

WASHINGTON, D.C. January 9, 2009

TO: NCSJ Leadership and Interested Parties

FROM: Richard Stone, NCSJ Chairman;
Alexander Smukler, NCSJ President;
Mark B. Levin, NCSJ Executive Director



In Brief: War in Israel; Change in Washington

Dear Friend,

We begin the New Year on a difficult note. The American Jewish community is focused on Israel's campaign to protect its citizens against ongoing terror attacks by Hamas. The incursion into Gaza is necessary to try to stop the daily barrage of rockets fired into southern Israel.

In support of Israel, NCSJ has been and will continue to be in contact with the embassies of the countries of the former Soviet Union. Earlier this week, we sent letters to the 15 embassies from the region, urging their governments to support Israel and to reject anti-Israel resolutions in the United Nations. We also joined other organizations and private citizens at a rally in Washington, D.C. on Wednesday.

While the New Year's first two weeks are traditionally a quiet period in the former Soviet Union, as people celebrate the Orthodox Christmas, that is unfortunately not the case this year. As severe winter weather grips much of the region, Europe is suffering from a significant reduction in the flow of natural gas, due to Russia's ongoing price dispute with Ukraine. This dispute is as much about Russia's political agenda with Ukraine and the rest of region as it is about the cost of natural gas. It appears that an agreement has been reached this morning to resume gas shipments through Ukraine, although several details still need to be worked on. In this week's update there are a number of articles, editorials and op-eds explaining the story behind the story.

The presidential transition is in full swing, and among the new appointments being announced are choices for several key State Department positions. Senator Clinton's confirmation hearing to be the next Secretary of State is scheduled for Monday, January 12th.

Last week you received a summary of the December 9, 2008 Strategic Assessment program. For those that missed it because of the holidays, [please click here](#). Given the ongoing political turmoil in the region, our strategy session turned out to be very timely.

Sincerely,

A handwritten signature in black ink that reads 'Mark B. Levin'.

Mark B. Levin
Executive Director



Advocates on behalf of Jews in Russia,
Ukraine, the Baltic States & Eurasia

NCSJ WEEKLY NEWS BRIEF
Washington, D.C. January 9, 2009

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#1a

Central Bank of Belarus Allows Currency to Fall 20% AP, January 3, 2009

Belarus's central bank sharply devalued the country's ruble, allowing the currency to plunge 20 percent, to help stop the hemorrhaging of its reserves. The bank said the devaluation was aimed at raising the competitiveness of the economy, which has been battered by the global financial crisis. It also was a condition of a \$2.5 billion loan from the International Monetary Fund. The loan was announced Wednesday. In the last six months, the bank has spent about a quarter of its gold and hard-currency reserves to keep the Belarusian ruble stable against the dollar, euro and Russian ruble. The Belarusian ruble is now trading at 2,650 to the dollar, 3,703 to the euro and 90.6 to the Russian ruble.

#1b

Kiev concerned over Gaza violence JTA, January 5, 2009

Ukraine officials expressed doubt about the proportionality of military power used by Israel in its Gaza operation.

Ukraine, expressing deep concern over the latest escalation of military action and violence in the Gaza Strip, called on Israel and Hamas to immediately stop the hostilities, its Foreign Ministry said Dec. 30.

The ministry renewed the call Sunday, adding that "continuation of bloodshed in the Gaza Strip" could lead to a large-scale "humanitarian catastrophe with unpredictable effects for all participants of the Israeli-Palestinian conflict." It expressed concern over the threat to the lives of the 278 citizens of Ukraine, including 196 children, who remain in Gaza.

Ukrainian officials also condemned the firing of missiles at Israel from the Gaza Strip.

Forty Ukrainian citizens evacuated to Moscow from Gaza on Jan. 2 returned to Ukraine over the weekend, according to the Ukrainian Embassy's press secretary.

#1c
Oldest known Ukrainian Jew dies at 111
JTA, January 5, 2009

The oldest known Ukrainian Jew has died at the age of 111.

Mikhail Krichevsky, also the nation's oldest known man, died in Donetsk at the end of December two months shy of his birthday.

Known as "the man of three centuries," Krichevsky graduated commercial college, military engineering college and the Institute of Mines. An inventor, he was a manager at the Donbass mines and an employee of the Scientific and Research Institute of Mines.

Krichevsky was a veteran of World War I.

Members of the Donetsk Jewish community attributed his longevity to his kindness, and mental and physical toughness.

#1d
Medvedev to send Gaza aid, calls for cease-fire
JTA, January 6, 2009

Russia's president ordered top foreign officials to prepare a delivery of humanitarian aid to Gaza and called for an immediate cease-fire in the conflict.

Dmitry Medvedev's call Monday came after weekend telephone conversations with Israeli Prime Minister Ehud Olmert and Palestinian Authority President Mahmoud Abbas. Abbas called Medvedev while Moscow reached out to Olmert, according to Kremlin statements.

Russian Deputy Foreign Minister Alexander Saltanov, the president's special envoy to the Middle East, flew to the conflict zone on Sunday to press for a cease-fire, the foreign ministry said.

After speaking with Abbas, Medvedev released a statement calling for an immediate end to hostilities.

In his conversation with Olmert, Medvedev said that Russia wanted to express "its serious concern over the numerous victims among the civilian population and the grave humanitarian situation," according to a statement released by the Kremlin.

Russia has sought to portray itself in recent years as a go-between for Arab and Israeli peace efforts. The country has historical ties to Arab states from the Soviet era and a large population of ethnic Russians live in Israel.

#1e
Russian student sentenced for anti-Semitic link
JTA, January 6, 2009

A Russian college student was convicted of linking an anti-Semitic video to a Russian Web site.

A court in far northern Russia sentenced Andrey Paydimirov to 90 days of community service for inciting ethnic hatred, according to a report by the state-funded RIA-Novosti news service. He posted the video to a Web site in the Russian town of Syktyvkar.

The video is included in a list of banned extremist material, and prosecutors brought the charges in October after determining the source and the nature of the video, RIA-Novosti reported.

#1f

Ukrainian official: Israel violating international law

JTA, January 7, 2009

A Ukrainian ombudsman has accused Israel of violating international law.

The Ukrainian parliament's commissioner for human rights, Nina Karpachova, accused the Israel Defense Forces of perpetrating the "mass death of civilians" in Gaza, which "testifies to neglect of the principles of international humanitarian law," according to the statement issued Tuesday by Ukrinform, the Ukrainian central state news agency.

"The conflict parties in the Gaza Strip strongly violate fundamental standards of international law, first and foremost the Fourth Geneva Convention relative to the Protection of Civilian Persons in Time of War," Karpachova said.

Karpachova expressed her "sincere condolences" to those who have lost family in the conflict and called on Israel to "cease bloodshed in the Gaza Strip, strongly observe the basic principles of international law and respect for the fundamental human rights and freedoms, and immediately return to negotiations."

According to the Ukrainian ombudsman, the Gaza Strip, where "during many years 1.5 million Palestinians have had no peaceful life and justice," is suffering a "humanitarian catastrophe."

Approximately 400 Ukrainian citizens live in Gaza, according to the Ukrainian Embassy in Israel, Ukraine's foreign ministry spokesman Vasyl Kyrylych reported.

Kyrylych said that as of Tuesday, 65 Ukrainian citizens had asked to be evacuated from the conflict zone, including 22 adults and 43 children. The embassy is exploring the evacuation with the help of local Israeli authorities, the press secretary said.

#2

Could Wine Bridge the Gulf Between Georgia and Russia?

By Paul Goble

Window on Eurasia, January 5, 2009

Tbilisi is actively seeking to resume the export of wine to the Russian Federation, a step Moscow officials say they are willing to approve but one that they predict on the basis of changed attitudes and price levels will not allow Georgian wines to resume the standing they had with Russians in Soviet times.

Last week, the Georgian ministry of agriculture sent an official appeal, together with samples of its wine, to Russia's chief medical examiner, with a request that Moscow allow Russian businesses to import and sell Georgian wines, something they have not been allowed to do since 2006 (www.bfm.ru/news/2008/12/30/gruzija-prokladyvaet-vinnyj-put-v-rossiju.html).

According to BFM.ru, this is not the first time the Georgian ministry has made that appeal, but today, Tbilisi hopes for a more positive response given that Gennady Onishchenko, the Russian medical examiner, recently said that there should not be any link between wine sales and politics, if Georgian wines meet Russian health standards.

But if the sale of Georgian wine resumes in Russia, that could nonetheless have political consequences as a confidence building measure that could lead to contacts on other subjects far removed from wine and thus possibly to the restoration of diplomatic ties between Moscow and Tbilisi.

Moscow prohibited the importation of Georgian and Moldovan wines in 2006 ostensibly because it had discovered trace levels of heavy metals and pesticides in the wine. A year later, Chisinau was able to show that it had dealt with those problems and thus was allowed to export its wines to Russia again.

But Georgia has not yet had that chance, a reflection not only of its production methods but also of the difficult politics between the two countries. Nonetheless, Georgians remain vitally interested in reopening the Russian market, given that prior to 2006, it sent up to 80 percent of all its exported wine to its northern neighbor.

Having been shut out of the Russian market, Georgian producers now export to some 42 countries around the world, but total exports for the first 10 months of 2008 were less than a quarter of the total in 2005, when 75 percent or 60 million bottles of Georgian wine were shipped to Russian stores.

Returning to the Russian market now, however, is going to be a challenge for Georgian producers. Not only must they overcome the anti-Georgian attitudes many Russians now have, but they have to deal with declines, driven by the economic crisis, of Russian purchases of imported wines and the relatively higher prices of Georgian wines compared to Moldovan ones.

Maksim Kashirin, the general director of the Simple Wine Importing Company in Moscow, says that Georgian wine is "overpriced" considering its "quality which is different from what it was in Soviet times." Indeed, he suggested, Georgians are now forced to trade on a reputation which is no longer true.

"In that price category which Georgian wines occupy," he continued, "much has changed since the introduction of the ban." Better-quality wines from Europe have entered the Russian marketplace, and Moldovan wines have improved as well, although they have not recovered their earlier market share either.

By clever marketing, he and other experts on the Russian alcohol market say, Georgian producers "can count on a certain position but not on that which they had earlier." But regardless of that, the reopening of this sector could lead to the reopening of others in relations between Russia and Georgia – and thus provide one of the few light if not bright areas there now on offer.

#3

Q&A: Russia's row with Ukraine over gas supplies Reuters, January 6, 2008

A contract dispute between Russia and Ukraine has disrupted gas supplies to countries in the European Union, which gets about a fifth of its needs via pipelines through Ukraine.

WHY DID THE ROW START?

Russia and Ukraine failed to agree a new contract for gas supplies in 2009 before a New Year's Eve deadline set by Russian negotiators.

Russian gas export monopoly Gazprom said during the talks it wanted to raise the price it charged Kiev from \$179.5 to \$250. Kiev said it did not want to pay that, and made any price rise conditional on Gazprom paying more for pumping gas to Europe across Ukrainian territory.

WHY IS THERE LESS GAS GOING TO EUROPEAN CONSUMERS?

Gazprom cut off all gas for Ukraine's domestic use on New Year's day. This is not as simple as it sounds: Ukraine's gas, goes through the same network of pipelines as the gas intended for customers in Europe.

So what Russia did was to reduce the total volumes it was pumping by the amount Ukraine imports. That meant a reduction from the usual 400 million cubic meters a day to about 300 mcm/day.

What happened next is under dispute. Russia accused Ukraine of stealing gas intended for Europe, and using it for its own needs. On Monday, it cut gas supplies going through Ukraine further, by about one sixth. It said this was equivalent to the amount Kiev was siphoning off. On Tuesday, Gazprom accused Kiev of unilaterally shutting down at least three major export pipelines.

Ukraine has a different account of events. It denied siphoning off gas, saying only it had used some gas intended for export to maintain pressure in the pipeline network.

It accused Russia of deliberately halting exports, putting under threat supplies to Moldova, Bulgaria, Romania, Greece, Turkey, Poland, Hungary, Slovakia, Germany.

HOW DOES THE GAS GET ACROSS UKRAINE TO EUROPE?

Over 80 percent of Russia's gas exports to the European Union go via Ukraine.

There is a complex network of pipelines, but put simply there are two main routes. One goes West through Slovakia and from there to the Czech Republic, Austria, Germany, France, Italy and other countries.

The second goes south to the Balkans and south-eastern Europe -- the regions worst hit by the supply disruptions.

The Balkan pipeline is more vulnerable to the cuts of Russian supplies because there are no gas storage facilities at the inlet of the export route.

Pipelines running from Ukraine into Slovakia are linked to the huge underground gas storage facilities of Western Ukraine, therefore supplies are more secure.

In addition to these routes, there are separate pipelines from Ukraine to Hungary, Poland and Romania.

WHAT ABOUT OTHER GAS PIPELINES TO EUROPE?

Russia said it was compensating for reductions in exports to Europe by pumping gas through alternative routes. But it was not clear these routes had the capacity to cover the shortfall. These are the other routes:

YAMAL-EUROPE - Goes from Siberia via Belarus to Poland and Germany, Europe's biggest economy. Capacity 33 bcm/year or around 100 mcm per day. Gazprom has increased exports through Yamal to help compensate for lower flows through Ukraine.

BLUE STREAM - Goes from Russia along the bed of the Black Sea to Turkey. Capacity 16 bcm/year or around 50 mcm per day. Gazprom says it was also adding capacity through the Blue Stream pipeline.

#4

For Russia, A Dark Horizon

By Masha Lipman

Washington Post, January 3, 2009

Uncertainty is creeping up on Russia. For the first time since Vladimir Putin's rise to power, Moscow confronts the prospect of real political instability. One of Russia's savviest politicians, Anatoly Chubais, said last month that the likelihood of serious turmoil -- economic, social and even political -- is 50 percent.

The current crisis is global, and there is no sure way to forecast its length or depth. Such uncertainty would be disturbing in any country but is especially alarming here. For years, Putin steadily eliminated all political threats to his power, and by the end of his second term as president he enjoyed absolute authority. Now that authority is being challenged by forces beyond his control.

Putin was blessed with rising energy prices that enabled him to build his oil-greased authoritarianism. He delivered generously to the nation, and the people readily withdrew from politics and rewarded him with high approval ratings. Likewise, the Russian elite stayed loyal, since the abundant oil revenue produced lucrative opportunities and comfortable lifestyles. In this environment, any remaining political opponents were easy to marginalize; only in very rare cases did Putin resort to repression.

The price of oil is now about a quarter of what it was only a few months ago, and economic problems are building within Russia. Investors are gone; the stock market barely exists. After nine years of surpluses, Russia will have a budget deficit in 2009, and the solid economic growth of recent years may give way to a contraction. An increasing number of enterprises are shifting to two- or three-day workweeks, sending their employees on unpaid vacations or laying them off. Unemployment, which had been very low in recent years, is rising, and the country lacks an adequate social infrastructure to help those who are losing their jobs. The situation is especially grave in the numerous company towns where new jobs are almost impossible to find. Meanwhile, geographic mobility is strongly limited by Russia's underdeveloped housing market.

It is commonly believed that we haven't yet seen the worst. Economists expect Russia to be hit much harder in February and March.

The country's best nongovernmental pollster, the Levada Center, reports that the public mood has darkened significantly. The percentages of those who think the country is moving in the right direction vs. the wrong direction has shifted from 61 percent vs. 24 percent in September to 43 percent vs. 40 percent in December, it found. People feel insecure.

A major protest took place last month in the Russian Far East. Thousands rallied against a government decision to raise tariffs on imported cars, a measure intended to protect the domestic automobile industry, whose cars are of notoriously low quality. Higher tariffs will have a grave effect on a region where the vast majority of residents drive used vehicles imported from Japan and where many depend on semi-legal sales of Japanese vehicles to Russian regions farther west. The protesters angrily demanded that the decision be revoked. Some even carried signs demanding the resignation of Putin and his Cabinet.

Russia last experienced large socioeconomic protests in 2005, when pensioners rallied against a reform plan that threatened their entitlements. Putin's government responded by freezing the reform and pouring money into social programs. Today, with revenue so dramatically diminished, Russia can hardly avoid painful measures. The leadership got tough with the tariff protest: Special police brought in from central Russia beat demonstrators and even some journalists; many people were detained. Seeking to keep unrest from spreading, national TV channels -- the media with the largest audience -- simply did not cover the situation.

Despite public concerns raised by the crisis, Putin's approval rating remains high: 83 percent, down slightly from 88 percent in September. Putin's popularity is the very foundation of Russia's regime, in which government institutions have been emasculated and power is concentrated in the hands of the top leader. This unique advantage placed him above all others among the political elite. But if the economic crisis erodes this broad support, the elite's loyalty may also be shaken. There's enough reason for discontent as it is, such as the nontransparent, and probably corrupt, distribution of anti-crisis funds or the suspicion that top government officials are using the crisis to redistribute assets in favor of cronies.

The looming economic troubles pose a dilemma for Russian leaders. Putin believes in "vertical" governance built on secretiveness, subordination and control. This system keeps decision making confined to the innermost circle and is deeply resistant to sharing authority. Such a rigid system of governance is inherently inefficient. But to Putin, a firm grip on power has always been a priority, and oil prices surpassing \$140 a barrel made up for the poor quality of governance. Today, though, such inefficiency is unaffordable. The logic of Putin's governance pushes for tighter controls while the logic of the crisis demands flexibility, effective feedback with business and others in the elite, and broad dialogue with the nation.

As Yegor Gaidar, Russia's first post-communist prime minister, and a brilliant economist, has noted, a crackdown may be successful in the short run, but "in the long run this policy can only pave the way to new turmoil."

#5

In gas crisis, aftershocks of Soviet collapse rumble on AFP, January 4, 2009

Following the war between Russia and Georgia last summer, the Russia-Ukraine gas dispute is yet another reminder that the aftershocks from the collapse of the Soviet Union have yet to subside.

Across the vast geography and collection of peoples once known as the Soviet Union, deep links in everything from language to infrastructure, reinforced in the 20th century, remain key to pursuing -- or impeding -- agendas in the 21st.

And while the Soviet Union was dissolved in name with the stroke of a pen on December 8, 1991, its dissolution in deed, as vividly seen again in the current energy imbroglio, is still very much a work in progress.

"It's never easy to start anew with countries that used to be your provinces, or parts of your territory, as a lot of Russians still regard Ukraine," said Dmitry Trenin, head of the Carnegie Moscow Center think tank.

It is precisely this latent Russian tendency to regard the other 14 former Soviet republics as client states -- a tendency anchored in centuries of history -- that is at least part of the problem, experts say.

"It's really striking that... Russia has not developed a positive approach to what is arguably the most important country on its immediate periphery," Trenin said at a meeting of Russia experts last week in Washington.

Of Russia's former Soviet partners, three of them -- Latvia, Lithuania and Estonia -- are now part of the European Union while two others -- Ukraine and Georgia -- have, with Western encouragement, pressed drives to join the bloc.

Another five -- Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyzstan and Tajikistan -- meanwhile are being courted by the world's other big powers, anxious to cement their own influence in strategic ex-Soviet Central Asia.

And in Europe, even Belarus, the country dubbed the continent's "last dictatorship" by the outgoing US administration, has shown signs of interest in better relations with the West.

The trend has left Moscow, long the center of power in Eurasia and the source of unity in the Soviet Union through most of the last century, nervous and unhappy.

Vladimir Putin once called the collapse of the Soviet Union the "greatest geopolitical catastrophe" of the 20th century. Though he said no one, including he, wanted it back, the remark has resonance in today's energy equation.

Putin, Russia's powerful president-turned-prime-minister, has also made no secret in recent years of his rising anger over US strategic inroads made into lands bordering, and until recently controlled by, Russia.

Nowhere have those inroads been more apparent than in Ukraine and Georgia, where popular uprisings applauded by the West in the past four years toppled Moscow-friendly regimes and replaced them with pro-US leaders.

In a New Year's Eve appearance with President Dmitry Medvedev, Putin warned that Ukraine should expect "severe consequences" if it interfered in any way with Russian gas exports to Europe passing through its territory.

Since then, some EU countries have reported shortfalls in their supply of gas from Russia. Moscow has accused Kiev of "stealing" while Kiev has countered that it was only trying to make up for willful Russian supply shortages.

It remains to be seen how Putin will respond to the apparent gas flow disruptions.

Though neither side has much to gain from a protracted standoff, experts say Russia, infuriated most recently by Ukraine's rush to help Georgia in last summer's war, is in no mood to give any quarter on the gas dispute.

The situation highlights a core reality about the pipeline network carrying Russian gas to Europe: It is a unified system built at a time when Russia and Ukraine were united in a single, gas-exporting state -- the Soviet Union.

Apart from mathematical formulas and human trust, there exists no structural way of separating Russia's gas exports to Ukraine and its gas exports to other countries further afield.

#6

Dark days for Ukraine after 'Orange' revolution

AFP, January 4, 2009

In January 2005, Viktor Yushchenko placed his hand on the Bible and pledged to take Ukraine towards EU membership, as he was sworn in as president after ousting pro-Russian leaders from power.

But four years on, the hopes of the "Orange Revolution" are just a memory with the country in a grave economic crisis, riven by political and linguistic division and now deprived of Russian gas deliveries in the middle of winter.

The unity between Yushchenko and Prime Minister Yulia Tymoshenko, the undisputed pro-Western heavyweights of Ukrainian politics, has eroded into the most extraordinary and sometimes surreal public bickering.

After enjoying growth rates of around seven percent since 2000, Ukraine's shaky economic foundations have been shattered by the global crisis, with industrial production contracting by 28.6 percent in November.

The national currency -- the hryvnia -- has lost over 80 percent of its value against the dollar over the last three months, a big blow for Ukrainians who had become heavily indebted in hard currency.

The situation has become so acute that political analysts are even warning the country -- whose "revolution" was emblematic of democratic change in the former Soviet Union -- risks sliding back into authoritarian rule.

"The possibility of an authoritarian regime being installed in Ukraine exists," said Irina Bekeshkina of the Foundation for Democratic Initiative in Kiev.

Another catastrophe scenario now being openly discussed is the risk of the country splitting up between the pro-Russian and Russian-speaking east and south of Ukraine and the largely Ukrainian-speaking west.

Cities like Lviv in the west, where a Ukrainian national identity is proudly espoused, are vastly different culturally from Russian-speaking cities of the west or the southern peninsula of Crimea in the Black Sea.

"Political turbulence has become a major factor which is preventing us from being ready for the economic crisis," said Volodymyr Fesenko, head of the Penta political studies centre in Kiev.

With presidential elections expected in late 2009 or early 2010, "the country risks splitting into two" if pro-Western and pro-Russian candidates fail to acknowledge the result, said Fesenko.

However Vadim Karassiov of the Institute of Global Strategy in Kiev describes such a scenario as "overly alarmist".

"The political elites have no interest in a split".

But Russia's decision to turn off the gas to Ukraine in a row over debts and new prices has for many Ukrainians only underlined the impotence of their "democratic" leaders.

"The demands for an iron fist are going to be reinforced by the economic crisis," said Fesenko.

Cheered by hundreds of thousands after his inauguration, Yushchenko emerged as a hero of the "Orange Revolution", his face horribly pock-marked by a mysterious skin complaint that allies blamed upon political enemies.

But the former central bank chief has since suffered a dramatic reversal of fortune and his approval ratings are now languishing at only 3-10 percent with the dreams of rapid integration into the European Union now in shreds.

The collapse of his political relationship with Tymoshenko, whom he recently accused of "seeking to drown us all", has led to a paralysis between the two key power centres.

The best placed ahead of the presidential elections appear to be Tymoshenko, whose hardcore support still gives her around 16 percent of the vote and the pro-Russian opposition leader Viktor Yanukovich with around 20 percent, polls show.

However Bekeshkina expressed hope that Ukraine would still manage to prevent slipping back towards what she termed the "authoritarian" government in Russia under ex-president and current prime minister Vladimir Putin.

"Putin's authoritarian regime was created because everyone was sick of the quagmire and the chaos.

"But Ukraine is not Russia and after the Orange Revolution it has more resistance against authoritarianism," she said.

#7

Yushchenko May Use Gas War to Push Ukraine Westward

By James M. Gomez and Agnes Lovasz

Bloomberg, January 8, 2009

Ukrainian President Viktor Yushchenko may be calculating that his "No" to Russian Prime Minister Vladimir Putin in their dispute over natural gas will make the West more likely to say "Yes" to him.

Yushchenko's rejection of Russia's demand that his country pay more for Russian gas reinforces his message that Ukraine's future lies in closer ties with the European Union, which meets today to look for ways to resolve the dispute, rather than with Russia, its neighbor and fellow former Soviet republic.

The dispute comes as Ukraine is torn by infighting between top politicians, a sharp decline in Yushchenko's popularity and a global financial crisis that prompted a bailout by the International Monetary Fund. The risk is that his tactics may backfire, weakening the country's bid to join the EU and the North Atlantic Treaty Organization.

"When people in Europe look at Ukraine, all they see is squabbling, self-serving politicians, and they don't have much sympathy in the West any more," said Katinka Barysch, deputy director of the London-based Centre for European Reform.

"The Russians have zero credibility but the Ukrainians don't have much more," she said.

Russia's gas monopoly, OAO Gazprom, and NAK Naftogaz Ukrainy yesterday said all gas shipments to Europe through Ukraine were halted, causing some countries to ration supplies. The two state-controlled companies blamed each other for the stoppage. About 80 percent of Russian gas to Europe flows through Ukraine.

Mediation

A team of EU lawmakers today will hold mediation talks in Brussels with the two companies to try to forge a compromise. Mikhail Margelov, chairman of the Foreign Affairs Committee in Russia's upper house of parliament, said Ukraine is drawing out the conflict to erode Russia's relations with Europe. Russia has been on poor terms with its neighbor since Ukraine's 2004 Orange Revolution, which brought Yushchenko to power with promises to join the EU and NATO.

Yushchenko, 54, criticized Russia's August war with Georgia and pleaded with NATO in Brussels on Dec. 1 to ignore Russia's opposition to Ukraine's application to join the Atlantic accord. On Nov. 25, he urged Russia to reach agreement on gas pricing before the end of December, saying the issue would otherwise become "political, not economic."

Tarnished Image

"There are attempts in Ukraine to tarnish the image of Russia as a reliable energy partner," said Alexander Rahr, director of Russian programs at Berlin's German Council on Foreign Relations. Ukraine "is forming an image of Russia as a foe and Ukraine as a victim."

Ukraine's EU bid so far hasn't been helped by the conflict. Czech Prime Minister Mirek Topolánek, whose country took over the EU's six-month rotating presidency on Jan. 1, warned yesterday that the 27-nation bloc would have to toughen its response to the gas crisis if supplies are not restored by today. He said he spoke with Putin yesterday, adding that both countries may have to compromise.

"I think gas will start to flow again fairly soon. Both Russia and Ukraine want cash and they know that if no gas is flowing they won't get paid," said Fredrik Erixon, the director of the Brussels-based European Centre for International Political Economy, in a telephone interview from Barcelona.

European Commission President Jose Barroso, speaking at a press conference in Prague yesterday, warned the two countries not to let the dispute hurt the rest of Europe and said it may erode the EU's trust in both nations. "It's critical" that supplies "start immediately," he said.

NATO Bid

Ukraine's relationship with NATO hasn't improved either, after the organization last month stuck by its April decision to offer neither Ukraine nor and Georgia a pre-membership plan.

While bidding for support abroad, Yushchenko is losing friends at home as he regularly feuds with Prime Minister Yulia Tymoshenko and prepares to run for re-election against Viktor Yanukovich, the pro-Russian opposition leader he beat in 2004.

A Dec. 17-24 survey by the Kiev-based Razumkov Center for Economic and Political Studies gave Yushchenko's party a 4.5 percent popularity rating, compared with 27.2 percent for the party of Yanukovich.

His support began to wane in 2006, when Russia withheld gas to Ukraine for the first time over a pricing dispute. Yushchenko backed down in the face of Russian demands to pay double the price. Last year, he dissolved parliament and called for early elections to be held in December, only to delay the elections indefinitely and re-establish a coalition government with Tymoshenko, whom he had previously dismissed -- a move that raised further doubts about the country's stability.

Global Crisis

At the same time, the global financial crisis has caused the national currency, the hryvnia, to plunge and the credit market to freeze up, prompting the IMF to approve a \$16.4 billion loan on Nov. 6. Gross domestic product, which grew at a 6.9 percent annual rate in the third quarter, may shrink by as much as 7 percent in the first quarter of next year, Yushchenko said on Dec. 16.

Should the dispute continue beyond the next few days, eastern Europe's economy, already hit by worldwide economic and market turmoil, may suffer further, said Rory MacFarquhar, an economist at Goldman Sachs in Moscow.

Slovakia and Hungary, both EU members, restricted natural-gas supplies to industrial customers a day after Slovakia declared a state of emergency. Bulgaria, which depends on Russia for all of its gas needs, will seek compensation for any financial and economic losses incurred from the shutoff, Economy Minister Petar Dimitrov said at a press conference in Sofia yesterday.

"If it drags on, then it will potentially have a huge impact," said Neil Shearing, an emerging-market economist at London-based Capital Economics.

#8
Putin Orders Reduction in Gas Sent to Europe Through Ukraine
By Philip P. Pan
Washington Post, January 6, 2009

Russia said Monday that it is sharply reducing the amount of natural gas it ships to Europe through Ukraine, deepening its fuel embargo of the former Soviet republic as supply disruptions spread to other countries and a top Ukrainian official warned of "catastrophe" for the pipeline system that delivers a fifth of the continent's gas.

Russian Prime Minister Vladimir Putin ordered Gazprom, the state gas monopoly, to cut deliveries using the Ukrainian pipelines by as much as 20 percent, a move the Kremlin presented as retaliation for Ukraine's alleged theft of fuel meant for other countries after Russia stopped sending it supplies five days ago.

In a telephone interview, Bohdan Sokolovsky, the Ukrainian president's representative on energy issues, denied any theft and accused Russia of attempting to strong-arm Ukraine into accepting a crippling price hike. He said the reduction in shipments could cause pressure in the pipelines to fall and trigger a shutdown as soon as next week.

Putin's decision, unveiled in a meeting broadcast on state television, came as Greece, Macedonia, Serbia and the Czech Republic joined Poland, Romania, Hungary and Bulgaria on the list of countries reporting disruptions in gas shipments caused by the politically tinged standoff between Russia and Ukraine's Western-leaning government.

The European Union said it anticipated "no problem in the coming weeks for end consumers in Europe" because of ample reserve supplies, but it sent a mission to Kiev, the Ukrainian capital, and again urged the two sides to resume direct talks, which collapsed Dec. 31.

"I hope that the matter will be resolved," said European Commission President Jose Manuel Barroso. "If it is not, then it may create problems for European countries who are not responsible for the situation."

Russia halted gas shipments to Ukraine on Jan. 1, saying the country owed more than \$600 million in late fees on overdue bills and that it had rejected a new contract raising prices for 2009 closer to what Gazprom charges other countries in Europe. At the same time, Russia pledged to continue pumping gas through Ukrainian pipelines for its other European customers.

But in the televised meeting with Putin on Monday, Gazprom chief executive Alexei Miller proposed cutting shipments by 65.3 million cubic meters, accusing Ukraine of stealing that amount in recent days. He suggested similar reductions daily depending on the amount of gas siphoned off by Ukraine.

"Good, I agree," Putin replied. "Cut it today."

Miller said Gazprom would compensate European customers by sending more gas via Belarus and Turkey, increasing the amount drawn from storage in Europe and buying gas on the spot market while billing Ukraine for the cost. But Gazprom has warned that it doesn't have the capacity to make up the difference entirely.

At issue are about 25 million cubic meters of natural gas that Ukraine says it needs to take from Russian shipments every day to fuel the pumping stations and guarantee delivery of shipments to the rest of Europe.

Russia says that amounts to theft, arguing that Ukraine should be using its own gas to run the pipelines because Gazprom pays for separate delivery under a contract worked out last year. Ukraine says no valid contract exists and has demanded that Russia pay more to use its pipelines.

Sokolovsky, the aide to Ukrainian President Viktor Yushchenko, said Gazprom has been sending gas back and forth between destinations to force Ukraine to expend more fuel in the pumping process, adding that Ukraine has been forced to dip into its reserves to guarantee shipment. He accused the Kremlin of trying to undermine the Ukrainian government and win control of its pipeline system.

"If the prime minister of the Russian Federation is on television speaking about gas, it means gas is not an economic issue to them but a political issue," he said.

While Ukraine has enough gas in reserve to meet domestic needs for months, Sokolovsky said, Russia knows that a reduction in shipments could accelerate a shutdown of the pipelines. "It's not commercial, financial or political. It's a technical deadline for our system" that would lead to "probably a complete shutdown and no gas going west of the Ukrainian border," he said.

#9
Russia's Teetering Tandem
By Robert Coalson
RFE/RL, January 5, 2009

Political analysts in Russia have been writing that the emergence of the word "tandem" into everyday usage was a key domestic development of 2008. And, inevitably, since the emergence of this unique political arrangement -- in which Prime Minister Vladimir Putin and President Dmitry Medvedev have worked out some sort of nebulous arrangement on the sharing of power and the trappings of power -- analysts have been looking for signs that it is breaking down.

Indeed, it seems an inherently instable proposition and assertions by pro-Kremlin observers that Putin and Medvedev are "like-minded" (*yedinomyshlenniki*) are not persuasive. In addition, of course, these assertions run counter to hopes, still sometimes heard, that the lawyer Medvedev is somehow more liberal and democratically minded than the former KGB operative Putin.

"*Nezavisimaya gazeta*," in its end-of-the-year editorial (which I discussed in part here) on December 30, offered an interesting bit of insight into why the Kremlin has been in such a hurry to extend the presidential term of office from four years to six, a tidbit that also seems to point to the instability of the tandem. The daily argues that the main motive for the extension is that Putin doesn't like to be a "lame duck." "The very possibility of a new, prolonged presidency for Putin has a disciplinary effect on the Russian elite," the paper writes.

Perhaps the turmoil within the ruling elite during the 2007-08 transition, which seemed quite smoothly managed from the outside, was more discomfiting to the Kremlin than we previously thought.

The daily goes on to point out again the instability of the tandem arrangement, although it spins this instability as a plus: "[The elite] desperately wants certainty -- what goes where? It wants to have one leader, one apparatus, and one circle of influence. But there are two leaders and two apparatuses and several centers of influence. Such a balance is a fortunate factor for the country. The competition of apparatuses creates a better environment for freedom for all. Sometimes it even facilitates the adoption of correct decisions."

"Balance" and "competition" can be good things in structured environments, but they seem hard to achieve and maintain in the Russian context.

RFE/RL's Russian Service today made the rounds of some leading analysts to ask how they think the tandem is faring as it nears its first birthday. And there is absolutely no consensus.

Political scientist Mark Urnov, for instance, sees the financial crisis as bringing the two leaders closer together and strengthening the tandem:

"The current crisis is really very deep, and it is hard to predict its consequences. It is unclear how long it will last and the mechanisms for controlling the crisis are not yet very well worked out. It think that all the contradictions and fault lines that have been discussed and that were visible in the behavior of the Putin and Medvedev teams are moving into the background. The popularity of the authorities is falling and disenchantment is building. Regional elites and business elites are beginning to act differently from how they acted previously.... In a situation where political stability and the very existence of the regime is threatened, I do not think that some sort of power struggle will erupt between these two people who are very extensively connected."

Ironically, Urnov thinks the tandem would have been less stable in a more favorable environment, when the elites would have nothing to do but squabble over political and economic morsels.

Stanislav Belkovsky feels that the war in Georgia in August strengthened the tandem because it formed something of a loyalty test for Medvedev, which Belkovsky believes the president passed to Putin's satisfaction. But the current economic crisis is different and will call for a new arrangement. He thinks the form of that arrangement has not yet been decided, but notes that Putin must be placed above the fray:

"In my view, the prospect of Vladimir Putin returning to the Kremlin is absolutely unrealistic. And the entire question is whether Vladimir Putin and Dmitry Medvedev can together find a more honored place for the current prime minister than what he has now. If not, then Putin will carry the burden of responsibility for the crisis and so on -- especially since over the next 18 months the country is going to be engulfed in the flames of crisis. All economic indicators are going to worsen and social tensions will grow, and only one person can answer for that. Now it is clear who that person is."

Like Belkovsky, Moscow Carnegie Center analyst Nikolai Petrov believes the key problem for the tandem is Putin's position of perceived responsibility for the crisis, but unlike Belkovsky, he sees Putin returning to the Kremlin and the dismantling of the tandem entirely:

"It would be naive to think that Putin's popularity rating could fall and Medvedev's could remain high. Moreover, a fall in Putin's rating would be extremely dangerous for the political system and for each citizen. Therefore, I think that for both Putin and Medvedev, and for the entire political system, it would be beneficial to distance Putin from all problems and carry out a "castling" maneuver. That is, return Putin to the presidency and alternate technical prime ministers who would really be able to take the fall every six months for all the difficulties that the crisis is bringing and will bring. I simply don't see any other way for Putin to maintain his position in the system and his high rating except by returning to the presidency."

If Petrov and Belkovsky prove correct -- and the haste with which the Kremlin pushed the presidential term extension through would seem to indicate that Putin at least is preparing an escape hatch, even if returning to the Kremlin is not his current Plan A -- the word tandem may disappear from common parlance as suddenly as it appeared. And Russian authoritarianism will return to a more honest form.

#10

Gazprom: Ukraine is acting 'like a barbarian'

Robin Pagnamenta,

The Times (London), January 6, 2009

Gazprom, Russia's state-controlled gas monopoly, today accused Ukraine of acting "like a barbarian" by stealing fuel in its escalating dispute with Moscow over supplies.

In an exclusive interview with The Times, Alexander Medvedev, Gazprom's deputy chief executive, claimed Ukraine had "stolen" Russian gas by independently shutting down three key export pipelines overnight which supply Russian gas to over 110 million people across the Balkans, Turkey and south-eastern Europe.

"What is happening has no precedent," he said. "Ukraine is taking gas that is destined for Europe... This is a situation where a country that in the West was wrongly associated with democratic rights is behaving like a barbarian."

Mr Medvedev, who met with The Times during a visit to London to hold a press conference about the crisis and meet with UK officials, dismissed claims that Russia also shared part of the blame for shortages which this morning led Croatia to temporarily cut supplies to industrial customers and Bulgaria to warn that it has enough gas for only "for a few days."

Greece, Macedonia, Romania, Turkey and Austria have also all reported either complete stoppages or serious disruption to gas shipments from Russia through Ukraine.

Mr Medvedev claimed that Gazprom and its European customers, were being "held hostage" by Kiev's decision to turn off transit pipelines and called for "stolen gas to be returned" immediately.

Seeking to portray the dispute as a purely commercial rather than political disagreement, he rejected the suggestion that Russia's position in the worsening dispute was being directed by the Kremlin.

He said that comments yesterday from Russian President Vladimir Putin ordering Gazprom to cut volumes of gas pumped through Ukraine in retaliation for alleged thefts of gas, had been misrepresented in the Western press.

He said that Mr Putin had simply been indicating his agreement with earlier comments made by Gazprom's chief executive, Alexei Miller.

Ukraine has denied the allegations of theft and has blamed Moscow for the row, which began on January 1 after talks broke up just hours before a New Year's eve deadline, prompting Gazprom to halt deliveries to Ukraine's domestic market.

Gazprom claims Kiev owes billions of dollars in unpaid bills and late fees.

#11

Gazprom's Lessons Europe has failed to learn them

Editorial

Wall Street Journal Europe, January 6, 2009

The latest natural-gas spat between Russia and Ukraine reveals at least two things: that Gazprom learns from its mistakes, and that Europe does not. The result is not good for Europe's energy security.

Russia's state-owned gas monopoly turned off the taps to Ukraine on New Year's Day, as it did three years ago. In doing so, Moscow complained about its neighbor's overdue payments and refusal to pay market rates for gas, as it did three years ago. Yet the real reasons for the cutoff were political: punishing Kiev for siding with Georgia in August's war and exploiting a fight among Ukraine's pro-Western politicians.

Here's where Gazprom's lesson comes in. Whereas the 2006 cutoff sparked a debate about security of supply in Europe, which gets about 20% of its total gas supply from Russia via Ukraine, Gazprom was careful this time to reassure the Continentals. Its executives toured key EU capitals to insist that their gas supplies wouldn't be affected. To make good on its promise, Gazprom is pumping extra gas through Belarus and Turkey.

Now, instead of objecting to Russia's pipeline politics, Europe says it is a "commercial dispute [that] has to be solved by the two parties," as an EU spokesman put it yesterday. Gazprom couldn't have said it better. Europe apparently prefers not to notice that Russia's issues with Ukraine, gas included, are political.

There's a big potential problem here. Viewing Moscow as the reliable partner, hindered only by a capricious Kiev, may lead Europeans to believe that what they really need are more direct gas links to Russia. The chief options mooted are the Nord Stream pipeline across the Baltic Sea to Germany and the South Stream pipeline across the Black Sea to Bulgaria.

But Nord Stream, which is designed to circumvent Poland, Estonia, Latvia and Lithuania, is Moscow's energy version of dividing and conquering Central and Eastern Europe. As for South Stream, it has eroded EU resolve to complete the Nabucco pipeline that would cross Turkey and the Balkans, routing Central Asian gas around Russia rather than through it.

As the Europeans weigh these projects, the Kremlin has been striking deals with the very Central Asian countries that could supply Nabucco or other non-Russian pipelines. Diversifying Europe's gas sources is more important than varying the transit countries between the EU and Gazprom's fields. That's a lesson Europe still doesn't appear to understand.

None of this is to say that Ukraine is innocent in the current gas dispute. With the government in disarray, it's entirely conceivable that it may have fallen behind on payments, as Moscow charges. Its "energy sector" consists largely of murky middlemen.

Ukraine's foibles are part and parcel of a state and economy that have failed to become much more democratic and transparent since the 2004 Orange Revolution. Much of the blame for that lack of progress lies at the feet of the country's biggest political personalities -- President Viktor Yushchenko, Prime Minister Yulia Tymoshenko and opposition leader Viktor Yanukovich -- who constantly bicker.

But Europe bears some responsibility as well for its lukewarm approach to a country that has tried unmistakably to move toward the West. Europe could be far more active than it has been over the past four years in fostering democratic accountability, the rule of law and transparency in Ukraine. A Ukraine that wasn't susceptible to the accusations that Gazprom has made about it in recent weeks would bring more clarity to Europe's energy picture -- and Russia's place in it.

Europe's energy security is also threatened by Gazprom's failure to invest adequately in its production capacity, which is widely forecast to begin falling next year. Natural gas prices are linked with oil prices, and the windfall of the past couple of years is coming to an end now that crude prices have fallen back to earth. The credit crunch, along with Russia's unpredictability for foreign investors, means money won't necessarily pour in from the outside as it did over the past decade.

Gazprom, whose CEO was predicting as recently as last summer that it would become the world's largest company by market capitalization, could find itself short of cash at exactly the wrong time. The government is burning through its foreign reserves to prop up the ruble and watching its revenues fall with the oil price, so it may not be able to step in.

Europe cannot, and shouldn't try to, become independent of Russian gas. The goal is to avoid depending too heavily on Russia. Gazprom's strong-arming of Ukraine is more evidence of the need to diversify.

#12

Forging a New Partnership Russia and the United States must work together in a multipolar world

By Sergey Lavrov

Newsweek, December 31, 2008

Russia hoped a phone call would help change the world.

On September 11, 2001, Russia's then president, Vladimir Putin, called U.S. President George W. Bush—making Putin the first international leader to speak with Bush after the attacks. The two leaders agreed that terrorism strengthened the need for closer U.S.-Russia relations. As Putin later declared, "In the name of Russia, I want to say to the American people: we are with you."

Extending that hand of friendship to the United States marked a potential turning point in Russia's relations with the West. We hoped that we could work closely with the United States and its new president to combat terrorism and in the process finally bury the last remnants of cold-war mistrust. We wanted to build a new foundation for worldwide stability through multilateral cooperation. And we felt President Bush reciprocated that desire.

Unfortunately, after September 11, Washington—apparently at the insistence of lower-level officials—chose to largely ignore international alliances. Instead, it sought to dominate the globe in countless ways, from abandoning the antiballistic-missile treaty to invading Iraq. Such unilateral behavior isolated the United States, made international relations hostage to divisive ideology and undermined America's credibility as a leader.

Soon a new U.S. president will take office. Once again, international crises loom. Once again, Russia sees the opportunity for nations to cooperate as equals in confronting these crises—and to respect the differences between us that will inevitably arise. This time, we hope the entire new U.S. administration will recognize the need for such cooperation—and the need to rebuild America's credibility.

One place to begin would be for Moscow and Washington to agree on a new strategic-arms-reduction treaty to replace the treaty that expires in 2009. We are studying a recent U.S. response to our proposal along these lines, and we hope the new president will move the talks forward.

But we can do more. President Dmitry Medvedev recently outlined a new vision for a Euro-Atlantic security system based on a legally binding pact that would abandon the old East-West divisions inherent in today's ossified institutions. We invite the new U.S. administration to join us in moving beyond the existing patchwork system to ensure stability from Vancouver to Vladivostok.

This new collective-security system would not discriminate against any state or organization. None would be isolated. The same rules of the game would apply to all. The system would guarantee everyone's safety by ensuring that no country could enhance its own security at the expense of another's. It would prohibit any military alliance or coalition from acting in a way that would weaken the overall structure. It would state that no single member or international organization would have the exclusive job of maintaining regional stability—including Russia. And it would establish basic parameters for cooperation on important areas such as fighting nuclear proliferation, terrorism and drug trafficking.

What of NATO? Conversations with my counterparts in Europe have made clear that many of them recognize NATO's limitations and understand the need for reform. Last summer's attack on South Ossetia by Georgia certainly showed that a NATO-centric security system cannot ensure regional peace. Moreover, efforts to expand NATO to Russia's borders despite our well-known concerns have underlined just how dated the NATO construct is. Proponents think that if the alliance expands to include Georgia and Ukraine, the West will have "gotten the better of Russia," while to exclude those

nations would be to "capitulate" to Moscow. Either way, however, Russia would be left without assurances that NATO's capabilities won't someday be turned against it.

Russia would prefer to rebuild trust rather than allow it to further corrode. That's why, in July 2007, President Putin, in the spirit of strategic openness, proposed a truly collective effort at missile defense for Europe. The proposal remains on the table, and we hope the new administration considers it. If implemented, it would fundamentally change the Russia-U.S. strategic relationship, thus laying the foundation for a more stable future for all.

A generation ago, the Warsaw Pact provided a sense of security for the Soviet Union and its allies. But modern Russia does not pine for the Warsaw Pact. We recognize the world has changed, and security is now indivisible. That's why Moscow proposes this new, truly inclusive treaty for the whole Euro-Atlantic community.

As the world's leading power, the United States must also acknowledge the changes and recognize that it no longer calls all the shots—but that it can help us move beyond unipolarity and cold-war instincts.

All our security now depends on the wise decisions and cooperation of our leaders. The West has clear choices to make. We hope that this new opportunity will not be brushed aside. If we've learned anything from the past eight years, it's that no nation alone can bring security to the world. But if we try, we can do it together.

#13

Ukraine sets gas offer but wants no middleman

By Pavel Polityuk

Reuters, January 7, 2009

Ukraine will insist on a price of \$201 per 1,000 cubic meters of Russian gas for 2009, less than half Russia's proposal, and wants to scrap a controversial gas intermediary, the state energy company's head said on Wednesday.

Naftogaz head Oleh Dubyna told Reuters in an interview that Ukraine would only pay this price, up from \$179.50 in 2008, if Russian gas monopoly Gazprom agreed to increase transit fees to \$2.05 per tcm over 100 km from \$1.70.

Gazprom has said it is raising the price Ukraine must pay to \$450 per tcm, claiming Ukraine rejected earlier, lower offers.

Dubyna also said he wanted to scrap RosUkrEnergo, which in 2006 became the exclusive intermediary for Ukraine's gas imports. He said he wanted direct contracts between Naftogaz and Gazprom.

"I don't want to see anybody between us," he said.

"If I am offered to preserve RosUkrEnergo, I will never do it. That is my strong position -- someone else can do it. I would resign and I would never sign a deal with RosUkrEnergo."

Dubyna said Russian claims that Ukraine had shut down export pipelines to European customers were "absurd," as all gas taps were on Russian territory.

With temperatures in Kiev dropping below minus 20 degrees Celsius, Dubyna said the gas row had gone too far.

"When you look at the thermometer and see minus 24 degrees Celsius, you understand that God help us if the heating stoves stop working," he said. "When you think that your family may not have heat, your understanding of high-level politics ends.

"When you understand that this could lead to a big collapse then I do not understand such high-level politics," he said, adding that Russia and Ukraine would in the end come to a deal.

"We will in any case come to an agreement. We cannot exist without each other so let's not continue down this road anymore."

Dubyna will head a delegation to resume talks in Moscow with Gazprom Chief Executive Alexei Miller on Thursday. The Kremlin says it is ready for talks.

#14

'Gazprom Simply Wants To Get Paid'

By Peter Lavelle

RFE/RL, January 6, 2009

It would appear to be an annual event: At the end of each year and the start of the next, Russia and Ukraine have a nasty natural-gas dispute.

Moscow is adamant that it will not resume gas supplies to Kyiv until arrears are paid and a new contract reflecting world gas prices is signed. Kyiv remains defiant, hoping the European Union will eventually step in to mediate.

This is the last thing Brussels wants at this point, but there is a sense of urgency that the EU must admit that its energy security is threatened by Ukraine. In the meantime, gas supplies to Europe are being interrupted.

As of January 1, Russia had no contract to sell natural gas to Ukraine. Without a contract, the export gas monopoly Gazprom is not only under no obligation to continue supplies, it also has no legal basis to do so. Thus, Gazprom was given no choice -- it had to cut supplies (and lose revenues in the process).

The energy giant has made it clear that it will honor its contracts with European consumers and there is no evidence that it has failed to do so. As Ukraine is the transit country for 80 percent of Gazprom's natural gas to Europe, it is Kyiv that must shoulder complete responsibility for any shortages experienced by Gazprom's consumers.

A great deal of the commentary on the current dispute -- as has been the case for the past few years -- has focused on the tense relations between Moscow and Kyiv. There can be no doubt there are political undertones to the current dispute. Russia has made it clear that NATO membership for Ukraine would pose an existential threat to Russia. The fact that Kyiv sold arms to Tbilisi at discounted prices definitely heightened tensions. But at the end of the day, these gas disputes are all about commercial relations and irrefutable energy realities: Gazprom simply wants to be paid.

Ukraine continues to purchase subsidized gas from Gazprom. Last year the price for 1,000 cubic meters was \$179.50. In contrast, Gazprom's European customers pay up to \$500 for the same amount of gas. Before Ukraine's 2008 contract with Gazprom expired, Kyiv was offered a new price for 2009 -- \$250 per 1,000 cubic meters.

By any standard this was a very generous offer. To top this off, the transit fees Gazprom must pay Ukraine to get its product to market in Europe would also have been increased.

Kyiv rejected this deal. And it owes Gazprom hundreds of millions of dollars for gas supplies and penalties. In response, Gazprom made a new offer: Kyiv would have to pay \$481 per 1,000 cubic meters in any future contract.

Getting Tough With Kyiv

The facts of this energy dispute speak volumes about Gazprom's determination to force Kyiv to act responsibly.

First, the volumes: Gazprom sells about 55 billion cubic meters (bcm) of natural gas to Ukraine annually. This is compared to the 155 bcm sold to Gazprom's European customers. Gazprom's yearly production is about 610 bcm, and the Russian energy flagship purchases about 50 bcm annually from Central Asia.

Now for the dollars and cents of this dispute: In 2008, Gazprom sold Ukraine gas at a price of \$179.50 per 1,000 cubic meters, totaling around \$10 billion. Then consider the average price of about \$400 to the rest of Europe. At this price, Gazprom's annual revenue from the 155 bcm sold is about \$65 billion.

Do the math: Gazprom earns more than six times the revenues for only three times the volume of gas by selling to Europe. This is an incredible shortfall in revenues for Gazprom and unfair to its other customers who pay market prices. Selling Ukraine gas at the same price paid by the rest of Europe would raise Gazprom's revenues by about \$12 billion annually, based on the 2008 sales volume. This figure would probably diminish slightly when factoring in the higher transit fees Gazprom is expected to pay Ukraine in any new contract. Nonetheless, Gazprom has a strong, compelling argument for its get-tough policy with Kyiv.

I have been covering the Russia-Ukraine gas disputes closely for years, and it is obvious to me that Kyiv is conducting a "the-worse-the-better" strategy. Ukraine is in dire economic straits and has been kept afloat by a \$16 billion loan from the International Monetary Fund. Under these conditions, Kyiv desperately hopes Brussels will negotiate a better deal with Moscow on its behalf. Brussels should do just the opposite -- demand Kyiv transit Russian gas purchased by European countries without hindrance or delay.

In the meantime, Brussels simply must get serious about developing a long-term and integrated energy policy for the entire bloc. This is what Gazprom has repeatedly requested -- a European energy partner with whom it can speak with one voice and negotiate with without troublesome in-betweens like Ukraine.

Also, instead of fearing the "Russian energy bully," Brussels should help Russia build the Nord Stream and other new pipelines. Ukraine is a thorn in Gazprom's side. If Brussels isn't careful, Ukraine will become a thorn for the EU as well.

Peter Lavelle is a political commentator for Russia Today television and anchor of the program "In Context."

#15

Can Russia Really Re-Route European Gas Supplies To Avoid Ukraine?

RFE/RL, January 6, 2009

Kyiv and Moscow are locked in a gas spat, but much of Europe could be left out in the cold as a result. Russia has vowed to re-route some of its European gas supplies through Belarus and the Blue Stream pipeline to Turkey. But to what extent is this technically feasible? How much leverage does Moscow have? RFE/RL correspondent Bruce Pannier puts those questions to Jonathan Stern, director for gas research at the Oxford Institute for Energy Studies (OIES).

Prime Minister Vladimir Putin, who ordered the cut, has pledged to re-route the gas through alternative lines to make up for the shortages brought about when his country halted all gas supplies to Europe via Ukrainian pipelines. But no timetable for the new shipments has been announced, there is room for doubt.

The OIES's Stern says the Ukrainian pipeline network is such that it is impossible for Russia to selectively cut off Ukraine while allowing gas to flow further west to Europe.

"It's not possible to totally shut off pipelines because there are no pipelines through Ukraine that are dedicated to Europe," Stern says. "All of them serve Ukrainian customers as well as European customers and that's why it's absolutely impossible for the Russians to be sure that gas isn't being taken by Ukrainian customers which is destined for Europeans."

The Ukraine dispute, as long as it remains unresolved, represents a loss of income and a political liability for Russia. With this in mind, Putin vowed to re-route gas through the Yamal Peninsula pipeline that runs through Belarus into Poland and Germany, and the Blue Stream pipeline that runs across the Black Sea from Russia to Turkey.

Stern argues that neither represents a long-term solution to the current shortage.

"All they [the Russians] can do is they can make up some of the shortfalls -- Blue Stream particularly in Turkey, and the Yamal pipeline particularly in Poland, and if there starts to be problems in Germany as well," Stern says. "So those pipelines can make up, I don't know, I would say between 10-20 percent of the shortfall that would happen through Ukraine, but it's in no way any kind of long-term solution, it's just a short-term fix."

Ukrainian pipelines carry some 120 billion cubic meters (bcm) of gas to Europe annually. The Yamal-Europe pipeline has a maximum capacity of 33 bcm and Blue Stream is expected to reach its maximum output of 16 bcm in 2010. So together the two pipelines cannot make up the difference of even half the gas Europe has contracted to receive.

Some countries are likely to be particularly hard hit by the suspension of supplies via Ukraine.

"I think particularly countries like Bulgaria and Greece are quite vulnerable," Stern says. "The Greeks have an LNG [liquefied natural gas] terminal, and they can perhaps bring a couple of extra cargos to that to make up for Russian supplies, but I personally think that those are the most problematic countries -- Bulgaria, Greece, Croatia, the Balkan countries, which are not big users of gas but are going to find it difficult to find supplies from elsewhere."

Countries such as Bulgaria and Macedonia do not have access to any other pipelines, save those running through Ukraine. It is no surprise then that Bulgarian Economy and Energy Minister Petar Dimitrov said on January 6 that Russia and Ukraine "must" quickly find a solution to their dispute.

Iran has floated the idea that it could help make up for the Russian gas shortage in Europe by shipping its own gas via Turkey, but Stern says he doubts it would make much difference in Europe even if it did happen.

"Essentially the amount of gas in the Iranian-Turkish pipeline is not that great, so even supposing the Iranians had the gas to do it -- which in the past, in the winter, they haven't -- I think it might help the Turkish situation," Stern says, "but I have my doubts whether there would be enough capacity to make a difference in southeastern Europe."

#16

What is Russia's end-game in gas row? [analysis]

By Christian Lowe

Reuters, January 7, 2009

Russian Prime Minister Vladimir Putin raised the stakes in his gas conflict with Ukraine by slashing supplies to Europe, a measure that has left some EU states struggling to heat homes in sub-zero temperatures.

Russian gas export monopoly Gazprom (GAZP.MM) said it was forced to take that step because Ukraine -- locked in a dispute with Moscow over gas pricing -- was stealing gas being pumped across its territory for customers in Europe.

What was Putin seeking to achieve by reacting in this way? There is so far no consensus among diplomats and analysts about what Russia's end-game is. The following are the main theories:

RUSSIA HAS NO END-GAME

The Kremlin started out with the modest aim of persuading Ukraine to pay closer to market prices for its gas, but has now been out-manoeuvred by Kiev.

"Russia and Gazprom have walked into a trap," said Fyodr Lukyanov, editor of the journal Russia in Global Affairs.

He said Ukraine -- desperate not to pay more for its gas because of the fragile state of its economy -- seized the initiative from Moscow by endangering exports to Europe.

"They are calculating, and I think not without basis, that the longer this drags on the more the blame will be laid at Moscow's door," said Lukyanov.

He said Gazprom, under pressure from a Europe angry its supplies are being disrupted and fearful for its reputation as an energy supplier, will now be forced to cut the price it is demanding Ukraine pay for its gas.

"Ukraine wants to go back to the negotiations from a position of strength ... And it is working," he said.

KREMLIN PUSHING NEW PIPELINE PROJECTS

The disruption of gas flows to Europe has highlighted the fragility of transit routes -- playing into the Kremlin's hands as it tries to persuade Europe to back alternative pipelines.

Russia has been struggling to win European approval for the Nord Stream pipeline, which will ship gas under the Baltic Sea to Germany, bypassing potential troublesome transit states.

Nord Stream, a joint venture between Gazprom, Germany's BASF (BASF.DE) and E.ON (EONGn.DE) and Dutch firm Gasunie, has encountered resistance, on political and environmental grounds, from several European Union states.

Moscow is also pushing the South Stream pipeline, which will ship Russian gas under the Black Sea and direct to the EU. Russia is seeking to sign up more European states to the project.

In that context, the gas row with Ukraine is "all opportune, from the Russian side," said a European diplomat in Moscow.

"Russia might find an interest in promoting Nord Stream and it will be clear to many Europeans there should be an alternative route."

Asked if the dispute would bolster the Nordstream and South Stream projects, Julian Lee of the Centre for Global Energy Studies said: "That's certainly what Gazprom is hoping for."

DRIVING UP THE OIL PRICE

A shortage of gas in Europe could help Russia by boosting prices for its other big export, oil.

Traditionally, any problems with gas supply drive up demand for crude as energy firms and industries switch to oil products for power and heating.

The fall in world oil prices, from a high of \$147 in July, to about \$48 now, has been painful for Moscow. The world's second biggest exporter of crude after Saudi Arabia, Russia receives about half of its budget revenues from oil exports.

Russia's budget needs oil to be at least \$70 to keep out of deficit, so the fall in price threatens the lavish spending on public sector wages and pensions that have helped Putin underpin his grip on power for nearly a decade.

POLITICAL GAMES

Russia is using its energy muscle to send a message to Ukraine's pro-Western leaders to stop seeking membership of NATO. Moscow believes the alliance's expansion eastwards is creating a new Iron Curtain.

"They (the Russians) are keen, perhaps, to demonstrate that it's in Ukraine's own interests to be on friendly grounds with Russia, while at the same time wanting a switch to market prices" said a second European diplomat.

Opinion polls indicate most Ukrainians oppose NATO membership, and a fresh show of Russia's power could further undermine what little public support there is for the membership bid.

PERSONAL ANIMOSITY

Russia's uncompromising action in the gas row is driven by personal animosity between Kremlin leaders and their counterparts in Kiev.

"The relations between the political and business leaders are not that great. I think this is more personal than political," said a third diplomat.

Ukraine's President Viktor Yushchenko angered Moscow by giving public support for Georgia in its war with Russia last year. Russian officials have singled him out for criticism over the gas row too, accusing him of sabotaging attempts by his officials to reach a deal over gas prices.

"This campaign is directly aimed against Yushchenko whose behaviour has become more provocative," said Alexei Malashenko of the Carnegie Moscow Center, a think tank.

Another theory is that Putin is nursing a personal grudge against Ukrainian Prime Minister Yulia Tymoshenko.

Russian officials believe she went back on a preliminary deal on gas prices that was thrashed out when she had talks with Putin in October, something which Kiev has denied.

Russian officials have said Putin was angered by what he saw as Tymoshenko's betrayal of their deal.

#17

Mr. Putin's Cold War

Editorial

Washington Post, January 8, 2009

Russia has been piously insisting that its latest midwinter cutoff of gas deliveries to Ukraine -- and now the rest of Europe -- is the result of a commercial dispute and not a part of Moscow's long-standing campaign to undermine Ukraine's pro-Western government. So why, then, would Russian state television have devoted prime time on both Monday and Tuesday to broadcasting staged meetings at which Prime Minister Vladimir Putin ostentatiously vilified Ukraine's president and ordered the state gas company to cut off deliveries?

Mr. Putin's televised "working sessions" with Alexei Miller, the chairman of the state gas monopoly Gazprom, were scripted with ludicrous heavy-handedness. In each, Mr. Putin disingenuously inquired about details of Russia's dispute with Ukraine, and Mr. Miller replied by portraying the Ukrainian government as thieving, deceptive and unreliable. On Monday, Mr. Putin cynically sympathized with the consumers of Ukraine, then ordered a reduction in the gas that transits Ukraine to other European countries. On Tuesday, he decreed that the pipeline be shut down altogether -- a measure that left not just Ukraine but a dozen other countries without energy deliveries.

Is this really the way to resolve what has been a byzantine bilateral argument over prices and transit fees? Of course not - but that's not Mr. Putin's objective. The real aim is to advance Russia's aggressive strategy of using its energy exports to divide Europe and undermine those states it still considers its rightful subjects, beginning with Ukraine. Listen to Mr. Putin's ambassador to NATO, Dmitry Rogozin: "It's clear that if Europe wants to have guaranteed natural gas supplies, as well as oil in its pipelines, then it cannot fully rely on its wonderful ally, Mr. Yushchenko." Viktor Yushchenko was democratically elected Ukraine's president in 2004 after a Moscow-backed vote-rigging operation backfired. Like Georgian President Mikheil Saakashvili, the Ukrainian leader strongly favors the entry of his country into NATO. Mr. Putin responded to Mr. Saakashvili with an invasion last August; now he has launched an offensive against Mr. Yushchenko.

Some in Europe will no doubt buy Mr. Rogozin's argument, just as they blame Mr. Saakashvili for the Russian troops still entrenched on Georgian territory. Like its Georgian counterpart, Ukraine's government has many weaknesses, which Mr. Putin has ruthlessly exploited. But the real message of this cold week is the same that European governments have repeatedly received -- and largely ignored -- in recent years. Mr. Putin's regime plainly intends to use Europe's dependence on Russian energy to advance an imperialist and anti-Western geopolitical agenda. The only rational response is a dramatic acceleration of the European Union's search for alternative sources of energy -- and greater support for those countries that Russia seeks to subjugate.

#18

Thaw in the air as Russia-Ukraine gas crisis talks begin in Brussels AFP, January 8, 2009

Key players in the Russia-Ukraine gas dispute held emergency talks in Brussels on Thursday amid signs of an easing in the tension which is putting many European countries into a winter energy crisis.

The talks will debate ways to set afoot an international monitoring mission at pumping stations near the Russian-Ukrainian border to ensure that natural gas flows back into Europe-bound pipelines.

As they got underway, the EU's Czech presidency expressed cautious optimism that a solution would be found on Thursday, as up to a dozen European nations faced heating cutbacks in bitter winter weather over the pricing dispute.

"I think we have some reasonable chance of a quick resolution of the most urgent need, and that is the rescue of the gas flow," Czech Deputy Prime Minister Alexandr Vondra said in Prague. "We are working hard."

Russia is the world's biggest natural gas producer and provides about one-quarter of the gas used in the European Union, or about 40 percent of the gas the bloc imports. About 80 percent of those imports pass through Ukraine.

But with Kiev refusing to pay western European prices for its gas, Russia cut off all supplies for Ukraine's domestic market on January 1 and then halted all supplies to the country, even those intended for Europe, on Wednesday.

The talks in Brussels got off to a bumpy start.

Senior EU officials held talks with Alexei Miller, the head of Russian energy monopoly Gazprom, but owing to flight delays caused by bad weather had to push back a meeting with Ukraine's Naftogaz chief Oleg Dubina.

The monitors will be tasked with checking how much gas is being piped from Russia to Ukraine at a pumping station "several hundred kilometres" from their common border, as well as at other points, a Czech presidency official said.

A European Commission official said the monitors could be sent in "a couple of days" if all the problems were ironed out during Thursday's talks.

Ahead of the talks, Miller and Dubina met face-to-face in Moscow overnight, but few details of their meeting filtered out. They last met on December 31 for talks that failed to find any agreement.

The organisation of the Brussels talks brought some badly-needed focus to a chaotic dispute that began as a commercial disagreement between Gazprom and Naftogaz and has mushroomed into a full-blown international crisis.

"It's possible that they may agree," Alexander Gudima, an advisor on energy to Ukrainian Prime Minister Yulia Tymoshenko, told AFP on Wednesday, in comments that suggested there could be a deal.

While Russia and Ukraine have exchanged accusations of guilt, more than a dozen countries which rely heavily on Russian gas, most of them in the EU, have reported huge drops in gas supplies in the depths of a bitterly cold winter.

Slovakia and Romania have declared states of energy emergency, Bulgaria has ordered gas rationing for industry and Hungary and Croatia and Bosnia reported two days running of complete stoppage of Russian gas supply.

Gazprom ordered delivery of gas to Ukraine itself halted on New Year's Day after it failed to reach agreement with Naftogaz on payment of arrears for Russian gas already used by Ukraine and on prices for supply in 2009.

The move triggered a chain reaction: Russia accused Ukraine of "stealing" gas it was trying to ship further downstream to Europe and Ukraine countered that Russia had deliberately reduced supplies to provoke a crisis.

On the eve of the Brussels meeting, Russian President Dmitry Medvedev laid down a number of conditions for any resumption of Russian gas shipments via Ukraine.

They included a demand that Ukraine begin paying market prices for Russian gas immediately -- Russia has long sold gas to Ukraine at a discount -- and an independent EU monitoring plan.

#19
A telephone conversation was held between Dmitry Medvedev and Ukrainian President Viktor Yushchenko
Kremlin.ru January 7, 2009

During the conversation, the President of Russia highlighted the following to the President of Ukraine:

1. The issue of supplying gas to European consumers and gas relations between Russia and Ukraine is not political. For Russia, this is a matter of fulfilment of economic commitments. Unfortunately, this problem has become a pawn in the disagreements within Ukraine's leadership and its inability to make suitable decisions in the current situation.
2. Russia did not walk away from negotiations with Ukraine, and is ready to resume them at any time. Russia's President called on Viktor Yushchenko to give his government and Ukraine's energy authorities the necessary instructions to resolve this issue.
3. In order to resume gas deliveries to Ukrainian consumers, a contract must be signed between OJSC Gazprom and Ukraine's NJSC Naftogaz. The price of gas must be the market price, corresponding to the prices for gas in Europe, and should be determined by a price formula. There should not be any kind of discount or reduction.
4. The Ukrainian President was asked to note that European consumers did not receive gas supplies transferred over Ukrainian territory, on account of unlawful appropriation of the gas by the Ukrainian side. This situation does not correspond to the agreements currently in place between Russia, Ukraine, and European consumers, as well as other international agreements.
5. The President of Russia noted that the problem of debts has not been remedied. Outstanding debts must be repaid in full by the Ukrainian side, as soon as possible.
6. In order to resume gas deliveries, it is necessary to create a control mechanism that will include representatives from the two gas companies, representatives from energy authorities in Ukraine and Russia, European Union observers, and representatives from international legal firms, to protect the interests of OJSC Gazprom and Ukraine's NJSC Naftogaz.

The President of Russia called upon Viktor Yushchenko to act swiftly in order to reach the necessary agreements and quickly resume the transfer of Russian gas to European consumers.

The conversation was initiated by the Ukrainian side.

#20
Putin, pipe down on Ukraine
Editorial
Christian Science Monitor, January 8, 2009

Moscow is pointing fingers again. The gas delivery crisis in Europe? It's all Ukraine's fault. The economic crisis in Russia? Oh, wait, there is no crisis, according to the state-controlled media. But if there were, it's all America's fault. Truth be told, neither Ukraine nor the US are blameless. But that misses the larger point.

Yes, Ukraine appears to have paid late for natural gas from Russia last year, and it failed to agree on a price hike for this year. Their dispute led Russia to cut off gas for Ukraine on Jan. 1. This week, gas destined for Europe and Turkey via Ukraine ceased.

Also true, the global financial crisis started in the US (Prime Minister Vladimir Putin says the US "infected" the world). And Russia had nothing to do with plummeting oil prices that are causing this oil exporter to rapidly spend down its foreign currency reserves, bail out indebted oligarchs, and prop up a sagging ruble.

But if Russia only looked in the mirror, it would find its own policies have exacerbated its woes. By blaming outsiders, it misses an opportunity to strengthen the economy, which must be done.

One reason that Russia's behemoth gas supplier, Gazprom, is tightening the screws on Ukraine is that it needs money. Instead of investing adequately in operations, it borrowed heavily to buy up private concerns - part of Mr. Putin's ill-conceived strategy of renationalizing Russia's oil and gas industry. Gazprom is now deep in debt (about \$50 billion) and is negotiating a rescue with the government.

Its debt load reflects staggering national corporate debt (about \$500 billion). Like Gazprom, companies have financed their borrowing from abroad (the dominance of Russian state banks has suppressed lending opportunities at home).

Meanwhile, the Russian economy may grow by only 1 to 2 percent in 2009, or perhaps even contract - this after seven years of annual growth of 6.5 to 7 percent. And, Russia will face a budget deficit, because money from oil and gas exports provides 60 percent of official revenue. Russia must evolve from a one-trick economy and diversify.

Corruption and unreliability have also caught up with Russia. Before the Wall Street crisis, investors were fleeing Moscow's stock market, which fell by more than 70 percent in 2008.

Putin is doing everything but actually addressing these problems. Domestically, he's shoring up his grip on the state. He still has high approval ratings, but just in case public criticism swells, he's got a handy excuse in all those enemies abroad - from Georgia, to Ukraine, to the West - and he could always manufacture more threats.

For now, he's got enough foreign currency reserves (though depleted) as well as rainy-day funds to weather the economic storm - depending on how long it lasts.

And he's helped by the fact that ordinary Russians are not yet broadly affected. They aren't in the stock market; they don't hold heavy mortgages. Still, unemployment is spiking in places, as have protests, and wary Russians are pulling rubles from bank accounts.

The Kremlin strongman is hoping energy prices rebound before the masses realize that the house that Putin built may be a house of cards. If he's wrong, he'll also have himself to blame.

#21

Deal Reported to End Gas Cutoff By James Kanter and David Jolly New York Times, January 9, 2009

European officials said Friday that Russia and Ukraine had reached an agreement to send a monitoring mission to oversee gas deliveries as part of efforts to resolve a bitter row between the two countries over pricing and transit. "It is now imperative that the gas starts to flow to the European Union without any further delay," said Ferran Tarradellas, a spokesman for the European Union's energy commissioner, Andris Piebalgs.

Deliveries to the European Union could resume within three days once international monitors are in place, European Commission officials said on Friday.

But in Moscow, a Gazprom spokesman said that Ukraine had not yet signed an agreement to allow the monitors access to Ukraine's pumping stations, and the resumption of deliveries remained uncertain.

Mr. Tarradellas said Russian authorities told European officials that Gazprom could resume pumping operations within 30 hours after the deployment of monitors. The Ukrainians, said Mr. Tarradellas, told European officials that the gas could reach European Union states 36 hours later.

"We don't have any formal commitment when they will start the gas but the conditions are there," Mr. Tarradellas said. The deployment of monitors meant gas "should get to the pipelines immediately," he said.

European Union officials said the monitors' goal was to verify the amount of gas entering the pipeline from Russia and to ascertain how much of that gas would be pumped on to Europe, where countries like Bulgaria are suffering severe fuel shortages during a bitter winter cold snap.

A so-called Gas Coordination Group was meeting in Brussels on Friday to propose ways to help the hardest hit countries. Mr. Tarradellas, the European Union spokesman, said that Hungary already was shipping some of its gas reserves to Serbia to help alleviate shortages there.

Following a flurry of late night and early morning diplomacy — including a telephone call between Russian Prime Minister Vladimir V.

Putin and the European Commission president, José Manuel Barroso on Friday — an accord was reached that would allow Russian monitors to participate.

Mr. Tarradellas said the monitors would include representatives from Gazprom, the Russian gas monopoly, and from the Ukrainian gas company Naftogaz. The monitors also would include, at least initially, about two dozen representatives drawn from the European Commission and from the European gas industry.

Russia cut off all gas deliveries through Ukraine on Wednesday after the dispute escalated, leaving European countries like Bulgaria shivering during a bitter January cold snap.

Ukraine said it would allow Russian experts to join the European Union mission to monitor gas flow through the country, The Associated Press reported from Kiev.

Valentyn Zemlyansky, spokesman for Ukraine's state gas company Naftogaz, said members of the European Union mission would tour gas pumping stations together with the Russian experts, the A.P. reported, adding that the European Union monitors were expected to arrive in Kiev on Friday.

Russia has said it would restore supplies of natural gas through Ukraine if its officials were included in a monitoring mission.

The European Union said Thursday that gas supplies to the Continent should start flowing shortly after a deal was completed.

"This deployment should lead to the Russian supplies of gas to E.U. member states' being restored," the Czech government, which holds the rotating presidency of the European Union, said in a statement, The Associated Press reported.

Russia cut off the flow of gas on Tuesday as part of a pricing dispute with Ukraine, creating shortages in many European countries. The impact of the gas cuts was felt most severely in southeastern Europe, where hundreds of thousands of people in Serbia, Bosnia and Bulgaria were without heat.

Russia, which first cut off gas shipments just for Ukraine, on Wednesday cut off all gas exports to Ukraine, including those destined for Europe, saying Ukraine was diverting some gas for its domestic use.

The pricing dispute centers on Russia's desire to sharply raise the price for the gas it sells to Ukraine, as well as Ukraine's desire to raise the fees that it charges Gazprom to ship gas to the European Union. Gazprom is seeking to raise the price Ukraine pays for gas to \$450 per 1,000 cubic meters from \$179.50 last year. Ukraine has reportedly offered a little more than \$200 per 1,000 cubic meters.

Russia also wants to collect what it says are fines for late payments on previous shipments.

Gazprom halted all shipments to Ukraine for domestic use on Jan. 1, then stopped gas exports for transshipment through Ukraine on Wednesday, saying its western neighbor was taking gas from the pipeline meant for European customers. The cutoff left Ukraine and 17 other countries in Europe facing either no new gas supplies or a sharp reduction in the middle of winter.

In a European parliamentary committee hearing on Thursday, Evgeni Kirilov, a member from Bulgaria, which depends almost completely on Russia for its gas, said he could not understand "how two of the biggest countries in Europe can be so uncivilized and irresponsible."

He added: "We are hostage to this irresponsibility."

Mr. Putin blamed Ukraine's leaders for the shutoff and suggested they were unwilling to cut out a middleman company, RosUkrEnergo, owned by a business ally of the Ukrainian president, Viktor A. Yushchenko. Mr. Putin said he suspected some politicians of seeking to use proceeds from gas "as financial resources in future political campaigns."

Speaking on Russian television on Thursday, Mr. Putin offered to raise the transit fees that Russia pays to ship gas across Ukraine, saying the two countries needed to shift, "as quickly as possible to a market relationship." In exchange for a market rate for gas, he said, Russia would pay transit fees of \$3 to \$4 for each 1,000 cubic meters transported 100 kilometers, or 62 miles. Gazprom last year paid Ukraine \$1.60 and had said it would pay \$1.70 this year.

While there are political overtones to the dispute, most experts attribute it primarily to commercial interests. "The genesis of this is in Russia's move away from barter agreements with the former Soviet republics toward market prices," Andrew Neff, an energy analyst at IHS Global Insight in Ankara, Turkey, said. "You can blame either one, but both sides seem to have shot themselves in the foot."

James Kanter reported from Brussels and David Jolly from Paris. Andrew E. Kramer contributed reporting from Moscow, and Stephen Castle and Dan Bilefsky from Prague.

#22 EU Announces Breakthrough In Russia-Ukraine Gas Crisis By Ahto Lobjakas RFE/RL, January 9, 2009

The European Commission says its President Jose Manuel Barroso and Russia's Prime Minister Vladimir Putin have agreed terms to end the gas crisis in Europe in the course of a phone call.

Commission spokeswoman Pia Ahrenkilde said Putin had "promised" to reopen natural-gas taps for transit through Ukraine to Europe as soon as teams of monitors are in place at Ukraine's borders with Russia and the EU.

Ahrenkilde said that under the deal reached, Russian will send monitors to Ukraine and Ukraine to Russia. The EU will send its own observers to both countries. An advance team of EU observers arrived in Kyiv on January 9 at 2 p.m. local time.

Ahrenkilde said the EU expects Russia to start preparations to resume gas deliveries already now.

The European Commission's energy spokesman, Ferran Tarradellas, said Gazprom officials had told an ongoing meeting of EU gas experts in Brussels earlier that it will take 30 hours for gas to reach Ukraine from the moment the taps are reopened in Russia.

Representatives of Ukraine's Naftohaz told the same meeting it will take 36 hours for the gas to reach EU from the moment it arrives at Ukraine's border with Russia.

Tarradellas said this means it will take three days for gas shortages in Europe to be relieved.

He also said the EU expects Russia and Ukraine to now address the underlying pricing dispute so that European countries can in future be ensured uninterrupted and reliable gas deliveries.

After-Effects Of Crisis

EU officials privately say they are at a loss as to Russia's motives in allowing its pricing dispute with Ukraine to affect gas deliveries to Europe, its biggest market. Many EU politicians have publicly said Moscow has done irreparable damage to its reputation as a trusted supplier.

Officials in Brussels speculate that Moscow may be hoping to fatally discredit Ukraine's image in Europe. This view was partially borne out by Putin, who launched a broad diatribe against Ukraine at a gas-themed news conference on January 8.

"Today's situation is such that the current Ukrainian leadership is not able to organize a normal, transparent, functioning economy based on market principals," Putin said.

"Moreover, with its actions it hurts the Ukrainian people and damages the prestige of Ukraine, and this proves once again that we are witnessing a political collapse in Ukraine," he continued.

"Unfortunately, it shows a high level of corruption inside its power structures."

Brussels also believes Russia may be hoping the Ukraine dispute may force the EU to refocus its attention -- and funding -- on its pet project, the Baltic Sea Nord Stream pipeline terminating in Germany.

But EU officials say a more likely effect of the crisis will be to push Brussels to drastically speed up plans for the Nabucco pipeline, which is designed to provide the EU with direct access to the gas reserves of countries surrounding the Caspian Sea.

#23

Clinton Is Moving to Fill Senior Posts at State Dept.

By Mark Landler

New York Times, January 8, 2009

WASHINGTON — As she awaits Senate confirmation as secretary of state, Hillary Rodham Clinton is filling out the senior echelon of the State Department, and keeping a respected career diplomat in one of the agency's most influential posts.

The diplomat, William J. Burns, is to stay on as the under secretary for political affairs, according to people informed of the decision.

The unusual move has been popular within the diplomatic ranks, where Mr. Burns, a former ambassador to Russia and Jordan, is close to a revered figure.

Mrs. Clinton is also expected to name Kurt M. Campbell as assistant secretary for East Asian affairs — a challenging post that has involved negotiating with North Korea on its nuclear program, though that task will now shift to other officials.

Wendy R. Sherman, another incoming official, has long experience with North Korea, but it is unclear whether she will be involved this time.

Mr. Campbell, a seasoned Asia hand, was a defense official in Bill Clinton's administration. Ms. Sherman, a prominent figure in Democratic Party circles, advised Mr. Clinton on North Korea and has helped run the State Department transition for President-elect Barack Obama.

As Mrs. Clinton prepares for her Senate hearing on Tuesday, she is also closing in on naming special emissaries to trouble spots in the Middle East, Iran and South Asia, several people said.

While Mr. Obama has not signed off on these positions, according to officials, Mrs. Clinton is likely to name Richard C. Holbrooke, a longtime diplomat who brokered the Dayton accord that brought peace to Bosnia, as a special envoy to Pakistan and India, said people who have been told of the decision.

Dennis B. Ross, a veteran of Middle East peace negotiations in the Clinton and the first Bush administrations, is set to take over a portfolio focused on Iran, officials said. His job would not be called special envoy, given the lack of diplomatic ties between the United States and Iran.

Still, the appointment would be particularly significant, foreign policy analysts said, because it would underline Mr. Obama's resolve to begin engaging diplomatically with Tehran.

"Iran sits at the nexus of everything we care about; it is the single biggest foreign policy issue this administration will confront," said Aaron David Miller, a Middle East expert at the Woodrow Wilson International Center for Scholars. "This relationship is not going to come around quickly."

With the deepening crisis in Gaza, Mrs. Clinton may also name a special envoy for Arab-Israeli issues. Richard N. Haass, a former State Department official in the Bush administration, and Daniel C.

Kurtzer, who served as United States ambassador to Israel and Egypt, have both been mentioned.

Mr. Haass, who is the president of the Council on Foreign Relations, said he was flattered by the attention but had not been approached, according to his spokeswoman. Mr. Holbrooke did not reply to requests for comment, while Mr. Ross and Mr. Kurtzer declined to comment.

The parade of big names, Mr. Miller said, indicates that Mr. Obama and Mrs. Clinton recognize that chronic problems in several regions will demand years of dogged diplomacy, as opposed to the focus on democratic transformation in the Bush era.

"What Barack Obama is inheriting is a set of almost intractable problems, and what he needs is a number of very smart special envoys," Mr. Miller said.

The retention of Mr. Burns, 52, will give the department an expert on Russia and the Middle East, at a time of new conflicts between Israel and the militant Palestinian group Hamas and simmering tension with Washington and Moscow. Insiders say he has an encyclopedic knowledge of the department and has skillfully navigated Republican and Democratic administrations.

While the post is typically filled by a career diplomat, it is rare for someone to be held over by a new administration.

At the same time, Mrs. Clinton has named two powerful political appointees, James B. Steinberg and Jacob J. Lew, as deputies.

The reshuffling will move out a prominent diplomat, Christopher R. Hill, who led the arduous negotiations with North Korea. Several officials said they expected him to stay on in a new post, noting that he was Mr. Holbrooke's deputy in the Dayton peace talks and is still close to him.

For Mrs. Clinton, the next challenge is passing muster with the Senate Foreign Relations Committee. Most observers said they expected her to get a warm reception. Mrs. Clinton, some noted, has not yet resigned her Senate seat, guaranteeing her some professional courtesy.

In announcing the hearing Wednesday, Senator John Kerry of Massachusetts, the new chairman of the committee and a man who hoped to be named secretary of state himself, did not forecast many hurdles.

"My friend and colleague Hillary Clinton will bring her years of experience and acute intellect to her position as America's top diplomat," Mr. Kerry said.

#24

Azerbaijan Bars Foreigners From Use of Its FM Band By Sabrina Tavernise New York Times, January 7, 2009

Azerbaijan has begun to enforce a law that bans foreign companies from broadcasting on national frequencies, effectively closing its airwaves to Radio Free Europe/Radio Liberty, Voice of America and the BBC.

Foreign companies are still permitted to broadcast on shortwaves, satellite and cable, according to Ali M. Hasanov, an official in Azerbaijan's presidential administration.

"They can broadcast any way they like, except for on our national FM frequency," Mr. Hasanov said by telephone from Baku, Azerbaijan's capital.

But Radio Free Europe/Radio Liberty, or RFE/RL, an American-government-financed radio and television broadcaster with representation in most countries of the former Soviet Union, argues that FM was the primary way Azeris heard its programming, and that taking it away has cut off 90 percent of its audience.

Jeffrey Gedmin, president of Radio Free Europe/Radio Liberty, based in Prague, said that shortwave and Internet radio would not make up the difference, as Azeris had limited access to both, and said the change had left Azeris "without access to free and independent media."

The law is several years old, but some aspects came into force at the end of 2008, which is when it began to affect foreign broadcasters, Mr. Hasanov said.

Radio Free Europe/Radio Liberty argues that the change had more to do with its critical stance than with legal reform, and says that shrinking access to news and pressure on the media is becoming commonplace throughout the countries of the former Soviet Union.

Kyrgyzstan took a weekly RFE/RL television show off the air last year, while Uzbekistan aired a documentary identifying its employees and giving their families' addresses, a risk in a country whose government harasses independent journalists and politicians. A teacher who had been a guest on a Turkmenistan public service program was harassed and briefly jailed last year, Mr. Gedmin said.

"There is a trend against free media," Mr. Gedmin said in a phone interview from Prague. "They see us as a challenge to their authority."

What began as a tool for the American government during the cold war, Radio Free Europe/Radio Liberty has become an important source for news in many of the countries of the former Soviet Union since the collapse of Communism. Many leaders of former Soviet countries guard their power jealously, blocking independent news media and political opposition.

RFE/RL has been one of the few surviving independent outlets, in part because of support lent to it by American embassies, which local governments do not want to offend.

But in Azerbaijan, even American government efforts to keep the programming on its FM station on air appear to have failed, and after weeks of negotiations, RFE/RL sent out a press release saying so on Dec. 30.

"This is a move aimed at eliminating plurality," said Khadija Ismayilova, Baku bureau chief for Radio Azadliq, the name of Radio Free Europe/Radio Liberty in Azerbaijan. "We are the only place where the opposition has a chance to present their views, to take part in debates."

#25

Former Soviet States Weigh Israel Ties Vs. Popular Anger

By Antoine Blua

RFE/RL, January 7, 2009

In Azerbaijan, Islamic activists have rallied several times since the beginning of the year against Israel's military operations in Gaza.

In one of the latest unsanctioned demonstrations, several hundred people gathered for the second time on January 5 in the village of Nardaran near Baku.

Speaking to RFE/RL's Azerbaijani Service, one participant, Mustafayev Abdulla, condemned the "genocide of Palestinians by Israel. We demand that they stop this action and express our solidarity with the Palestinians."

On January 2, police broke up a demonstration outside the Israeli Embassy in Baku, arresting about 20 people who later received two-week jail sentences.

Interestingly, the Azerbaijani government has yet to react to the Gaza crisis officially, much like the governments of Kyrgyzstan and Turkmenistan, which is sticking to its foreign-policy principle of "positive neutrality." Meanwhile, the other Central Asian states, Kazakhstan, Tajikistan, and Uzbekistan, have issued cautious statements on the violence.

These countries' Foreign Ministries have said there was no military solution to the Israeli-Palestinian conflict, and called for both sides to agree to a cease-fire.

The governments of these majority Muslim states appear to be caught in a dilemma. Their governments have had close relations with Israel since their independence in 1991 that in some cases have expanded to include security cooperation.

And the last thing those governments now want is to fan domestic anti-Israeli sentiments and be seen in the West as part of an anti-Israeli coalition along with countries like Iran and Syria that are facing growing international isolation.

Muslim Fraternity

The Azerbaijani government, however, is not the only one to face domestic pressures.

Tajikistan's opposition Islamic Rebirth Party has condemned Israel's actions in Gaza. And at a meeting of about 2,000 supporters in Dushanbe on December 31, deputy party leader Muhiddin Kabiri demanded the government also condemn Israel, and allow the party to hold public protests.

"This not only the voice of the Islamic Revival Party of Tajikistan, this is voice of all Tajiks, perhaps all Central Asians, and the continuation of what our mujahid brothers in Palestine are doing,"

Kabiri said.

In neighboring Kyrgyzstan, independent political observer Mars Sariev expresses concern over what he calls the politicization of Islam. "The more strongly the situation in Palestine aggravates, the more strongly Islam is politicized," he says. "There are some politicians who use Islam for their purposes. The position of [moderate] Muslims has suffered, and radical Islam grows. And this factor cannot be stopped with weapons. It is wrong."

The country's Union of Muslims is planning to rally in Bishkek on January 12. The new, unregistered, nongovernmental organization has threatened to hold "wide-scale actions" in support of the Palestinians if the international community does not stop what it calls Israel's "aggression."

"Israel, without taking into consideration [other's opinion], has sent troops into Gaza and killed some 500 innocent citizens, Arabs," union co-Chairman Tursunbai Bakir-uulu, who is also the leader of the Free Kyrgyzstan Democratic Party, tells RFE/RL's Kyrgyz Service.

"Therefore we appealed to the UN, United States, Russia, China, and the presidents of other powers. The war must be stopped immediately and Israel must pull out its troops."

Strategic Considerations

Meanwhile, Russia's Council of Muftis has condemned Israel's military operations and expressed support for the Kremlin's policy in the Middle East.

Russia, which is home to a large Muslim population and has sought closer relations with the Islamic world, has described Israel's ground offensive as a "dangerous escalation."

Moscow also dispatched its Middle East envoy, Aleksandr Saltanov, to the region to secure a cease-fire.

But Russia, too, faces a balancing act.

Russian-Israeli relations are complex. In 1947, Soviet leader Josef Stalin backed the founding of the state of Israel. During the Six-Day War in 1967, the Soviet Union broke off relations and subsequently supplied weapons to the Arab states that fought Israel.

Many say Moscow's current approach in the Middle East is based on a pragmatic quest for opportunities. Russian-Israeli relations have improved steadily over the past 15 years, as have business and cultural ties, as the Russian-speaking segment of Israel's population has exploded to 20 percent.

Meanwhile the Chechen wars and terrorist attacks in Russia have led to a strengthening of sympathy on the part of many ordinary Russians for Israel.

This improvement in relations has occurred despite Russia's continued ties with Iran and Syria and contacts with Hamas, which controls Gaza.

Friend Of My Enemy

In Georgia, meanwhile, the public's sympathies appear to be even clearer.

Dozens of students held a pro-Israel rally in Tbilisi on January 5, waving Israeli flags and banners reading "Israel has the right to defense" and "Stop terrorism."

Georgia's pro-Western government has expressed "concern" over the "deteriorating" humanitarian situation in Gaza. But it said such situation had been triggered by rocket attacks launched by Hamas against "innocent Israeli civilians."

"We have thousands of Georgian Jews living in Israel. Because of that we have a very close relationship. Then we bought arms from Israel and they helped us in preparing our army. And we understand that Israel is defending itself," says Aleksandre Rondeli, president of the Georgian Foundation for Strategic and International Studies in Tbilisi.

"And also Hamas is not popular here, especially because it's an extremist organization and also because [during] the Georgian-Russian war [in August], the Hamas leadership took very seriously the Russian side," he adds. In the Moscow-backed Georgian breakaway region of Abkhazia, the Spiritual Board of Muslims condemned Israel's "new aggression" and its support for Tbilisi.