

EASTWEEK

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

ISSUE 36(186)

21 OCTOBER 2009

PUBLISHED BY

CENTRE FOR EASTERN STUDIES /

OŚRODEK STUDIÓW WSCHODNICH

Inside:

ANALYSES

The ritual revolt in the State Duma / 2

The protest of the 'licensed opposition' who lost the regional elections is in fact nothing more than a ritual, and is not directed against Vladimir Putin, who is the actual decision-maker behind the 'managed' elections

Azerbaijan threatens Turkey with a change in gas policy / 5

In response to Ankara's rapprochement with Armenia, Baku has threatened to block the implementation of new energy projects on Turkish territory

EVENTS

Russia resumes bilateral negotiations with the WTO / 8

President Medvedev in Serbia / 8

Denmark approves the Nord Stream / 9

The National Bank of Ukraine will finance EURO 2012 / 9

First exercise of the CSTO Collective Rapid Reaction Force (CRRF) / 10

Tajikistan's relations with Russia and Uzbekistan to worsen as a result of new language law / 11

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

'The power gained,
we will never surrender'
Russian ruling elite versus
the succession and economic crisis

Bosnia's chaos.
Causes of the political crisis
in Bosnia and Herzegovina today

ANALYSES

The ritual revolt in the State Duma

Following the regional elections of 11 October which brought a landslide victory for the pro-government United Russia party, the remaining parties, who suffered a crushing defeat, staged a public protest. The parties represented in the State Duma (the Russian parliament) – the communists, A Just Russia and the Liberal Democrats – boycotted the parliamentary sessions for several days and announced that they will try and annul the election results in court. The protest by the losing parties, including the 'licensed opposition' (a moderate opposition which acts in consultation with the government) is an expression of their genuine frustration with the defeat. However, its significance is purely symbolic, as these parties are aware of their limited influence on the election process, and stand no chance of annulling the election results in the courts. Moreover, their protest is rather conformist, as it is not aimed at Vladimir Putin, the leader of the winning party and the political patron of the 'managed' elections.

Elections raise much controversy

The local elections that took place in Russia's 76 regions were accompanied by numerous reports by observers and journalists who publicised cases of electoral irregularities which were aimed at improving the results of the pro-government United Russia party. The most glaring examples of such irregularities occurred in the Northern Caucasian republics. However, it was the Moscow city Duma that raised greatest controversy, as it is the most prestigious and influential of the regional parliaments. The Moscow elections brought a landslide victory for United Russia, while the remaining parties suffered a crushing defeat, including for the so-called 'licensed opposition'. Out of 35 seats in the Moscow city Duma, United Russia will occupy an absolute majority of 32 seats, while the remaining 3 will go to the communists. According to many observers, this outcome is a result of manipulations by the Moscow government, including the mayor Yuri Luzhkov, who is a member of United Russia. Experts pointed out that the election turnout was artificially raised (by adding ballot papers marked with votes for United Russia), and the protocols of district polling stations were amended to favour United Russia. To illustrate this, the media presented the case of disappearing votes cast for the democratic Yabloko party. The party leader Sergei Mitrokhin and his family voted for his party in the Khamovniki district of Moscow. However, the protocol of the district polling station later showed that not a single vote was cast for Yabloko; nor were any of the ballot papers considered invalid. Mitrokhin also pointed out that no one dared to 'manage the votes' in the polling station where Vladimir Putin was voting, which produced a rather remarkable outcome: results were significantly different than elsewhere, with the communists winning 33.7% of the votes cast, United Russia receiving a mere 26%, and Yabloko a remarkable 24%.

The frustration of the 'licensed opposition'

The bitter defeat in the prestigious Moscow regional parliament provoked vehement protests by the 'licensed opposition'. The representatives of communists, Vladimir Zhirinovsky's Liberal Democrats, and A Just Russia on the one hand, and the democratic Right Cause and Yabloko on the other, are preparing materials for a court procedure to re-examine the election results. On October 14, deputies from the parties represented in the State Duma (the communists, the Liberal Democrats and A Just Russia) left the session chamber and boycotted the sittings for several days in protest against the 'managed' elections. They also demanded that the head of the Central Electoral Committee be dismissed, and that their declarations be heard by President Medvedev (the meeting with the president was eventually scheduled for October 24).

The protest by the losing parties is caused by their genuine frustration with the defeat. However, this discontent has been censored by the parties themselves, and is directed mainly against the head of the Central Election Committee, Vladimir Churov, and Moscow's mayor Yuri Luzhkov. The protesters have shied away from criticising Vladimir Putin himself, who is the leader of the victorious United Russia party.

The manner of the losing parties' protest also falls into the category of a recurring ritual. After the first heated speeches and the declaration of boycotting parliament (wherein Vladimir Zhirinovsky was particularly active), the parties' deputies soon returned there. Moreover, this protest is not the first such post-election demarche: the communists and Yabloko have repeatedly referred the results of parliamentary elections to the court (their evidence was never acknowledged), whereas the Duma sittings have been repeatedly boycotted by the communists (the most recent such boycott took place in 2008) and Zhirinovsky's party (after the regional elections of March 2009). The losing parties are in the habit of parading their discontent, even though they are perfectly aware that they are unable to have their demands met (for example, dismissing the head of the Central Electoral Committee is outside Duma's remit) and that their boycott will not disrupt the parliament's work (more than three-quarters of the deputies belong to United Russia).

The 'virtual reality' of the party scene

The Russian party scene has become increasingly marginalised as real power is concentrated within the narrow ruling elite headed by Vladimir Putin. At the moment, the party scene is moulded by negotiations and arrangements between the parties and the government, and not so much by political competition or the outcome of elections. As a result of such arrangements, a certain 'virtual party scene' reflecting the interests of the ruling elite has developed on the federal level. The main actor on this scene is United Russia, which is supported by the government and predominates in all the regional parliaments. However, this seemingly influential party has in fact hardly any leverage on important political and economic decisions, and is a mere instrument of the ruling elite for fulfilling its orders and commands. Other parties act as a 'licensed opposition'; this means that they consult their key decisions with the government, and in return receive certain support. Genuine opposition

groups are usually completely marginalised. The ruling elite is inclined to keep up the appearance of pluralism (provided that United Russia dominates) and maintain several different parties in the parliament. The outcome of the elections to the State Duma reflects this attitude: at the moment, four parties are represented in the national parliament.

In contrast to federal politics, where a controlled pluralism prevails, the situation on the regional level is largely dependent on local interests and businesses. This most often means that United Russia's position is even stronger, simply because the most influential local elites have joined this party. This has in fact become a political tradition in Russia, prevalent since the 1990s; the local elites have eagerly joined successive incarnations of the so-called 'party of power' (i.e. the party representing the interests of the national ruling elite), which in turn made that party the important centre of influence. During regional elections, the local elites do not care about maintaining any appearances of pluralism, and usually concentrate on providing the 'party of power' with a good election result, which makes the remaining parties even more vulnerable. As a result, these elections may bring about such controversial results as in Moscow, one of Russia's most liberal cities, where the 'party of power' is set to win almost all the seats in the city Duma.

Jadwiga Rogoża

Azerbaijan threatens Turkey with a change in gas policy

The crisis in Azeri-Turkish relations, which has been growing for more than a year now, has led to an unprecedented toughening of Baku's policy, which has manifested itself in threats by Azerbaijan to withdraw from new energy projects (including the Nabucco gas pipeline) crossing Turkish territory. Baku's position has become so radicalised because of the prolonged impasse in regulating the terms of energy co-operation with Ankara, as well as Turkey's policy of rapprochement with Armenia, which undermines the basis of Azerbaijan's security.

While Azerbaijan's threats to limit co-operation with Turkey do not necessarily undo the prospects of the EU-endorsed Southern Gas Corridor project, they do seriously endanger it. The only winner in this situation is Russia, as Baku exploits its co-operation with Moscow to strengthen its position towards Turkey.

Azerbaijan accuses Turkey...

On 16 October, Azerbaijan's president Ilham Aliyev accused Turkey of having blocked an agreement for the last two years which concerns an increase in the price of gas imported from Azerbaijan (Turkey currently pays US\$120 per 1000 m³) and the rules for the transit of Azeri gas to Europe. He also said that Turkey's persistence in this policy was forcing Azerbaijan to seek alternative gas export routes, and might result in the projects to transport Azeri gas westwards via Turkish territory (such as the Nabucco gas pipeline) being scrapped.

In addition to the currently existing technical options to transport gas to Russia and Iran, Aliyev mentioned for the first time the possibility of exporting gas to Europe via the Georgian Black Sea terminals (most probably in the form of LNG). This solution is new, and has not been mentioned before as a possible variant of transporting gas from Azerbaijan. It has the advantage of being attractive to the EU, as supplies of LNG from Azerbaijan could be a way of diversifying the sources and routes of gas supplies and reducing the European Union's dependence on supplies from Russia. Moreover, Azerbaijan has already taken steps to test the feasibility of this solution; exporting gas in LNG form was one of the subjects discussed during the Azeri leader's most recent visit to Romania in September.

Aliyev's statement means that Azerbaijan still considers Europe to be the most attractive market for its gas, and intends to continue its efforts to launch gas exports to Europe. On the other hand, the project to export LNG undermines the EU- and US-endorsed Southern Gas Corridor project in its current, most advanced form, which envisages gas transit via Turkey.

... and finalises the gas deal with Gazprom

Azerbaijan's growing disappointment with Turkey's actions in recent months has found an expression in the gas deal concluded on 14 October between Azerbaijan's state-run oil and gas company SOCAR and Gazprom, which had been announced in a memorandum signed this April and in an energy co-operation agreement concluded in June. The deal provides for the supply

of 500 million m³ of Azeri gas a year, starting from 1 January 2010, and states that this quantity may be increased. The parties have not revealed the price of gas to be paid under the contract, and have limited themselves to stating that it is based on a specific formula (there has been press speculation that the price may be around US\$300 per 1000 m³, which sounds probable).

Despite the very small quantity of supplies, the deal is a success for SOCAR because it strengthens the company's position in negotiations concerning the price of gas with other potential customers, including Turkey, and generates economic benefits in the form of revenue from the exports to Russia. The commercial conditions of the deal with Gazprom will be a point of reference in negotiations with other companies interested in buying Azeri gas. Azerbaijan has also used its co-operation with Gazprom to demonstrate that it has other options for gas export alternative to routes via Turkey, and is capable of pursuing an effective policy to implement them. Gazprom, in turn, has demonstrated that its energy policy is effective and that it has the potential to take control over gas exports from the Caspian region, which would run counter to the interests of the European Union as it seeks to obtain direct gas supplies from that area through the Southern Gas Corridor.

What are the stakes for Azerbaijan?

The reason why Azerbaijan has toughened its policy is the crisis in its relations with Turkey, which has been building for more than a year as Ankara has obstructed the development of Azerbaijan's energy sector. The absence of any deal on gas transit and price has been stopping Azerbaijan from increasing gas production. As a result, for the last two years Azerbaijan has been unable to launch the second phase of production in the Shah Deniz, its largest gas field.

Moreover, Turkey's new policy on Armenia and Nagorno-Karabakh, which was initiated more than a year ago and has been stepped up in recent weeks, is undermining the pillars of Azerbaijan's security. Ankara has given new momentum to the process of normalising relations with Yerevan, the objective of which is to establish diplomatic relations and open the border (which Turkey closed in 1993 as a token of support for Azerbaijan in its war with Armenia over Nagorno-Karabakh).

Armenia's political and economic isolation has until now been one of the pillars of the alliance between Baku and Ankara, further reinforced by the implementation of key projects concerning energy exports from Azerbaijan via Georgia and Turkey (the Baku–Tbilisi–Ceyhan oil pipeline and the Baku–Tbilisi–Erzurum gas pipeline). This policy has left Azerbaijan heavily dependent on energy export routes via Turkey.

Nevertheless, the Azeri leadership has decided to threaten Ankara: if Turkey continues to seek rapprochement with Armenia, it risks having the new energy projects crossing its territory blocked (although existing infrastructure would still be used). Turkey presumably has not given this possibility serious consideration in its political calculations so far, acting on the conviction that Azerbaijan has to rely on export routes via Turkish territory.

Finally, by outlining an option for exporting Azeri gas to the West that would bypass Turkey, in a way which seemingly would be acceptable to the EU, Baku is clearly showing that Europe remains its preferred direction for gas exports, as long as it can offer terms and conditions comparable to those of Gazprom.

Forecast

Azerbaijan has probably not yet taken a decision to reorientate its energy policy, and has only outlined the potentially attractive options for its European partners. Nevertheless, the actions taken suggest that Baku has started for the first time to seriously consider its need to diversify its westbound gas export routes.

If Azerbaijan puts the threats to limit co-operation with Turkey and diversify its gas export routes into practice, this will signify the failure of the EU- and US-endorsed Southern Gas Corridor project (in the variant via Turkey) and undermine these two actors' current regional strategy. Such a scenario would be a strategic success for Russia, as it would undo the Corridor concept, which took years to develop, and raise tension in the region.

However, this would not mean that Azerbaijan is giving up its plans to export gas to Europe, and the possible creation of gas transport routes to the Black Sea basin would boost the importance of the Black Sea states in Azerbaijan's energy policy (Romania, which is planning to build an LNG terminal in Constanta, seems to be a natural partner).

The reorientation of Azerbaijan's energy policy will depend on a number of factors. Firstly, it will depend on future developments in Turkish-Azeri relations, and Ankara's willingness to maintain its alliance with Baku. Secondly, the position of the foreign investors interested in the second phase of development works on the Shah Deniz field, and the commercial attractiveness of the gas export options alternative to the Turkish route, will be of key importance. Finally, the positions of the other players engaged in the region will play a role; this concerns both Russia and even more importantly to the USA and the EU, and how attached they are to the original concept of the Southern Gas Corridor. It is possible that the USA and the European Union will take measures to restore good relations between Azerbaijan and Turkey, or decide to modify the Southern Gas Corridor concept by including the option of LNG exports.

Aleksandra Jarosiewicz

EVENTS

Russia resumes bilateral negotiations with the WTO

In Geneva on 15 October, Maksim Medvedkov, the main negotiator of Russia's accession to the World Trade Organisation (WTO), stated that Russia, Kazakhstan and Belarus were resuming separate negotiations concerning their membership in the WTO. This means that PM Vladimir Putin's idea that the three states should jointly negotiate their accession as part of a customs union to be created has been abandoned.

In June Putin had declared that Russia, Kazakhstan and Belarus would create a customs union (as of 1 January 2010) and accede jointly to the WTO. The idea that the three states should join the WTO as a customs union came in for strong criticism from the current WTO members, who highlighted the differences in how far the three states' accession processes had advanced. Currently Russia, Kazakhstan and Belarus have resumed the concept of synchronised negotiations and mutually agreed positions, and have announced that they would accede to the WTO at the same time. It is doubtful if this second commitment will be met: Russia's accession process is very advanced, while that of Belarus is in the initial phase. The date of the next round of negotiations is to be set by the end of this year; the outcome of these talks will be indicative of the three states' real positions on WTO membership. <iwo>

President Medvedev in Serbia

Russian President Dmitry Medvedev was on a visit to Serbia on 20 October, the main effect of which was a confirmation of close bilateral relations. Documents signed during his visit, the protocol between Gazprom and Srbijagaz companies on the construction of a Serbian section of the South Stream gas pipeline and on a joint venture to build Banatski Dvor gas storage facilities, were merely an effect of the fulfilment of the agreements entered into in January 2008. No binding decisions regarding economic assistance to Serbia, including on the expected loan of 1 billion euros from Russia, were made, either.

The deal between Gazprom and Srbijagaz envisages the establishment within 30 days of the joint venture South Stream Serbia, which will handle design, construction and operation of the Serbian section of the South Stream gas pipeline. Gazprom will get 51% of the shares in the company, and Srbijagaz the remaining 49%. The two companies will have the same stakes in the common enterprise established for the construction of the gas storage facilities in Banatski Dvor, the target capacity of which will reach 450 million m³.

For Russia, Serbia is a key partner in the Balkans enabling it to maintain political influence in this region, which has been dominated by the EU. Investments in the Serbian energy sector are also essential from Moscow's point of view. In turn, Russian support for Serbian policy regarding Kosovo is very important for Belgrade although Moscow's real ability to support Belgrade in this area is very limited. Since the Serbian economy has found itself in

a slump, the economic dimension of co-operation is becoming increasingly important to Belgrade. What the Serbian government needs in the first order is a loan to cover its budget gap and activities which can improve the country's economic situation (Russian investments and investment loans). Another important issue is extending the range of Serbian goods which can be exported to Russia without imposing customs duty. However, in both cases Russia has been delaying decisions beneficial to Belgrade. <MaK, MarSz>

Denmark approves the Nord Stream

On 20 October, the Danish Energy Agency approved the construction of the Nord Stream gas pipeline in the Danish economic zone on the Baltic Sea. This was the first such approval that the Nord Stream needs to obtain. The decision of Sweden, which has been reluctant to approve the project, will be of crucial importance.

In order for construction of the Nord Stream pipeline to begin (it was planned to start in the first half of 2009), permission must be obtained from all the countries through whose economic zones the pipeline is routed, namely Russia, Germany, Denmark, Finland and Sweden. The fact that Copenhagen was the first to grant formal approval demonstrates that Denmark strongly supports the project, as is also evidenced by the recent signature of the second deal for gas supplies via the Nord Stream between DONG Energy and Gazpromexport. It is certain that Russia and Germany will shortly grant their approval for the gas pipeline to be constructed on the Baltic Sea bottom, and Finland is increasingly inclined to approve the project as well; the Finnish ministry for the environment has positively assessed the Nord Stream report on the pipeline's environmental impact on the Baltic Sea in the Finnish zone, and issued permission to destroy mines in the Finnish economic zone early this month. Sweden's approval of the project is still the most problematic, as the Swedes have been consistently coming up with environmental reservations, and asking the Nord Stream consortium to provide additional information on the risks and alternative routings. The project's success largely depends on whether the four remaining actors will grant their approval; the completion of this process will help the Nord Stream consortium find the necessary additional external sources of financing. <zub>

The National Bank of Ukraine will finance EURO 2012

An act obligating the National Bank of Ukraine (NBU) to transfer 9.8 billion hryvnia (around €1 billion) to the state budget for financing the preparations for the EURO 2012 Football Championship came into force on 13 October. The NBU does not have the revenues to implement the act, which means that the funds will have to be provided through direct money issuance, thus increasing inflationary and devaluation pressures in Ukraine. Concerns have also been raised that the money may be used for purposes other than those provided for in the act.

The Act on specific financing of preparations for EURO 2012 was adopted by the Ukrainian parliament on 1 July, and on 21 August the parliament rejected President Viktor Yushchenko's veto of it. On 3 September the president refused to sign the act, and called for its reconsideration. Then, however, the act was promulgated by the parliament speaker (in compliance with Ukrainian legislation). The president filed a complaint against the act to the Constitutional Court, although this does not suspend the act's application. Since the NBU's profit will not exceed 600 million hryvnia, the Bank will have to issue 9.8 billion hryvnia within a short period (3.4 billion hryvnia within three days of the act's entry into force, a further 3.4 billion by 20 October, and 3 billion more by 10 December). It has not been confirmed that the first two issues have taken place. If they do, then the impact of a 5% increase in the amount of money in circulation on inflation, and the decline of the hryvnia exchange rate on the currency market, will depend on the way the money is spent. It should be noted that spending on projects implemented as part of preparations for EURO 2012 have been estimated at around 2 billion hryvnia by the end of 2009. Opponents of Prime Minister Yulia Tymoshenko are therefore accusing her of intending to spend the remaining funds from the money issues on other budget purposes, or even on financing her election campaign. <AnG>

First exercise of the CSTO Collective Rapid Reaction Force (CRRF)

The final phase of Co-operation 2009, the CSTO Collective Rapid Reaction Force exercise, took place on 16 October at a firing range in southern Kazakhstan. The drill was the largest to date to be held under the umbrella of the Collective Security Treaty Organisation, with a total of 14,000 troops participating, including 7,000 in firing ground operations; it was in fact a bilateral, Russian-Kazakh exercise. Contrary to public statements by members of the governments and media reports (especially in Russia), Co-operation 2009 cannot be regarded as a test of the Collective Rapid Reaction Force, but it was in fact an assertion of the Russian army's ability to conduct operations in Central Asia.

The Collective Rapid Reaction Force, which has been treated as another stage of integration within the CSTO, was created within an exceptionally short time-frame by CIS standards. The decision to form the Force was taken on 4 February at Russia's initiative; their objective was to have a fully subordinated international military instrument, and to sanction its military presence in the CIS area. For this reason, some members of the CSTO have objected to the creation of the Force. Tajikistan, and especially Uzbekistan, see the CRRF as an instrument of a potential Russian intervention in their territories, and with a good reason. The Co-operation 2009 exercise was in fact a bilateral undertaking. 95% of all the troops taking part were Russian and Kazakh soldiers. The participation of Armenia and Kyrgyzstan was symbolic. Belarus and Tajikistan were represented by military observers, and Uzbekistan did not take part at all.

The real test for the CRRF will come when the CSTO members decide whether to consent to Russian military action in Central Asia. <wilk>

Tajikistan's relations with Russia and Uzbekistan to worsen as a result of new language law

The law on the state language, which establishes Tajik as the only state language, came into force in Tajikistan on 6 October. The law abolishes the Russian language's status as the 'language of inter-ethnic communication' which had been provided for in the constitution, and takes away the Uzbek minority's right to use its own language in official contacts at the local level. The law will have a negative impact on the situation of the non-Tajik population, as well as on Tajikistan's relations with Uzbekistan and the Russian Federation.

The initiative to start works on a new language law came from President Emomali Rahmon in the first half of this year. The law's declared objective is to strengthen national identity and expand the scope of the use of Tajik, which is to become the only language in courts, administration and advertising. The fines for non-compliance are drastic for Tajik conditions; they can be imposed in amounts of up to US\$160 for natural persons and US\$320 for legal persons. Under the laws in force until now, Tajik citizens could exchange correspondence with administration offices in the state language or in Russian, and also in Uzbek in those regions inhabited by compact Uzbek populations. While the new law does not change the constitutional provisions and maintains the minorities' right to education in the native language, it states that Tajik is the only official language. The new regulations will adversely affect the Uzbek minority, which accounts for 15% of the population of Tajikistan, as well as the Russian minority and Russian-speaking Tajiks. The adoption of the law has been widely commented on in the Russian press, and will certainly have a negative impact on Tajikistan's relations with the Russian Federation and Uzbekistan, as well as on the situation of Tajiks living in those countries. The measure Dushanbe has taken should be regarded as an expression of its frustration with unresolved issues in its relations with Russia, including the question of payments for the Russian military bases, Russia's failure to deliver on its commitments with regard to investments in the Tajik hydro energy system, as well as the bad situation of Tajik immigrants in Russia. <MMat>

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: Anna Łabuszewska
Katarzyna Kazimierska
Co-operation: Jim Todd,
Jadwiga Rogoża
DTP: Katarzyna Kazimierska



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