapad-2009 exercise took place on the seventieth anniversary of the Red Army's operation against Poland in September 1939. The firing-range operations were held mainly in the borderland military areas in the area of Brest (which was also where the presidents of Russia and Belarus met at the end of the exercise on 29 September) and Hrodna, as well as at mouth of the Gdańsk Bay. The Ladoga-2009 drill, on the other hand, brought to mind temporal and geographic analogies to the Red Army's preparations to enter the three Baltic States and attack Finland. The hypothetical frontline in the exercise spanned the entire border between Russia and these states. This was probably the first time that a military demonstration of this kind addressing Finland has been staged in several decades.

The preparations for the Zapad-2009 exercise have also exposed the true scale of Belarus' dependence on Russia. The preparations on the Belarusian side were affected neither by this summer's disagreements between Russia and Belarus concerning mutual economic relations (such as the so-called 'milk war'), nor by the practice Minsk had developed, in response to economic pressure from Moscow, of periodically refusing to engage in closer co-operation within the framework of the Collective Security Treaty Organisation.

## The economic aspect

The Zapad-2009 and Ladoga-2009 drills, together with Moscow's plans announced on the occasion of the exercises to continue re-arming the Russian forces and improving the economic standing of military personnel, were tangible proof that the importance of the military factor in Russia's policy is rising systematically, as has been observed since the beginning of this decade. The changes taking place in the Russian Armed Forces, including the professionalisation of the first-line units, technical modernisation, and modifications in the chain of command (including a shift towards a brigade system), have accelerated considerably since the war in Georgia in August 2008. In spite of the economic crisis and the consequent substantial decrease in the Russian budget's revenue, military spending has not been cut. Moreover, even if the depreciation of the rouble and the 'black scenario' of yearly inflation at 16% are taken into account, military spending is still higher in real terms than it was last year. In the 2008 federal budget, 959.6 billion roubles were allocated under the 'national defence' heading; in 2009 the amount was 1196.7 billion roubles, even after the crisis-related limitations. In both cases, military

spending was increased during the year; an additional amount of more than 50 billion roubles was allocated for military purposes in September 2009 alone. As the structural and organisational changes in the army have been progressing faster than originally planned, the funds earmarked for military purposes are increasingly being spent on investments. Despite the crisis, production in the armaments industry has been rising systematically since the beginning of 2009 (5.3% over the eight months of 2009); this fact is particularly telling, especially against the background of falling production in the electric machine building industry in general (by 34%).

Irrespective of the declared peaceful objectives of its foreign policy and despite the economic crisis, Russia is developing its army and keeping it on high alert, as evidenced by the recent drills, treating it as an instrument of its current policy towards the neighbouring countries. The Russian authorities are aiming to reach a level at which this instrument may be used equally effectively to demonstrate force and to run a classic armed operation.

*Andrzej Wilk*

## EVENTS

**Russia: Gazprom buys Yukos' former gas assets from Eni and Enel**

In accordance with previous arrangements, on 23 September Gazprom purchased 51% of shares in SeverEnergiya from Italy's Eni and Enel for US\$1.6 billion. SeverEnergiya is the owner of the Arktikgaz, Urenco and Neftegaztekhlogiya companies which were previously owned by the now-bankrupt Yukos oil concern. As a result of the transaction, Gazprom now owns some very attractive gas assets, and the Italian companies have retained their minority stakes, thus reinforcing their strategic partnership with the Russian monopoly.

The fields held by SeverEnergiya hold gas reserves of 1.35 billion m<sup>3</sup>, as well as 722 million tons of oil and condensate. Production in some of the fields is to start in 2011 and is planned to reach 9 billion m<sup>3</sup> in the first phase. Gazprom's acquisition of 51% of SeverEnergiya's shares implements the agreement concluded with Eni and Enel in April 2007 when the Italian companies purchased the Yukos gas assets at auction. Gazprom did not take part in the auction because of its poor financial situation, and because it wanted the controversial transaction to be legitimised by the involvement of Italian companies. Gazprom nevertheless obtained guarantees that it would eventually be able to buy back the assets in question. In return for their assistance, the Italian companies were allowed to keep their minority stakes in SeverEnergiya (through a joint company in which Eni holds 60% and Enel 40% of shares), thus strengthening their cooperation with Gazprom. Eni is already Gazprom's partner in the Blue Stream gas pipeline and in the South Stream project. <Wojk>

**Ukraine: Naftohaz's debt will be more expensive**

On 30 September, NAK Naftohaz should have redeemed its bonds worth US\$500 million; however, it is in intensive talks with its creditors concerning a restructuring of the debt instead. The favourable conditions the government has offered will probably allow the company to have the bonds' redemption date postponed, and will enable a restructuring of this part of the debt, as well as the more than US\$1 billion of debt with foreign banks.

The Moody's and Fitch Rating agencies have lowered Naftohaz's ratings to a level signifying that the company is unable to punctually meet its foreign currency obligations to foreign creditors. Since mid-August consultations have been underway concerning a restructuring of the bonds which have a redemption date of 30 September. Most creditors have informally accepted the terms and conditions offered by the Ukrainian government last week, involving the replacement of the current bonds bearing interest at 8.125% per year with bonds maturing in 2014, bearing interest at 9.5% and covered by guarantees from the Ukrainian state.

The restructuring of Naftohaz's bonds will reduce the burden on the Ukrainian budget, which has been financing the company's spending for a longer period, and will improve the chances of restructuring Naftohaz's remaining debt, probably on the same terms. <AnG>

## Ukraine: Wrong privatisation

**On 29 September, the Ukrainian State Property Fund carried out – and immediately afterwards invalidated – the tender for 99.567% of shares in the Odessa Port Plant. The government had pushed for this privatisation despite a presidential decree and court verdicts opposing it. In such conditions it is difficult to definitely decide whether the real reason for the invalidation of the tender was that the price was too low (as PM Yulia Tymoshenko claimed), or perhaps the fact that the winner was not a company supported by the Ukrainian government.**

Prime Minister Tymoshenko ensured the tender was conducted, despite the court verdicts and the president's decree to the contrary, even though most potential investors (including Western companies) had been discouraged from participating by the fact that the tender conditions had been modified several times, as well as by the doubts concerning its legality. The plant was sold on 29 September for 5 billion hryvnia (around US\$625 million) to Ihor Kolomoysky's Nortima company. Bids by Azot-Service, a company associated with Gazprombank, and Konstantin Grigorishin's Frunze-Flora were rejected. Shortly after it was resolved, the tender was invalidated by the tender commission, and PM Tymoshenko stated that the reason for this decision was collusion between the bidders.

It is indeed possible, especially given the current budget difficulties, that the tender was invalidated because the price offered was lower than the government had expected. However, in the context of previous disagreements surrounding the privatisation of the Odessa plant, it is possible that the tender was won by the 'wrong' candidate, in other words, a company that the Ukrainian government did not support. <AnG>

## Moldova: Moldovan PM makes his first foreign trip

**Vlad Filat, the new prime minister of Moldova, was in Brussels on his first foreign visit on 29–30 September. During his meetings with representatives of the European Parliament and the European Commission, he assured EU officials that Moldova's objective was integration with the EU on as deep a level as possible, and suggested that in future, his country could seek a rapprochement with NATO, that is, by giving up its neutral status.**

European integration is the highest priority of the new, pro-Western government of Moldova which was sworn in on 25 September. In Brussels, Filat met the European Parliament President Jerzy Buzek, the external relations commissioner Benita Ferrero-Waldner and other European officials. The main objective of the visit was to obtain EU assistance in covering the budget deficit left by the previous, Communist leadership. EU officials pledged to provide assistance on condition that Moldova signs an agreement with the

IMF (representatives of which are coming to Chisinau on 14 October) and that a concrete reform plan is presented to Brussels. Filat also took part in the hearing before the European Parliament's committee on foreign affairs, during which he said that Moldova might consider rapprochement with NATO, but underlined that it would be a long process. Filat also said he hoped that the European Union would support the Moldovan authorities in their plans to have the Russian peacekeeping mission in Transnistria replaced by a mission under the EU's aegis.

The concept of rapprochement with NATO and the proposal for a pullout of Russian troops from Transnistria are both very sensitive issues in the new Moldovan government's foreign policy. On one hand, by formulating them expressly the Moldovan leadership risks starting a conflict with Russia. On the other, they may create tension within the newly-formed coalition government itself, as not all the coalition members favour closer co-operation with NATO. <smat>

## Turkey to establish diplomatic relations with Armenia

**On 28 September, the Turkish prime minister Recep Tayyip Erdogan announced that Turkey and Armenia would officially establish diplomatic relations on 10 October. However, it seems unlikely that the establishment of relations will be followed by the opening of the border between the two countries, which has remained closed since 1993. A number of factors impede the full normalisation of relations, among which the unsolved Karabakh conflict and Azerbaijan's objections are the most important.**

Erdogan's statement is a consequence of the publication on 31 August of the protocols developed by the two countries, providing for the establishment of diplomatic relations between Turkey and Armenia, and the opening of the border two months after the signature of the documents, among other plans. If Turkey and Armenia do establish diplomatic relations (which is very likely), this will be a success for Turkish diplomacy, which initiated the process of normalising relations with Armenia. However, it should not be expected that this will be followed by the opening of the Turkish-Armenian border, which is primarily important for Armenia. Due to Azerbaijan's strong protests, Turkey was forced to make the opening of the border conditional on the pullout of Armenian troops from the occupied territories surrounding Karabakh. Yerevan, however, firmly objects to any links being made between the Karabakh conflict and the issue of opening the border, pointing to the absence of any provisions to this effect in the protocols of 31 August. The Armenian government claims that the normalisation of relations should proceed without any preconditions. The normalisation process may also be halted by a destabilisation of the internal situation in Armenia, which may potentially occur given the fact that most forces on the Armenian political scene are opposed to reconciliation with Ankara on the current terms. <mf>

## CES

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