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ANALYSES

Gas issues in the political dispute in Ukraine

During a phone conversation with the Russian PM Vladimir Putin on 30 October, Ukraine's prime minister Yulia Tymoshenko accused President Viktor Yushchenko of obstructing Ukraine's gas settlements with Russia. The Russian prime minister then used the issue in talks with the heads of government of Sweden (which holds the EU presidency), Germany and Denmark to point to Ukraine as the principal threat to Russia-EU gas co-operation. Tymoshenko's move demonstrates that she has no hesitation in exploiting Ukraine's internal energy disputes on the international stage, including in relations with Russia. Tymoshenko's real objective is to force the National Bank of Ukraine to make another money issue, in order to enable Naftohaz, struggling with a difficult financial situation, to pay its gas dues to Gazprom. If it cannot repay the debt, this would weaken Tymoshenko's position in the run-up to the approaching presidential elections.

Internal Ukrainian manoeuvres over gas payments

This year, Naftohaz has only twice been able to raise the funds to pay punctually for the monthly gas supplies on its own. In the remaining months, it benefited from support provided by the government and the National Bank of Ukraine (NBU). As the end of the year approaches, the means it has employed so far to raise funds for gas settlements are becoming more and more desperate. State-owned banks would have to violate the guidelines regulating their activities in order to grant Naftohaz further loans. The state budget is not only experiencing problems financing its own spending, but has also already used almost all the legal options available to support Naftohaz; in September, it reimbursed the company's VAT for all current, past and future (until the end of this year) settlements, and in August it issued 18.3 billion hryvnias worth of bonds to raise the company's statutory capital. The government had hoped to obtain loan support from European finance institutions (US\$1.7 billion negotiated in July with the support of the European Commission, to be spent on modernising the network and partially financing gas purchases), but it failed to meet the basic requirements for that loan; in one example, it decided not to gradually phase in market gas prices for political reasons.

PM Tymoshenko is trying to solve the supplies financing problem by putting pressure on the NBU to monetarise (redeem) the state treasury bonds issued for Naftohaz. The NBU and President Yushchenko are against this move.

Prospects

Experts agree that Ukraine should not have any problems making the payment for gas supplied in October, which is due on 7 November (around US\$500 million). Problems may arise in the following months, especially if the government decides to purchase higher quantities of gas, as it has signalled it would do.

Without external support or concessions from the NBU (in other words, a new money issue), the government will be unable to raise funds for Naftohaz, as there are more and more indications that it is struggling to finance the fixed budget spending, and it is uncertain that the IMF will provide further financing. However, Naftohaz may sell bonds to commercial banks, probably at a rate of 25–30% a year (as the Finance Ministry does). There are some signals that Russia's Alfabank and Vneshtorgbank would be interested in buying them.

In spite of all these problems, it is more probable that Ukraine will pay for its gas supplies than not, although successive payments will generate more and more tension. The additional cost of settlements, related to the possible money issue and the rising debts of Naftohaz and the state treasury, is difficult to estimate.

Anna Górska

EVENTS

Russia: Medvedev condemns Stalinist repression

Dmitry Medvedev has strongly condemned the repression of the Stalin era in a statement posted in his videoblog on 30 October, the Day of Remembrance for Victims of Political Repression. The statement was the most unequivocal criticism of the Stalinist crimes to be made by a high state official in recent years. However, the statement stands in contrast to Medvedev's actions, and seems to be an image-building exercise rather than a signal of any genuine change to Russia's historical policy.

In the statement, Medvedev remembered the millions of victims of Stalin's terror, the persecution of all religions, and the extermination of whole layers of society. According to the president, there is no justification for sacrificing human life to rebuild the country or further its development, just as there is no justification for those who exterminated whole sections of their own nation.

In the few statements on historical issues that Medvedev has made so far, he has presented himself as a critic of Stalin's era, while most other decision makers in Russia, Vladimir Putin in particular, have indirectly defended the Stalinist period by underlining its achievements (such as victory in World War II). It should be noted here that Russia's historical policy in recent years has not been homogenous, and that Putin himself has made some gestures to the victims of Stalinism; for instance, he has visited a mass burial site of people executed in the 1930s, and has ordered the faster rehabilitation of the victims of political repression.

Therefore, Medvedev's statement should rather be seen as part of image-building efforts intended to prove that liberal views are represented in the ruling camp, especially since the president's actions stand in contrast to his declarations: the main preoccupation of the commission against the falsification of history which Medvedev established this May has been to refute criticism of the USSR. <JR>

**Russia: President nominates rectors
at the universities of Moscow and St. Petersburg**

On 30 October, the Federation Council approved an act under which rectors of the Lomonosov Moscow State University (MGU) and the Saint Petersburg State University will be appointed and dismissed by the president. In this way, the Russian authorities have formalised their control over Russia's two largest universities.

Initiated by President Medvedev, the act awards the Moscow and St. Petersburg universities the special status of "unique research and educational institutions". It means that the two universities will have the right to apply internally developed curricula and academic standards, and will obtain funding separate from the state budget. At the same time, however, they will lose some important attributes of university autonomy, such as the right (dating back to 1804) to elect their rectors. Under the new law, rectors will be nomi-

nated and dismissed by the president, and the universities themselves will fall under the government's jurisdiction (the government will approve their regulations, among other powers).

The change in the status of the Moscow and St. Petersburg universities sanctions the current informal influence through which the Russian authorities have exercised control over the two main universities of Russia. The current rectors of both universities are loyal collaborators with the Russian government: Nikolai Kropachev, the rector of the St. Petersburg university, is a former university tutor and friend of President Medvedev, whereas Viktor Sadovnichy, the long-time MGU rector, has co-operated with the authorities at different levels for a long time, including as a member of United Russia's party leadership. The current limits imposed on the universities' autonomy are part of a wider process whereby the government has been tightening control over academic activity in Russia, which among other ways has manifested itself in the attempts made by the authorities of some universities to control academics' foreign contacts under the pretext of defending national security. <adu>

Ukrainian government authorises the financing of the public sector payroll from donations

On 29 October, the Ukrainian government authorised healthcare, educational and cultural institutions to finance their salary payments from 'charity contributions', i.e. voluntary donations from patients, students' parents, etc. This sanctions an existing practice of 'extorting' money by the institutions in question, and proves that the state alone is unable to support them.

The practice whereby budget-funded institutions force people who are vitally interested in their services to make 'charity contributions' or ask local businesses for donations has existed for some time, and it has been expanding as state financing of those institutions has been waning. However, it is the first time that official authorisation has been given not only to this method of fund-raising, but also to financing payrolls from money obtained in this way. Although the Constitutional Court had already ruled the decision to be incompatible with the constitution on 3 November, it is doubtful if the ruling will stop its implementation in practice. <TAO>

The prospect of early election in Moldova postponed

On 30 October, the Moldovan parliament amended the act on the election of the president, removing its procedural ambiguities. Under the amended act, the parliament may not be disbanded within 365 days of the previous premature term ending. This modification means that an early parliamentary election in Moldova cannot take place sooner than autumn 2010, even if the parliament fails to elect a president.

The amendments specify that the vote will be valid even if only one candidate takes part, a solution which the opposition communist party (PCRM) had objected to. Moreover, the amendments extend the deadline for the election of the president as they state that the procedure has to start (and not be completed, as under the original act) within two months of a vacancy

emerging in the president's seat (11 November in the present case). The election has been scheduled for 10 November, and Marian Lupu, the candidate of the ruling Alliance for European Integration (AIE), is the only contender. The communist party has said it will appeal against the amendments to the Constitutional Court.

The postponement of the prospect of early elections is beneficial for the ruling coalition, as it now has additional time to consolidate its rule. It may also be helpful in convincing some PCRM members to support Lupu, as the AIE is now set to stay in power for much longer. <smat>

The first family in control of the Kyrgyz economy

On 29 October, the Kyrgyz president Kurmanbek Bakiyev appointed his son, Maxim Bakiyev, as head of the newly created Central Agency for Development, Investment and Innovation. The new institution will control the state Development Fund in charge of managing foreign loans and shares in state-owned companies. These measures have put the president and his inner circle in full control of the Kyrgyz economy and the projected privatisation of state-owned assets, including the largest power plants.

The president's son has not held any state offices to date, but has long been considered to hold major sway over the economy. The Central Agency for Development, Investment and Innovation that he now runs was established as part of the state apparatus reform launched on 20 October. The Agency is to be Kyrgyzstan's key economic body in charge of formulating the strategy for development, attracting foreign investments and budget planning, among other aspects. The Development Fund it controls has been awarded very broad competences under recent amendments to the privatisation act. It controls blocks of shares in key state-owned companies, including the largest power plants, Severelektro and Vostokelektro, which are to be sold along with other state-owned assets as part of the 2008–2012 privatisation programme.

The appointment of the younger Bakiyev as the head of the Central Agency for Development, Investment and Innovation completes the process of concentrating power in the hands of the president, which began back in 2007. The reform implemented in recent weeks and the nominations accompanying it have formalised and ultimately consolidated Kurmanbek Bakiyev's control over the state apparatus and the economy, as well as the privatisation and its revenues. <MMat>

CES

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