

The Transatlantic Partnership and Relations with Russia



Edited by
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Svante E. Cornell



Institute for Security &
Development Policy



ATLANTIC COUNCIL

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Editors

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Preface

This book is the result of a project that began with a workshop in Stockholm in April 2010, at which a group of forty Americans and Europeans gathered to discuss the Transatlantic Partnership and relations with Russia. The workshop was followed by a public event in Washington DC in September 2011.

We would like to express our gratitude to the Strategic Studies Institute of the U.S. Army War College and the Bank of Sweden Tercentenary Foundation for their generous support for the project, as well as to Kreab Gavin Anderson for hosting the Stockholm workshop. In addition, we would like to thank several co-workers whose efforts were crucial for the completion of the project and this volume. They include Cynthia Romero, Nicholas Siegel, Anna von Wachenfelt, Maureen McGrath, Olof Staaf and Niels Selling.

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Rethinking the Russia Reset

Frances G. Burwell and Svante E. Cornell*

The “Reset” Re-Imagined

The first phase of the US “Reset” of its relations with Russia has concluded. Launching a second phase will not be easy: with the Russian presidential elections in March, there will be only a brief window for moving US-Russia relations forward before the US presidential contest moves into full gear. Although the result of the Russian election is widely seen as pre-ordained, the protests following the parliamentary contest have added an element of uncertainty. A new Putin administration will be challenged by many reformers, but the external impact of that growing internal divide is unclear.

Nevertheless, now is the time to design a new “Russian Reset” that could be launched in late spring. The first step is to recognize the successes of the Reset to date. The New START agreement was both the keystone success of the first phase and an indicator of how difficult progress can be. The treaty was not the only success of the Reset: along with the more positive rhetoric between Russia and the United States, Russia agreed to allow transport of lethal equipment to Afghanistan through its territory, and there is reportedly greater cooperation on counterterrorism. Russia also supported the tightening of United Nations (UN) sanctions against Iran, although it does not support the most recent move toward sanctions on Iranian oil exports.

In some areas, however, the Reset has delivered little progress. It has done nothing to recover Georgia’s territorial integrity or reverse the 2008 Russian invasion of that country. Moscow remains hostile to any indication that

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Ukraine may be moving toward a closer relationship with the European Union (EU), and its proposal for a Eurasian Union is clearly intended to keep its neighboring countries close. Nor has the Reset led to any strengthening of Russian democracy or even the protection of human rights and civil liberties. Rule of law continues to be weak and corruption endemic. While some in the West hoped that Dimitri Medvedev's modernization initiative would lead to progress on those issues, the anticipated return of Vladimir Putin to the presidency must raise doubts. Indeed, the campaign has featured much tougher anti-US rhetoric, undoing some of the earlier progress.

Despite these concerns, there is still value in proceeding with a second phase of the Reset. Having stronger, more open ties between the United States and Russia can help reduce misunderstandings between two nuclear powers whose interests and activities often intersect. Even if the Reset has not delivered much progress in difficult areas, it is less likely that even modest gains would have been made in the absence of positive relations with the United States.

As plans are laid for the next phase of the Reset, history should inform the future. The successes of the current Reset have not been favors granted by Russia, but rather have been in the interests of both countries. The current Reset proved useful to the Russian government as it sought to demonstrate to its public that Russia had reclaimed the status of "great power." To some extent, whether the Reset will continue depends on whether it remains useful in both the Russian and US domestic political arenas.

If the next phase of the Reset is to be anything but rhetorical, it must be based on concrete projects which speak to real interests in both the United States and Russia. The following issue areas offer the best chance of fruitful cooperation, or at the least, of establishing better mutual understanding.

- **Arms Control and Non-Proliferation:** With New START and the 123 Treaty concluded, the focus should move to European and regional arrangements, as well as global non-proliferation. The NATO-Russia Council could be a key institution given the likely prominence of missile defense in determining the prospects for further progress on arms control.
- **Economics and Energy:** With Russia poised to join the World Trade Organization (WTO), and facing declining prospects as an "energy superpower," there may be real opportunities to build a stronger trade and

investment relationship, and it is in everyone's interest that Russian engagement in multilateral economic institutions is constructive.

- **Regional Politics and Western Engagement:** The countries of the former Soviet space were not part of the first phase of the Reset, but instead a rather contentious side issue, especially in the wake of the 2008 Russian invasion of Georgia. As the United States and Europe increase their engagement with the neighborhood countries, there should be a clearer understanding of how this relates to the Reset and what limits it may impose on strengthening relations.

Shifting the focus of the Reset from US-Russia arms control and nuclear safety to trade and investment, energy markets, multilateral arms control, and the “neighborhood” countries means that the “Russian Reset” can no longer be a bilateral phenomenon. In all these areas, the European governments—as NATO and EU members and individually—have enormous stakes in the future of the Reset. Even more importantly, they bring assets and potential leverage to the table. The EU-Russia economic relationship, for example, is much more important than the US-Russia economic relationship. While trade with the EU accounts for 47 percent of all Russian trade—making the EU Russia's largest trading partner—trade with the US accounts for less than 4 percent.¹ Similarly, Russia is a major energy supplier for Europe, while playing a negligible role in US energy supplies. Even on arms control, some European countries and institutions (such as NATO and the European Union) are active on key issues, including missile defense, Iranian proliferation, and strengthening the Non-Proliferation Treaty (NPT). The EU is also a key player in six of the “neighborhood” countries through its Eastern Partnership, a program with which the US increasingly cooperates. If the purpose of the “Russia Reset” is not only to strengthen US-Russia ties, but also to engage Russia in a constructive way on issues of economics, arms control, and regional politics, Europe must be included in the effort.

Recommendation 1: The re-imagined Reset must be trilateral, engaging the United States, Europe, and Russia. The United States and Russia are still the only nuclear superpowers. Both see themselves as global players: the United States because of its strategic outlook and capabilities, and Russia because it views

¹ Unless otherwise noted, all economic and energy statistics are drawn from Eurostat and the US Census Bureau.

itself as a regional hegemon and major pole in a multipolar world. This outlook is more expansive than the regional perspective that is more common in Europe. However, when it comes to the practical efforts that must be the foundation for a new Reset, the United States and Europe must be partners in reaching out to Russia.

In the past, Russia has proven adept at driving a wedge between the United States and its European allies. It is true that US and European interests vis-à-vis Russia are not always identical. For the Europeans, Russia is a close neighbor and there are many interdependencies and “proximity” issues, such as visa facilitation and border security. For the United States, interests in Russia are more removed, particularly now that the Cold War is past. But neither the United States nor Europe will achieve their goals without a consistent and uniform message to Moscow. The United States cannot effectively push Russia to adhere to WTO obligations without similar pressure from Europe, which is the source of much more commerce. The United States and its European allies must be united on missile defense if the deployment of radar and interceptors is to be accepted, even grudgingly, by Moscow.

A trilateral Reset could also provide more focus to two institutions that bring the United States, Europe, and Russia to the table together: the NATO-Russia Council and the Organization for Security and Cooperation in Europe (OSCE). Russia has not had easy relations with either institution, but both have served as effective forums for building limited trilateral cooperation on military-to-military cooperation, consequence management, and some confidence building measures.

The Limits of the Reset

The first phase of the Reset was accompanied by a decrease in the level of Western attention to Russia’s domestic political climate. The “freedom agenda,” which had already weakened toward the end of the George W. Bush administration, was replaced by the Obama administration’s more realist perspective, which paid considerably less attention to the domestic concerns of US partners and adversaries. In the United States, as well as Europe, the

financial crisis has led governments to look inward, making the upholding of democratic standards and human rights in other countries a secondary concern.

The shortcomings of this approach were evident even before Vladimir Putin's September 2011 announcement that he planned to return to the presidency. Among Western governments, any remaining hope in Medvedev's liberalizing potential had given way to disenchantment with a leader who said the right things, but never seemed to deliver. With the Russian government's attitude toward human rights becoming ever more dismissive, the US government could no longer neglect the issue. In October 2011, the US assistant secretary of state responsible for human rights, Michael Posner, made a week-long trip to Russia where he met with rights activists and pledged to raise the profile of human rights issues.²

Any second phase of a Reset must deal more openly with these issues. Ongoing public demonstrations following allegations of irregularities in the December parliamentary election have made clear that the Russian public has lost patience with the lack of reforms. The spring 2012 election will bring a sustained focus to Russia's human rights and democracy record. The United States and the EU are unlikely to be able to prevent this growing attention from affecting their Russia policies.

Recommendation #2: The re-imagined Reset must not neglect developments in Russia's human rights and democracy policies. The experience of the "Arab Spring"—which has undoubtedly inspired the Russian protestors—reminds us all of how quickly a political situation can change. The United States and the EU must comment on violations of human rights and democratic norms, despite Putin's notorious sensitivity to such statements from the West. Not to do so only encourages a cynical view of Western engagement with Russia, which alienates Russian democratic reformers and allows the Russian government to think the West will only stand by its basic values when convenient. This in turn weakens the credibility—at least in Russian eyes—of Western support for democracy and human rights in the region. In the end, if Russian leaders see the products of the Reset as sufficiently in their interests,

² Kathy Lally, "US Reset with Russia at new stage as officials meet with human rights activists," *Washington Post*, 15 October 2011.

they will agree whether or not the West has been critical of Russian observance of human rights and democracy norms.

Recommendation #3: The re-imagined Reset must have a heavier emphasis on economic issues as a way forward, while not neglecting other areas of Russian-West interaction. While arms control has long been key to US-Russian relations, helping Russia integrate into the global economy may bring the most chance of quick success. Moreover, a more open trade and investment relationship would be in the interests of Russia, Europe, and the United States. Such a shift in emphasis should not stop efforts to build on the success of New START or deal with the shortcomings of the previous Reset.

The New Arms Control Agenda

Although the New START agreement was the centerpiece of the first Reset, arms control is unlikely to play such a central role, or have such a successful outcome, in the next phase. Because it reduced numbers of missile launchers to a level that both parties already saw as desirable, New START represented the “low hanging fruit” on the arms control agenda. An agreement on further reductions, or on another arms control issue, will be much more difficult. Still, a discussion of arms control remains an important, if not vital, part of the Reset, even in a second phase.

Arms control discussions could proceed in several areas over the next few years:

- Further reductions in US and Russian strategic weapons;
- The multilateral framework, aiming at progress before the NPT review in 2015;
- Conventional Forces in Europe (CFE), seeking to re-vamp the old Cold War arrangement and re-establish Russian participation
- Reductions or removal of tactical nuclear warheads from Europe; and
- A NATO-Russia agreement on a missile defense system.

The first option is unlikely. New START reaffirmed Russia’s status as one of two global nuclear powers and also offered an opportunity to enshrine in treaty form a reduced level of weaponry that suited both signatories. Further reductions will be difficult, given the gap in conventional weaponry that makes

Russian military planners stress a reliance on nuclear forces. Thus, instead of proceeding in a linear direction, pursuing more reductions in the START framework, efforts in the arms control area should shift to the multilateral level, involving the Non-Proliferation Treaty (NPT) framework or NATO allies. More players certainly complicate any prospect of successful negotiations, but most options other than START will require agreement beyond the United States and Russia. Even in arms control—the flagship of the first Reset—it is time to move beyond the bilateral US-Russia framework.

Three potential efforts present the most likely chance of some progress in arms control in the next few years, although even these successes are likely to be modest:

- The United States, Russia, and European nuclear weapons states should take the lead in enhancing the international inspections system. The verification procedures established under the New START treaty represent a step forward in using on-site inspections to support an international arms control agreement. The lessons learned from this process, as well as the Intermediate-Range Nuclear Forces (INF) verification regime, could feed into an enhanced international inspections system run by the International Atomic Energy Association (IAEA) in support of the NPT.
- The United States, Russia, and European governments should focus on enhancing Confidence and Security Building Measures (CSBMs) such as those in the 1999 Vienna Document and the Open Skies accord, rather than a wholesale renegotiation of CFE. Perspectives on CFE are too far apart now to make a comprehensive negotiation productive. In contrast, the Vienna Document and Open Skies accord are working well and contributing to regional transparency on military movements and capabilities. Enhancements will be required to take into account constantly advancing technologies, but the parties may also be able to identify some specific enhancements (including more frequent inspections) to be applied between countries where tensions are high.
- As NATO moves toward declaring that the missile defense system has achieved initial operational capability at the Chicago NATO summit in May, greater efforts should be made to bring Russia into this system and assuage its concerns. Although Russian concerns that this system will erode Russian deterrence capability seem vastly exaggerated, these

concerns should not simply be dismissed. A declaration in the NATO-Russia Council that this system is not intended to be used against any of the parties could be useful. There may also be an intersection with the current Alliance discussion about whether to keep tactical nuclear weapons in Europe, depending on the outcome of NATO's Deterrence and Defense Posture Review (DDPR) and the commitment of European host countries to undertake needed upgrades in delivery aircraft.

Russia in the Global Economy

As the US-Russia Reset faces a transition, so too does the Russian economy and its position in the global economy. Since the fall of the Soviet Union, the Russian government has relied largely on the exploitation of natural resources, especially of oil and natural gas, to provide revenues. In 2010, oil, gas, metals, and timber comprised 80 percent of Russian exports and energy accounted for 63.5 percent of export revenues. At times, this strategy has worked extremely well. In 2008, as Torbjörn Becker's contribution to this volume details, Russia held foreign exchange reserves of \$600 billion, largely earned through oil and gas exports, making it the third largest holder of foreign reserves. But while oil sold in mid-2008 for \$132 per barrel, it declined sharply that year to \$41.53 per barrel and today the price hovers about \$100 per barrel. Not only does Russia face falling prices, it also must cope with greater competition, especially in European energy markets. As Geir Westgaard notes in his contribution to this volume, the EU, for example, received 80 percent of its gas supplies from Russia in 1980, but now this is closer to 40 percent, with only 31 percent of all EU fuel imports coming from Russia. With greater liquefied natural gas (LNG) availability now and alternative pipelines possible in the future, as well as new potential sources of unconventional gas within the EU, Russia is unlikely to regain market share in Europe. Outside Europe, other new sources of gas are likely to make prices sink even lower, as Russia faces a challenging market.

Having realized that oil and gas may not be a sturdy foundation for the economy, the Russian government has recently stressed the importance of "modernization." This term is rarely defined, but the efforts seem focused so far on creating zones of economic innovation that could spur new industries. To date, there is little to show for this effort, and few observers are optimistic.

Nevertheless, Russia has consistently been a high growth country in recent years, including in the consumer market. The Russian government also re-energized its bid to join the WTO and concluded the necessary agreement in late 2011. This could reduce tariffs globally on Russian goods and services, but, of course, Russia must also reduce its trade barriers.

For the United States and the EU, this shift in Russian economic prospects and priorities offers some opportunities to build closer ties with Russia and even to reinforce the importance of rule of law and better economic governance within that country. This is not something that the United States can do on its own, as its economic relationship with Russia is so paltry. US trade with Russia totals only €16.5 billion; while EU trade totals €246 billion (this is still less than ten percent of the EU's global trade). Investment figures are similarly uneven, although low for both parties. US investment in Russia is negligible, while EU investment totaled €88 billion in 2010. If the United States wants the next phase of the Reset to contribute to Russia becoming more integrated into the global economy, it must seek this goal in partnership with Europe.

- The United States and Europe should collaborate to help Russia take up its new WTO obligations and to monitor compliance. US-EU coordination has been crucial in achieving progress towards Chinese adherence to WTO disciplines and it will be an equally rocky road for Russia.
- The United States must remove its own barriers to Most-Favored-Nation (MFN) treatment of Russia, including repealing the Jackson-Vanik amendment. Established to ensure freedom to emigrate for Soviet Jews, this amendment has largely achieved that goal. Once Russia is a WTO member, all other members are expected to reduce their trade barriers to the established MFN level, if not below. If Jackson-Vanik remains, the United States alone will still have higher tariffs, making it impossible to grow stronger trade relations. More congressional familiarity with Russia as a potential economic market would help change this situation, and efforts to launch a congressional caucus on Russian trade and investment, or to initiate a Congress-Duma dialogue, would be helpful along these lines.
- The United States and the EU should encourage Russia to focus on economic modernization and undertake a serious discussion of what this would entail. To date, the modernization plan described by Medvedev

shows every indication of being state-driven and without the flexibility and innovative capacities that allowed Silicon Valley to succeed, for example. The EU and Russia launched a “Partnership for Modernization” in June 2010, to address a broad range of issues from alignment of technical regulations and standards to promotion of joint technological research. It is too early to judge its effectiveness, but a few top priorities should be identified for moving forward. Preferably these steps should include technical support for small and medium enterprises and alignment of regulations that would have a short term economic benefit, rather than focusing on harder issues such as climate change targets or protection of intellectual property rights. Moreover, the United States should become engaged in this process.

- The United States and the EU together should negotiate with the Russians to establish robust investment protection and anti-corruption standards. Fear of corruption and a lack of effective protections have made Russia a chilly place for foreign investors. However, investment will be crucial to any Russian attempt at economic modernization or even expansion of energy production.

Seeking Progress in the Post-Soviet Space

The dog that has not barked in the Reset has been the issue of the countries in the former Soviet space. Indeed, Western engagement with these states—especially US military bases in Central Asia and the Georgian and Ukrainian bids for NATO membership—has proven to be the most acrimonious issue in relations between the West and Moscow. Thus, Russia overtly sought to pressure Kyrgyzstan into closing the Manas air base and helped overthrow the Kyrgyz government when it failed to do so. Some of the most heated exchanges between Western and Russian leaders have taken place over Ukraine and Georgia, most memorably perhaps Putin’s outburst to George W. Bush at the 2008 NATO summit in Bucharest that, “don’t you know, George, that Ukraine is not even a state?”³

On the Russian side, the Reset was made possible by the fact that a new US administration admitted past mistakes, presumably including attitudes towards

³ James Marson, “Putin to the West: Hands Off Ukraine!,” *Time*, 25 May 2009.

Russia's neighborhood. No Reset has taken place on the Russian side in this regard: while Russia has proven cooperative on issues relating to Afghanistan and Iran, its policies toward the former Soviet space have not changed. Russia openly demands a sphere of privileged interests in the territory of the former Soviet Union, and has made it abundantly clear to Western powers, especially the United States, that obtaining recognition of this sphere has been Russia's number one priority in the Reset.

Western powers, however, have refused to acknowledge a Russian sphere of influence and have directly rejected it. Secretary of State Hillary Clinton, speaking in Paris in January 2010, stated that "we object to any spheres of influence claimed in Europe in which one country seeks to control another's future."

How then has the Reset policy continued to be successful? The answer is that while rejecting the sphere of influence in name, Western powers have been careful not to make moves in the former Soviet space that could irritate Moscow. Thus, in order not to jeopardize the Reset, the Obama administration—while agreeing to disagree with Moscow on Georgia—has not devised policies to help Georgia regain its territorial integrity, attach cost to Russia for its occupation, or provide security for Georgia. Most symbolically, the United States for a time refused to sell Georgia defensive weapons. US weapons sales to Georgia, which surpassed \$10 million since 2003, dropped to zero in 2009.⁴ While these sales were never consequential in military terms, their cessation amounted to effectively upholding Russia's preferred policy on Georgia, an arms embargo.⁵ Similarly, Washington failed to react to Moscow's assertive military moves, especially the extension of the Russian bases in Armenia and Ukraine, and did not comment on the French government's sale of Mistral warships to Russia. Former National Security Advisor James Jones even stated that the issue was

⁴ See Richard Lugar, *Striking the Balance: U.S. Policy and Stability in Georgia*, Report to the Committee on Foreign Relations of the U.S. Senate, December 22, 2009, 14, <http://lugar.senate.gov/issues/foreign/georgia/>.

⁵ Author's interviews with Defense Department official, Washington, DC, May 2010; Joshua Kucera, "Tbilisi Pressing Washington to OK Defense Purchases," *EurasiaNet*, September 15, 2010, <http://www.eurasianet.org/node/61934>.

not “of particular concern to us.”⁶ In Kyrgyzstan, the Obama administration remained mum about Russia’s overt moves that helped unseat the government of Kurmanbek Bakiyev in April 2010. Washington’s position was complicated by the thuggish nature of the Bakiyev regime, a fact it had not paid considerable attention to. Nevertheless, the fact was that Moscow moved to support Bakiyev’s ouster as a direct reply to his decision to renege on a promise to close the US military base in Manas. When ethnic unrest erupted in southern Kyrgyzstan, where Moscow has long sought to deploy a military base of its own, Washington tacitly endorsed rather than opposed Moscow’s initial attempts to deploy a “peacekeeping” operation.

Moscow’s agenda has been both unchanged and ambitious but it has not been successful in achieving its main goal, restoring Russian dominance over former Soviet republics. The government of Mikheil Saakashvili in Georgia survives, having weathered serious internal storms while maintaining substantial public legitimacy and continuing—though perhaps slower than before—its reform agenda.⁷ Similarly, Russia’s renewal of its basing agreement with Armenia, and attached arms supplies, led to the abrupt end of any Russian-Azerbaijani honeymoon, preventing Moscow from capitalizing on Baku’s frustration with the West. In Moldova, Russian encroachments failed to measure up to the gravitational pull of the European Union. In November 2010, the fractured coalition government, aptly named the “Alliance for European Integration,” won renewed confidence in an election, and was reconstituted, dashing Moscow’s hopes of returning the Communist party to power.⁸ Meanwhile, Russia’s relationship with close ally Belarus has deteriorated significantly. In November 2010, Belarusian strongman Alexandr Lukashenka even refused to meet with visiting Russian foreign minister Sergey Lavrov.⁹ In addition, Uzbekistan and Turkmenistan have increasingly distanced themselves from Moscow, with Tashkent reacting against Moscow’s meddling in Kyrgyzstan’s

⁶ Laure Mandeville, “La Relation entre Sarkozy et Obama est Très Saine”, *Le Figaro* (Paris), March 26, 2010.

⁷ Svante E. Cornell and Niklas Nilsson, “Georgian Politics since the August 2008 War”, *Demokratizatsiya*, vol. 17 no. 3, Summer 2009.

⁸ Vladimir Socor, “Moldova’s Alliance For European Integration: a Team of Rival Parties”, *Eurasia Daily Monitor*, vol. 8 no. 5, 7 January 2011.

⁹ “Relations between Russia, Belarus unchanged – Lukashenko”, *RIA Novosti*, 25 November 2011.

affairs and Ashgabat being infuriated by a May 2010 explosion on a gas pipeline linking Turkmenistan to Russia. This explosion appeared to be a result of Russia shutting valves to the pipeline.¹⁰ Only in Ukraine did Russia score notable advances such as the extension of the Sevastopol naval base. Yet, even there, Moscow appears to be pushing the Yanukovich regime so far as to generate resistance against its ambitions. In sum, Moscow's aggressive tactics have largely failed to bear fruit, but have contributed to deepening instability throughout the post-Soviet sphere, and complicated efforts at conflict resolution and development in the region.

If, as expected, Putin regains the presidency, the importance that Moscow attaches to primacy in the post-Soviet space is likely to grow rather than abate. Meanwhile, there are signs that both the United States and the EU are beginning to increase their level of engagement in the post-Soviet space. Washington officially adopted a "New Silk Road Strategy" in September 2011, which while built around Afghanistan, commits America to long-term engagement with the states of Central Asia and the South Caucasus, the western bottleneck of the Caspian region. This is linked with the return of pipeline politics to Eurasia, reminiscent of the 1990s, with the only difference being that the present-day game is centered not on oil but natural gas. As part of the New Silk Road Strategy, Washington endorses the Turkmenistan-Afghanistan-Pakistan-India pipeline; as for the EU, it officially endorsed a Trans-Caspian pipeline in October 2011, which would bring Turkmen and Kazakh natural gas across the Caspian to Azerbaijan, and link up with the planned Southern Energy corridor of the EU. Both pipelines serve to deprive Russia of its monopoly over the exportation of Caspian energy reserves, and therefore directly challenge Moscow's sphere of influence. It remains to be seen how Russia will respond to these new policies, and whether it will affect the fate of the Reset.

- The United States and the EU should continue to communicate to Russian leaders their belief that a Western role in the former Soviet Union is in the long-term interest of Russia, and maintain full transparency in their activities in the region, while sticking to a

¹⁰ Robert N. Cutler, "Turkmenistan Confirms Export Shift Away from Russia", *Central Asia-Caucasus Analyst*, vol. 12 no. 16, 1 September 2010, p. 9.

principled position that their engagement with other sovereign states are not dependent on, or linked with, their engagement with Russia, or any other power in Eurasia.

- The United States and Europe should gradually re-engage the states of the former Soviet Union, and increase their efforts to enhance security and conflict resolution in the region. More specifically, the United States should step up its role in the OSCE Minsk process to resolve the Armenian-Azerbaijani conflict, where it is a co-chair, and encourage a greater role for the EU in that process.
- The United States, which has just adopted a “New Silk Road Strategy” focusing on transportation and communication across Eurasia, should seek to obtain European cooperation in this effort to boost economic development in greater Central Asia. Jointly, they should seek to engage Russia in this regard, and ensure that Russia be given the opportunity to benefit from the transportation projects being developed, and the trade ties to Asia that the strategy entails.

Conclusion: The Importance of Action

Re-launching the Russian Reset will not be an easy task, particularly as both the United States and Russia face elections in 2012. However, leaving the development of a new agenda until sometime in 2013 will leave US-Russia relations adrift. It will be too easy for the relationship to become dominated by campaign rhetoric (on both sides) and by disagreements over Iranian oil sanctions, Georgia, and other issues. The Reset provides a focus to the relationship, pushing both parties to move forward toward achieving a concrete benefit.

The next phase of the Reset cannot simply be an extension of the first. Arms control is likely to yield fewer achievable aims now that New START has been attained. Russia’s accession to the WTO, however, may provide an opportunity for a new focus on economic issues, and particularly for ways to aid Russia’s integration into the global economy.

For this effort to succeed, Europe must become an integral partner in a re-imagined trilateral Reset. It is Europe that brings economic leverage in Russia, while the US-Russia economic relationship has a strong potential for growth if Jackson-Vanik and other barriers can be removed. By encouraging Russia to

take steps towards genuinely modernizing its economy, the United States and the EU can demonstrate that this next phase of the Reset could also benefit the Russian people. As Russians seem to be losing patience with the corruption of their political system and economy, the United States and the EU must make clear that the Reset is not an excuse for ignoring Russian abuses of human rights and democracy. A re-imagined Reset does not mean giving short shrift to Western values, but rather must base its success on bringing concrete, practical benefits to the United States, the EU, and Russia together.

A Lego Theory of Russian Foreign Policy

Kadri Liik^{*}

The difficulty of explaining Russia's international behavior has troubled foreign policy observers for many years. Western thinkers often try to find rational explanations for its actions and to come up with coherent theories. However, these rarely survive the test of time – sooner or later a sudden turn in Russia's behavior or rhetoric that simply does not fit calls even the most sophisticated theory into question. And while the puzzling moves of Western countries – which do occur – can usually be explained thanks to the transparent environment created by a free media, think tanks and the governments' relative openness, the explanations offered by the equivalent institutions in Russia often tend to increase the confusion rather than dissolve it. Observers are left lost and looking for a new grand theory.

This paper aims to take a different view and to argue that Russia's foreign policy cannot be explained by a coherent theory, because it is not governed by a coherent set of principles or interests. Instead, it should be seen as a battlefield that, at different periods of time, is conquered by drastically divergent factors and actors – from sophisticated philosophical conceptions to the mercantile interests of Russia's various, and sometimes fairly unholy, personalities. Russia's rational interest – if such a thing can be defined – is among these factors, but does not necessarily gain the upper hand, or may be combined with other factors to produce strangely twisted outcomes. In short, Russia's international behavior is like a Lego set, where multiple pieces can be combined in many different ways to create very different outcomes.

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Continuing Transition

The start of the second decade of the 21st century is a difficult time for foreign policy makers. The world is changing very rapidly, too many big processes with uncertain outcomes are underway, and too many unknowns cloud the future, making it hard to take strategic decisions. For Russia, this global uncertainty only complements the ambiguity that stems from its own prolonged transition. In psychological terms, Russia is still dealing with the collapse of the Soviet Union. It is still trying to find its identity as Russia. Meanwhile, the events in the North Caucasus, the demographic outlook and – perhaps – the just-awakening civil society will require Russia to rethink many things yet again in the coming years.

All this means that Russia does not know what kind of a country it is, or will be in 20 years' time. Consequently, it simply cannot have a well-defined and workable set of national interests. Russia's foreign policy documents demonstrate this fairly well: they normally describe in great detail where and how to maximize Russia's influence and safeguard its position, but they fail to answer the question, 'why?'. What does Russia want to do with its influence? What kind of a world does Russia want to see and help to build? (Let's disqualify "multipolar world" as an answer, as this is an abstract concept born of resentment of America's hegemony; and it is far from certain that Russia would actually like it, should it materialize in reality. Indeed, Moscow might discover that in a multipolar world, it might not be a pole.

Without an overarching and realistically defined national interest to guide it, Russia's foreign policy can become a victim of circumstantial use. Russia's diplomats and policy-makers at times follow the old inertia and pursue phantom goals – goals that would have been real and realistic for the Soviet Union, but are hollow and fake, or irrationally aggressive when pursued by today's Russia. Alternatively, they focus on influence for influence's sake – so that it can be later used for whatever purposes seem right at the time. At other times, policy-making is taken over by the domestic political or business interests of specific clans or personalities, effectively sidelining the diplomats. And at yet other times, the real, rational security or economic interests of the current-day Russia break through and become the guiding line.

The Russia-NATO (or Russia-US) dialogue on missile defense is a good example of how Russia's behavior can be influenced by different actors with different agendas and become confused. Many Russian military and defense experts still seek 'strategic parity' with the United States, and object to America's missile defense plans from this perspective. Then there are others, who do not consider NATO's missile defense to be a threat and would like to see a deal done. Effectively, their thinking is not that dissimilar from that of NATO itself – they hope that an agreement on missile defense would create a good precedent, and lay a foundation for trust and future cooperation in areas that would be more vital for Russia. A third group's motivation is exactly the opposite – they think that Russia should definitely be part of the missile defense talks with the goal of derailing the whole plan. A fourth group thinks that Russia should use the talks to increase its visibility and importance in the eyes of the U.S.; to provoke tension and to use missile defense as a bargaining tool.

Furthermore, there are always the spin-doctors who see missile-defense-related or other anti-Western rhetoric as a handy tool to win domestic political campaigns. They do not even conceal it: Russia's well-known 'political technologist,' Gleb Pavlovsky, has told this author that "if you have a campaign to win, you use the means you have," continuing with the observation that Anglophobia did not sell well, "but you can always blame NATO and the U.S.."¹ Finally, there are the politicians for whom a negative attitude towards missile defense is part of their genuine understanding of world affairs – such as Vladimir Putin, who referring to missile defense in his recent foreign policy statement criticized the U.S. as being "obsessed with the idea of becoming absolutely invulnerable."²

Pieces in the Lego Set

In this context, a closer look at the thinking patterns, interests and actors that can be instrumental in shaping Russia's foreign policy is in order.

¹ ICDS interview with Gleb Pavlovsky, on May 26, 2008.

² Vladimir Putin, "Russia and the changing world," <http://premier.gov.ru/eng/events/news/18252/>

Thinking

Concerning thinking, it is obvious that a real understanding of how the West thinks and works is in short supply in Russia, certainly among the general public, but also among experts. Mercantile geopolitical or domestic political motivations are ascribed to most actions, especially those of the United States. The deep roots of such thinking probably go back to Peter I' s controversial reforms and their mixed reception. Closer to the current day, explanations can be found in university curriculums: "Our people have studied the theory of capitalism from the books written by Lenin, and our theory of international relations has its roots in the times when Stalin and Churchill were busy dividing the world," says Alexei Makarkin, of the Center for Political Technologies. "We cannot figure the changes that have taken place in Western thinking since 1968."³

In 2008, this author conducted research on the mentality of Russian society and its elites, and its influence on foreign policy making. The study identified twelve stereotypes and thinking patterns that can be instrumental. Some of them are deeply rooted, having existed already before 1991, such as:

- Russia has a special way, destiny, or mission; its path has to be different from that of other (Western) countries;
- a tendency to see small countries as inevitably *vassal states* with no independent foreign policy – the only question being whose vassals they are;⁴
- the concept of spheres of influence;
- the conviction that wars are waged for geopolitical reasons and a failure to acknowledge the existence of idealistic motives, such as the protection of human rights or civilian lives;
- a tendency to value territorial acquisitions and people's readiness to sacrifice their comfort for the sake of a powerful state;
- a tendency to believe that fear causes respect in international relations; and
- a tendency to understand foreign policy as being conducted via (geopolitical) deals, associated with a desire to seek such deals.⁵

³ ICDS interview with Alexei Makarkin on February 27, 2012

⁴ For elaboration of the concept, see Lauri Mälksoo, "Vassal States," in *Diplomaatia*, June 2007, <http://www.diplomaatia.ee/index.php?id=311&L=1>

Others were more circumstantial, post-1991 stereotypes and patterns:

- the myth of Russia as a victim of the West during the 1990s and the concept of ‘Russia raising from its knees’ under Putin;
- a tendency to see the West as having broken its (alleged) promises not to expand NATO;
- a tendency to see post-Soviet countries as traitors who rushed to embrace the West because of its wealth and a failure to realize that the Soviet satellites in Europe were not the USSR’s allies, but its prisoners;
- the notion that the West wants to acquire control of Russia’s raw materials; and
- a tendency to see anti-Russian motives behind the actions of other countries that are unrelated to Russia.⁶

The arrogance and aggressiveness of Russia’s international behavior peaked in 2008. The thinking patterns above were permanently evident in the media, and the country’s foreign policy enjoyed the wide support of the both elites and the wider population. The few dissenting voices were banned from TV and marginalized in many other ways.

Since 2009, there has been a significant downturn in the rhetoric. Also, over the last year or two, Russian society has become much less ideological and more interested in practical, real life issues meaning that many of these stereotypes have lost their acuteness and become dormant. But none of them can yet be classified as having left the stage for good – except, to some extent, ‘people’s readiness to sacrifice their comfort for the sake of a powerful state.’ At the same time, the anti-1990s rhetoric was heavily exploited by president Putin in his 2012 electoral campaign, and seems to have worked.

⁵ Kadri Liik, “The mentality of the Russian elite and society and its influence on foreign policy,” ICDS 2008, executive summary, [http://icds.ee/index.php?id=73&L=1&tx_ttnews\[tt_news\]=1044&tx_ttnews\[backPid\]=211&cHash=b39dc972b1](http://icds.ee/index.php?id=73&L=1&tx_ttnews[tt_news]=1044&tx_ttnews[backPid]=211&cHash=b39dc972b1)

⁶ Ibid.

Defining Events and Domestic Concerns

Several events can be identified as having had a lasting impact on Russia's understanding of foreign policy. First, the attack by Nazi Germany on the Soviet Union on June 22, 1941 is still relevant. The experience of being invaded from the west by a country that had assured Moscow of its friendly intentions has left an imprint on Russia's threat perception. The result, a 'June 22 complex', can explain why the emotional focus of most of Russia's security establishment tends to be on the West, even though the real security threats originate elsewhere. However, over time – given the rapid and potentially huge changes that the world is going through – this echo is likely to fade.

That said, the wars in Kosovo, Iraq and Libya are shaping Russia's foreign policy outlook in a most acute manner. Moscow's traditionally state-centric worldview sees 'humanitarian interventions' as a breach of international law and, less explicitly, also as a threat to Russia's interests or even security.

In the Euro-Atlantic world, the longstanding philosophical dilemma of international law – how to balance the rights of states and the rights of individuals – has not found a clear answer either. The principles behind the East European democratic revolutions of the late 1980s and early 1990s have, up to a point, been translated into regional international law (reflected in the principles of the OSCE, EU, and the Council of Europe), but not properly into universal international law, at least not yet. Consequently, the question of whether to intervene or not is being treated in a case-by-case manner, without a dominant approach or clear criteria.

As understood by Moscow, however, international law is the international law of 1945. Moscow's approach is strictly textual-formalistic and clearly prioritizes sovereignty over human rights interventionism.⁷ Ample evidence of that can be found in Russia's foreign policy concept, dating from 2008: "Attempts to lower the role of a sovereign state as a fundamental element of international relations and to divide States into categories with different rights and responsibilities, are fraught with undermining the international rule of law and arbitrary

⁷ See Lauri Mälksoo, "International Law in Foreign Policy Documents of the Russian Federation: A Deconstruction," in *Diplomaatia*, May 2011, <http://www.diplomaatia.ee/index.php?id=586&L=1>

interference in internal affairs of sovereign States.”⁸ The same position was also clearly restated in the pre-election manifesto by Vladimir Putin: “It is important for the United Nations and its Security Council to effectively counter the dictates of some countries and their arbitrary actions in the world arena. Nobody has the right to usurp the prerogatives and powers of the UN, particularly the use of force as regards sovereign nations.”⁹

Even more important in shaping Russia’s thinking have been the so-called color revolutions, especially the 2004 Orange revolution in Ukraine. The Russian elite saw this as a *coup d’etat*, arranged and financed by the U.S.. The fact that Moscow’s best spin-doctors and their manipulative technologies failed to help the Kremlin-sponsored candidate in Ukraine led Moscow to panic in anticipation of similar events in Russia.

The Kremlin’s countermeasures included several steps. First, it created massive ‘anti-revolutionary’ youth movements. Further, it widened the spread of the pro-Kremlin political parties; restricted the activities of NGOs and international organizations; and intensified its propaganda campaign. The latter had major implications for foreign policy: trying to pre-empt a color revolution in Russia, Moscow directed its propaganda cannons against various countries that had either undergone a democratic regime change or were seen as instrumental in implementing one. As a result, for the best part of Putin’s second term, (2004-2008) Russia rotated its external enemy figures pretty much the way the EU rotates its presidencies – a new one every six months. Georgia, Ukraine, the Baltic states and the UK each took turns as the ‘enemy of the month’ on the screens of Russia’s TV stations, with NATO and the U.S. permanently in the background as the real masterminds of anti-Russian action.

However, the use of enemy figures in domestic political rhetoric has much deeper roots than the fears inspired by Ukraine’s Orange revolution. According to the late Yuri Levada, the grand old man of Russian sociology, running the country as if it were in a permanent state of emergency is a part of the Stalinist

⁸ <http://www.mid.ru/bdomp/ns-osndoc.nsf/e2f289bea62097f9c325787a0034c255/cef95560654d4ca5c32574960036cddb!OpenDocument>

⁹ Vladimir Putin, “Russia and the changing world,” <http://premier.gov.ru/eng/events/news/18252/>

legacy that Russia has yet to dispose of.¹⁰ Other Russian sociologists interviewed by this author have been unanimous in stating that the projection of an enemy image is an integral and indispensable part of a political system that does not acquire its legitimacy from traditional sources, such as free and fair elections and the separation of powers.

Indeed, looking back, it is patently clear that all of Russia's major election campaigns have been conducted against an enemy. The presidential election of 1996 was spun as Yeltsin against the communists. The election of 2000 saw the emergence of the Chechens as the enemy. In 2004, President Putin painted the oligarchs as the threat. In 2008, it was the liberals and the picture of the Russia of the 1990s that was blasted in the election campaign. Furthermore, with the exception of the first election of 1996, when the communists were the culprits, every one since has targeted the West to one extent or another: in 2000, it was implied that the West was supporting the Chechens; the link between the oligarchs and the West was already very obvious; and the blasting of the Russia of the 1990s made the link even more obvious.

It seems that in 2012, the regime was hoping to conduct a calm transfer of the presidency back to Putin; for a long time there was no sign of a deliberately staged intrigue. But once the protests broke out in December 2011, Putin quickly resorted to anti-Western and anti-1990s rhetoric, testifying to a lack of imagination or a new agenda. But even so, it worked again.

Actors, Interests, Emotions, History

The Russian Foreign Ministry is the principal executor of Russia's foreign policy. Its thinking can be characterized as somewhat rigid and very legalistic, and not too prone to creative solutions, but at the same time certainly not without professionalism. Decisions of importance are always taken by the president, who can override the Foreign Ministry's position and has done so repeatedly, not hesitating to leave the latter in an embarrassing position. The president's decisions, in turn, can be influenced by various political and business clans who happen to have his ear, and also by his own personal worldview –

¹⁰ Yuri Levada, 'Osmyslit kult Stalina,' in *Stalinskie alternativy*, Moscow, Progress, 1989, p. 448-459.

which, in Vladimir Putin's case, has been distinctly shaped by his KGB education.

The role of business in Russia's domestic and foreign policy is also complicated and manifold and does not fit into straightforward paradigms. Companies of strategic importance (be they state-owned or not) are subject to different and often contradictory political pressures. Gazprom, for example, has always been torn between its natural commercial interest of earning money,¹¹ its function as a geopolitical tool (subsidizing gas to 'good countries', interrupting supplies to 'bad' ones, acquiring and building pipelines of dubious commercial profitability), its duty to cushion the social impact of capitalism inside Russia by lowering domestic gas prices, and finally, its function as a wallet of the government or some personalities close to it.

Also, there have been murky cases when the business interests of certain Russian oligarchs, or disputes between oligarchs, have taken over the country's foreign policy in ways that are hard to see through and even harder to prevent – at least by the countries who happen to be the unassuming victims of these 'wrestling giants.' One such case may have taken place in the spring of 2000 when a big propaganda campaign against Latvia suddenly broke out in the Russian media. No one understood where it came from, as Latvia had done nothing in particular. In the end, it appeared that business tycoon Boris Berezovsky had become interested in pipelines leading to Primorsk and suddenly worried that pipelines via Latvia were a problematic competitor. He thus used his media empire to attack Latvia and persuaded the State Duma to discuss economic sanctions against the country. The sanctions were shelved (according to some people because the oil firm Lukoil – a regular user of the Latvian route – became concerned and used its own leverage in the Duma) and the campaign ended suddenly a few months later when Berezovsky himself got into trouble with Putin.

One should also not overlook the role the interpretation of history, especially the Second World War and its aftermath, has played in Russian foreign policy. Having been left to the historians during the Yeltsin era, history moved to the

¹¹ It might be worth noting that when Russia was discussing economic sanctions (withdrawal of most favoured nation status) against Estonia in 1994, Gazprom was the only institution that was firmly against, arguing that Estonia pays full price and always on time.

forefront during Putin's second term when the memory of the war and the victory over Nazi Germany were effectively used as a substitute for ideology, helping to legitimize Putin's power at home and Russia's muscle-flexing abroad. The Soviet or near-Soviet interpretation of these events became *de rigeur*, automatically turning the contrasting truths and memories of the Baltic states, Poland and Ukraine from simple nuisances into obstacles to an important ideological project. Russia's relations with many of these countries were brought to new lows.

Finally, a discussion of Russia's foreign policy would not be complete without mentioning emotion. Much has been written about Putin's personal dislike of some individuals, such as Georgia's president Mikheil Saakashvili. Putin's personal sense of honor or offense can be supposed to be behind several of Russia's foreign policy steps. His emotional and often antagonistic style has undoubtedly had influence. But, leaving the leaders and their personalities aside, one can also notice some more general and not necessarily rational mood swings – ranging from euphoria to depression and encompassing much of the country's elite – that become factors that shape Russia's strategic outlook and affect the selection and use of other 'Lego pieces' in the formation of foreign policy.

Deconstructing the Past and Looking into the Future

The two latest periods, 2004-2008 and 2009-2011, which have been distinctively different in terms of Russia's international behavior, are reflections of exactly such mood swings.

2004-2008 was a period of hubris. Putin had consolidated his hold on power domestically, eliminating all opposition. Oil prices were permanently rising, and after the dismantlement of the oil company Yukos, much of the oil wealth was controlled or even formally owned by the new Putinist elite. The main 'geopolitical competitor', the United States, seemed badly bogged down in Mesopotamia. As concerns the EU, Russian Prime Minister Mikhail Fradkov told the EU Commission that "it is you that need us, not us needing you!"¹² Russia seems to have felt not only the ability, but also the entitlement to dictate terms to the whole Western world, occasionally using World War II-related rhetoric to boost its claims. True, the regime had (largely unfounded) fears of a

¹² This author's conversation with a member of the EU Commission, summer 2007.

color revolution, but this only added to its international aggressiveness, which peaked with the war against Georgia.

Russian thinking on the war with Georgia could make for a very interesting case study, should the relevant documents ever become public. Several of Russia's instincts – the 'Lego pieces' used for foreign policy – clearly clashed here: the geopolitical desire to prevent NATO enlargement (a fact recently admitted by president Medvedev as having been a prime motivation of the war¹³) and the emotional desire to teach Saakashvili (but also the United States) a lesson won out over the Foreign Ministry's cautious state-centric approach. To come out with a copycat version of the West's rhetoric on Kosovo – after having criticized this for so many years – is unlikely to have been the Foreign Ministry's first choice. Equally, recognizing the independence of South Ossetia and Abkhazia is at odds with Russia's view on international law, but can be explained by the Russian military's desire to maintain bases in the two regions, once the treaties enabling these fell victim to the war.

The improvement in Russia's policies towards the West that started in 2009 has been attributed to the Obama Administration's reset policy, but in fact this is hardly the sole, or even the main cause. Nor was president Dmitri Medvedev the one who made the difference. The real cause seems to be another turn of mood – a hangover replacing the hubris – that changed Russia's outlook.

To begin with, the drop in oil prices in 2008 had a profound effect on Russia, making Moscow suddenly aware of its vulnerability as a petro-economy and altering the leadership's perspective on Russia's superpower status. In addition, the advent of shale gas made Gazprom's prospects somewhat shaky, as Alan Riley's contribution to this volume details. The Russian leadership realized that it could not rely on oil and gas to the extent it had hoped, and this was also the direct cause for a group of people to begin to argue for modernization. Since the West would be the main partner if Russia was to embark on a process of modernization, relations with the EU and U.S. needed to improve. Russia's decision to improve ties with Poland and the Baltic states should be seen in this context – it is much easier to buy warships from France if Polish and Baltic leaders do not fervently object to such sales within NATO and the EU.

¹³ See Brian Whitmore, "Medvedev gets caught telling the truth," RFERL/Radio Liberty, November 11 2011.
http://www.rferl.org/content/medvedev_gets_caught_telling_the_truth/24399004.html

Effectively, the pro-Soviet version of history was to be sacrificed for the sake of a good relationship with Poland – hence Putin’s u-turn on the historiography of the Katyn massacre – and the EU, with a fairly rational economic interest as the motive.

Secondly, Russian leaders felt safe domestically. They had managed a controlled transfer of power in 2008 without a color revolution breaking out. Furthermore, the orange revolution was already being reversed in Ukraine. This increased Moscow’s self-confidence, and made its attitude towards its neighbors and to the West more relaxed as the perceived existential threat to the regime disappeared.

Third, the war in Georgia did not go exactly as Moscow had hoped. Not least, Moscow was not prepared for the extent to which the invasion spoiled relations with many countries, especially in the post-Soviet sphere. Indeed, the CIS states drew major conclusions from the war and fear and suspicion of Russia mounted. Contrary to Moscow’s expectations and in spite of enormous pressure, no CIS state recognized the independence of South Ossetia and Abkhazia.

Finally, the election of Barack Obama made an important difference. But what mattered was not so much the reset policy, but the person of Obama himself and the goodwill he created towards the U.S.. Moscow could not treat him the way it treated the unpopular George W. Bush. In addition, Russian leaders did not know Obama, had not expected him to be elected, and now faced the likelihood of his administration being around for the coming eight years.

In short, Obama’s reset policy did not change Russia’s behavior, but offered Russia a face-saving way out of the dead end and isolation in which it found itself. Now Russia could claim that the U.S. was acknowledging its mistakes and Russia would simply accept an apology and be ready for a new start.

What Does the Future Hold?

Looking at Putin’s third election campaign, one involuntarily thinks of the explanation the former Soviet foreign minister Alexander Besmertnykh offered when telling how the Soviet Union lost Eastern Europe. “We did not know what was going on in these countries, because we did not have proper ambassadors there,” he said. “We only had Communist party functionaries who talked to local Communist party functionaries – and of course the latter would

never admit that they had a problem. The KGB may have known more, but they were permanently debating whether to see the British or American hands behind the Polish *Solidarność*.”

The Putinist regime has reached the same stage: a decade of negative selection, promoting people who are loyal rather than intelligent, and the elimination of local elections have cut the Kremlin off from real information about the country and the people’s mood. Once this mood manifested itself on the streets, Putin’s reaction was to look for masterminds in the U.S..

For a Western democracy, it is always a challenge to conduct a workable relationship with an authoritarian or semi-authoritarian regime that is facing pro-democracy protests at home. It will be even harder with Russia, given that a part of its ruling Putinist elite is obsessed with the West, seeing them as omnipotent interferers in other countries’ affairs. But the new middle class protesters think about the West pretty much the same way as, say, Europe thinks of Australia – certainly not as an enemy, but also not as a solution to their problems or a model to be emulated. “Do not say anything at all – anything you could say would be used by the Kremlin,”¹⁴ is the suggestion of some protest leaders to the West. Others, though, still expect the West to speak up and take a moral position – as probably do the Western societies.

In practical terms, there is very little the West can do to help democracy in Russia. The Russians want and need to sort out their country’s future among themselves. One hopes that when the time, comes they will not repeat the mistakes of the early and mid-1990s that derailed Russia’s first attempt with democracy, making it just an imitation. The West, for its part, must avoid repeating its own mistakes of the same time – namely, prioritizing personalities over procedures. Democracy is all about proper rules and procedures, properly followed – the West should have understood this while following how Boris Yeltsin’s system produced Putin. But the West’s recent trust in the ‘good Medvedev’ shows that it may not yet have learnt this lesson.

¹⁴ ICDS interview with Vladimir Milov, on February 29, 2012.

The Place of Russia in Europe

Slawomir Debski*

Russia is undoubtedly a European state if only geography as well as European civilization, its culture, tradition and religion are taken as the defining criteria. What places Russia beyond Europe's bounds is its politics. Today, Europe as a political entity has been defined by the processes of parallel integration of European states within the EU and NATO. Thus the democratic deficit, rejection of norms and values seen as the basis of European political integration, its failure to adapt to Europe's modern—some call it post-modern—political culture, and inadequate free market conditions place Russia outside the main current of European debates and political life, actually outside of modern political Europe. This is best seen if we look at the issues that have been the subject of European political debates in recent years: the scope and direction of European integration, Christianity's place in European identity, a reform of European institutions, the scope and the path of monetary and fiscal integration, or a reduction of greenhouse gases. Russia's voice was not heard in any of the above debates. In key worldwide political questions only a position of the European Union is seen as "the voice of Europe". An illustrative example is the United Nations Climate Change Conference in Copenhagen, the most important political gathering of 2009, where Europe, actually the European Union, was one of the key players while Russia was dead silent there.

The Fear of Disintegration

In the past twenty years Russia focused on containing the process of destabilization of the state set in motion by the disintegration of the Soviet empire. This aim was achieved, but at a very high price. The stability was restored, but at the cost of democratization, whose progress was impeded. Today, systemic limitations of Russia's autocratic stabilization rule out any

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effective catching up in the developmental sphere. This is compounded by uncertainty over whether the state's disintegration process has been brought to an ultimate stop. If this is a temporary success, any attempt to liberalize the present system could provide an undesirable impulse stimulating the disintegration process. Hence the elites in power in Russia face a serious problem: How can the country be modernized while preserving its territorial integrity? At the same time, the Russian economy is not competitive, innovative, energy efficient, or friendly to foreign investors, depending heavily on the prices of raw materials and on interconnections between business and politics. Without genuine political competition, a civil society, the rule of law and limitations on the state's impact on the economy, it is impossible to create a competitive and innovative economic model in Europe. Attempts to apply non-European models entail uncertainty, which in conditions of competition with the European integration process would most likely mean failure. Russia's modernization is hampered by its attempts to restore its great power status through archaic tools. The more Russia tries to resort to political methods based on power and space, the deeper it sinks into the periphery, undermining its credibility.

The Russian yearning for power and status is in some measure dictated by the de-imperialization process, which interacts with the mounting effects of the periphery syndrome. De-imperialization is a natural process that all European colonial empires have experienced, so it is hardly surprising that this process is taking place in Russia as well. In a nutshell, it denotes a gradual adjustment of the country's aspirations and methods to the new situation and new potential. An integral part of this process, which can take decades, is the emergence of revisionist ideas and attempts to recover the lost status. Some people think that anything is possible and depends only on the proper exertion of will. This is a mirage, of course, but it is like a drug, creating an attractive and illusory imagery. This is particularly true of people for whom the myth of a great past becomes the founding myth of a better future. A rising tide of such tendencies was observed in Russia at the time of high gas and oil prices, when time and again arguments were heard either about "a concert of powers for the 21st century" with Russia, with its abundant resources, among the concertmasters, about spheres of privileged interests or about a "sovereign" pole which Russia was to become in the contemporary world.

But can a modern empire based on the strength of an attractive developmental model be built by archaic methods? The world economic crisis of 2008 has shown that Russia has no influence on the processes underway in the global economy, but at the same time it is greatly dependent upon them. Russia's control over energy resources does not give the country any significant advantage or generate stimulus that could be used in modernizing the state. On the contrary, it makes the economy dependent on an easy source of funds and gives rise to institutional pathologies, thus making it very difficult to enhance the competitiveness of the economy. It also leads to the indolence of the governing elites, which have fallen prey to the illusion that time is on their side, because easy riches will at the same time be helpful in modernizing the state. Given that only aspirations remain of Russia's former imperial status, there is a temptation to reach for power in order to build an attractive model in keeping with the principle "they may not like us, but let them fear us." We deal, therefore, with "a paradox of unattractive Russia," which, simply put, boils down to the observation that the weaker Russia is, the more it might be inclined to overestimate its own capabilities and make disproportionate use of force. Today, Russia is a pole without magnet. This means it is deprived of the attractiveness that characterizes modern powers, but at times attempts to make up for this lack of magnetism by resorting to aggressive rhetoric, energy blackmail, and even force.¹ As a result, today's Russia is distrusted, while trust is a *sine qua non* of effective modernization.

The "reset" of relations between the United States and Russia should be only an overture to the overall change of Russian attitude towards the West, a prelude to a departure from the politics of confrontation. Some signals from Russia indicate that understanding for such an approach is beginning to emerge there. This is one of the possible interpretations of the message of President Dmitry Medvedev's article "Go Russia!" published on 10 September 2009 in the Internet newspaper Gazeta.ru. "An inefficient economy, semi-Soviet social sphere, fragile democracy, negative demographic trends, and an unstable Caucasus represent very big problems, even for a country such as Russia," Medvedev writes. He further emphasizes that Russia will not join the ranks of the world's

¹ See S. Dębski, "The Paradox of an Unattractive Russia," *The New York Times*, <http://www.nytimes.com/2008/10/30/opinion/30iht-eddebski.1.17381652.html>.

most developed nations by “relying [solely] on oil and gas markets.... In the end, commodity exchanges must not determine Russia’s fate; our own ideas about ourselves, our history and future must do so. Our intellect, honest self-assessment, strength, dignity and enterprise must be the decisive factors. “My starting point while setting out five priorities for technological development, offering specific measures for the modernization of the political system, as well as measures to strengthen the judiciary and fight corruption, is my views on Russia’s future. And for the sake of our future it is necessary to liberate our country from persistent social ills that inhibit its creative energy and restrict our common progress. These ills include:

- Centuries of economic backwardness and the habit of relying on the export of raw materials, actually exchanging them for finished products;
- “Centuries of corruption;
- “Paternalistic attitudes ... widespread in our society.”²

Thus, President Medvedev’s call for modernization of Russia is based on a well thought out analysis of the state of affairs in the country and of impact its weaknesses have on relations with the developed outer world.

Russia’s Foreign Policy Agenda

At least in some parts of the Russian elite there is growing awareness that the developmental gap between Russia and the most developed countries of the transatlantic area is getting continuously wider. There are at least two reasons to be blamed. First, the systemic framework of NATO and the EU pushes Russia to the position of an outsider in decision making processes within the transatlantic community. Second, Russian systemic backwardness not only hampers its attempts to reshape this framework in order to introduce Russia as a equal member of the decision making group but also makes clear to all Russian post-Soviet neighbors that Moscow has very little to offer them that will be effective in bridging the developmental gap with the Western model of development..

Nevertheless, being aware of its peripheral status in Europe, Russia from time to time attempts to put itself artificially into the main current of European debates

² Quoted after the Kremlin website,
http://eng.kremlin.ru/speeches/2009/09/10/1534_type104017_221527.shtml.

by submitting proposals for reshaping existing structures and to form Europe anew politically. One may see this motivation as a main driver of the so called “Medvedev initiative” on a new European security architecture. Russians claimed that as the existing security structures in Europe proved to be ineffective there was a need to modernize them in order to help Europe meet the security challenges of the future. The argument, however, missed the point that for the last 20 years the countries of the European core have successfully integrated within the EU and NATO and have lived side-by-side in security and peace, and that wars in Europe have occurred only at its peripheries, be it the Balkans or the Caucasus. So, there was no interest whatsoever among the members of both integrating institutions to depart from existing structures and look for something anew only because Russia felt itself uncomfortable in its role of an outsider. There is no doubt that it would introduce more uncertainty to the international relations that any weaknesses of the present shape of European security architecture could. One can also hardly imagine how it may bring any benefits for European political peripheries.

Russia again, as it has for centuries, plays for its status in Europe, still aspiring for the role of a global pole and one of a key players in a global concert of powers. The problem is that it is a pole without a magnet. Its aspirations remain shaped by its former imperial status, and there is a temptation to reach for power by adhering to the old principle that it is better to be feared than loved. One may claim that Russia has demonstrated this mindset by trying to neutralize Ukraine under Yushchenko, to reverse pro-European tendencies and policies in Moldova, and, perhaps most clearly, by the war in Georgia.

The Modernization of Russia

These tendencies hit Russia’s credibility in Europe, undermine confidence in Russia and push it further out into Europe’s periphery. Some have come to realize this in Moscow, and they are eager for a change in Russian foreign policy and in developing better relations with Russia’s immediate neighbors as well as with the West. According to them these are indispensable conditions to successfully modernize the country. It is the fundamental issue. If Russia keeps on perceiving the aspirations of Moldovans or Georgians as something against its own interest, the modernization of Russia itself will hardly be possible. A program of modernization was first announced in 2000 by President Vladimir

Putin. And a decade later his successor, Dmitry Medvedev, is calling for the country's modernization, in effect admitting indirectly that the previous modernization method has turned out to be unsuccessful. The Russian elites have come to realize that the period of global prosperity and high energy prices was wasted. Wealth pursued the ruling classes into apathy and indolence and the economy came to a standstill. Today, modernization of the economy and the state should be Russia's strategic priority. But only Russians themselves can make real progress in moving their homeland from the peripheries closer to the core of the developed world. There is no doubt however that this progress should be welcomed and supported by all those who believe that harmonization of the model of development across the whole Old Continent would contribute well to the peace and stability of all Europeans as well as a global role for Europe.

Russia's Economy – Lessons Learned and Policies for the Future

Torbjörn Becker*

Russia is a large country in many regards – not least geographically where it is by far the biggest country in the world. However, it is still an open question whether the superpower from the past will manage to become the global economic force that it strives to be. Its vast territories hold tremendous natural resources and Russia has the world's largest proven reserves of (pre-shale) natural gas and significant oil and mineral deposits.

Russia's dependence on natural resource exports is clearly illustrated by the close relationship between its GDP per capita and the value of its oil exports. Exports of natural resources account for more than three quarters of Russia's total exports. It is also the largest single source of fiscal revenues for the government, accounting for almost half of federal revenues. The fact that the natural resources sector does not completely dominate the national accounts when looking at production or growth rates hide the fact that it is still natural resource revenues that have provided the driving force for other sectors and government spending. However, the strong growth in Russian GDP and export revenues has not been a result of ever-increasing production and export volumes: it stems, rather, from increasing prices on the world market. Russia's economic fortunes have in this sense been at the mercy of global market prices, creating the vulnerabilities made evident in the crisis. It has been a policy based more on luck than skill.

Despite its natural resources—or perhaps *because* of them, as scholars using the term “resource curse” would say—Russia's economy is only roughly a third of the GDP of Germany and less than 10 percent of the EU collectively. In this sense Russia is certainly not an economic superpower. More importantly to its citizens, its GDP per capita is at 25-50 percent of the EU average, depending on

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whether one uses market exchange rates or purchasing power adjusted ones. Closing this income gap should certainly be a top priority of Russia's long-term economic policy.

The Russian Economy in the Crisis and After

Although a significant part of Russia's economic growth from 2000 up to the crisis can be attributed to luck in the form of strong growth in international energy prices, the policy to build a substantial reserve fund was very useful and provided room to maneuver in the crisis. This strategy of saving for a rainy day in combination with a reluctance to let the currency appreciate had built foreign reserves from \$12 billion in 2000 to almost \$600 billion in the summer of 2008. This made Russia the third-largest holder of foreign reserves in the world. When the financial crisis hit the world, Russian policy makers were convinced that they were invincible and could deal with whatever would be coming their way.

As the global economic turbulence picked up pace, this mindset clearly had negative consequences on Russia's economy. In the midst of this crisis, policy makers in Russia overestimated their control over the ruble exchange rate and thought their reserves provided satisfactory protection. But when trying to defend the ruble, they lost \$200 billion – a third of their international reserves – from the fall of 2008 to the end of January 2009. In the end, they were forced to devalue by almost 30 percent. Again, it was oil prices that played a major role in this development, with prices on Urals oil falling from close to \$140 per barrel in the summer of 2008 to less than \$40 per barrel in early 2009. In addition, foreign debt in the private sector that had to be refinanced at a time when international capital markets froze contributed to this development. But again, the substantial drop in commodity prices also had a major impact on financing needs and options. During the boom years, Russian enterprises had borrowed very heavily in foreign markets and foreign borrowing in the (semi-)private sector was almost on par with what the Central Bank of Russia held in international reserves at the time of the crisis.

The Russian government initially underestimated the impact the enormous decline in oil prices would have on the real economy and the use of the word

crisis was essentially banned in official circles. But just as the high oil prices had helped Russia grow, falling oil prices in the crisis led to a drop in GDP of 8 percent in 2009, the worst performance of all G20 countries. What had started as a global crisis that was not a Russian concern in the end resulted in a major loss of income and a significant increase in unemployment in Russia.

The decline in GDP was to some extent dampened by a fiscal policy that had expenditure to GDP go from around 33 percent prior to the crisis to over 40 percent in 2009 with the general government balance going from a surplus of close to 7 percent of GDP to a deficit of over 6 percent of GDP. The ability to use fiscal stimulus to counter the crisis demonstrated the usefulness of the stabilization fund that had been accumulated prior to the crisis.

However, the huge loss of foreign reserves diminished the economic and political grip the Russian leadership had in the region and their ability to take care of the domestic business sector. With enormous gaps to fill in some of the big companies that employ tens of thousands of people, a banking system that needed additional funding and people more generally losing faith in their leaders as incomes declined, Russia's leaders finally acknowledged the inherent weaknesses of an economic system so dependent on oil. This opened up for a whole new discussion in the crisis on how to modernize Russia and the reforms needed in order to create a more sustainable model of economic growth. One prime example of this discussion was President Medvedev's "Russia forward" manifest in September 2009 where he outlined the reform priorities to modernize Russia. His ambitious reform agenda included: to turn Russia into a high-tech economy based on innovation (with the flag ship project Skolkovo receiving much attention); to make Russia less dependent on energy domestically by focusing on energy efficiency; to transform Moscow into an international financial center; to introduce e-government to make the bureaucracy more efficient; and (most importantly) to fight corruption and establish law and order. With oil prices in the range of \$45-\$60/barrel, these calls for reform seem to have had some traction, but with oil now around or over \$100 per barrel and in the run-up to the presidential nomination, the level of support for serious reform in the political elite appeared to have faded.

With the rebound in oil prices in 2010, Russia's economy turned around and grew by around 4 percent in 2010. In 2011, growth is projected to be in the range of 4.5 to 5 percent in the wake of even higher oil prices following the Arab

spring and the uncertainties it has implied for oil production in the region. The continued close relationship between GDP per capita and oil export revenues coming from higher oil prices is also evident in Figure 2. High oil revenues are not only driving GDP and the current account balance but also fiscal revenues. This directly affects the government's ability to use fiscal spending to support the economy, generate public support and delay the reforms that the crisis had made clear the country needs for long-run sustainable growth.

In short, the Russian economy is still in need of far-reaching reforms and the reluctance of policy makers to exit from the substantial fiscal stimulus in the crisis can prove costly in the future. The non-oil fiscal deficit is projected to be in the order of 13 percent and to only come down to around 10 percent in 2013 compared to the long-run target of 4.7 percent. Not only does this mean that less is saved in the stabilization fund for the next rainy day, it also leads to the more immediate problem of containing inflation, which is now close to 10 percent.

The Road Ahead

So what should be done? Are Russia's natural resources enough to make it rich in the sense of catching up with the EU or the US? The short answer is no. First of all, to assess the potential of relying on natural resources as the main source of income, it is useful to consider what the value is of a country's natural resources if it is divided by the population it is supposed to support. The World Bank has put together an interesting dataset in its "Where is the Wealth of Nations" report from 2006. The report provides wealth estimates of the major capital or wealth stocks that enter into a country's production function. These wealth measures include subsoil wealth as well as other natural capital, produced capital, and intangible capital. In the first Figure, only subsoil wealth is shown and a number of well-know oil, gas and mineral exporters are included together with Sweden, which has no subsoil wealth, but provides an interesting subsequent comparison. Russia is obviously a country with vast subsoil assets, as is obvious in the charts on proven gas and oil reserves, and its per capita wealth from subsoil assets is in the order of US\$ 10,000. Norway is leading this league with an estimate of around US\$ 50,000, and is also a country with high income levels and has one of the world's largest sovereign wealth funds. However, Sweden, the U.S. and the UK have far higher income levels than Russia, Iran or Gabon, so clearly subsoil wealth is neither a sufficient nor a necessary condition for economic prosperity.

When other components of wealth are included in the picture, Russia (or Iran and Gabon for that matter) does not look so impressive any more. It turns out that the estimates of intangible wealth in a country like Sweden makes its total wealth close to US\$ 500,000 per person, or more than 10 times the total estimated wealth of Russia. The 450,000-dollar question for the average Russian is, then, what creates this intangible capital.

Since intangible capital is the residual when other sources of capital are accounted for in the production process, it is not straightforward to say what the key components are that make up this important part of wealth. However, the World Bank report presents some econometric evidence that suggest that the two main factors that explain intangible capital is the rule of law and education. This is not too far from President Medvedev's reform plan to fight corruption and promote law and order and to focus on innovation. In addition, when the World Bank makes a calculation of how nations save to build their capital stocks, Russia scores poorly because it is depleting its energy resources, so Medvedev's focus on energy efficiency also finds support in this framework.

Thus, Russia cannot live on natural resources alone if it aspires to become a major economic power with living standards comparable to the EU or the U.S. However, the popular debate that suggests that Russia has to choose if it is going to develop its natural resource sector or become a "modern" diversified economy is very artificial. A wealthy resource economy like Norway benefits tremendously from good institutions, including law and order, political accountability as well as a good education system. This not only provides other sectors of the economy with a predictable investment climate and a well-educated workforce, it also means that investments in the natural resource sector can be done in a more efficient way to sustainably produce benefits to current and future generations. The same could be true in Russia. There is no contradiction in the fundamental institutional reforms needed to create an efficient resource economy or a modern society with a well diversified economy more generally.

With oil prices once again high, the short-term pressures for fundamental reforms in Russia are certainly fading. As has been seen in other formerly socialist countries in Eastern Europe, reforms are difficult for domestic policy makers to push through without external anchors. For Russia, the most obvious

external anchor the country could use is WTO membership and possibly at a later stage, OECD membership. WTO membership has been a complicated issue for a very long time and it always seems that Russia's accession is only a year away. Currently there are only minor issues remaining before Russia could join the WTO, but it is again unclear if the right political will exists in Moscow with oil prices going up and the presidential election approaching. WTO accession could potentially help Russia modernize production, manufacturing and exports, and more importantly, the domestic service sector with banking, finance, insurance, etc. The West should therefore encourage Russian membership in the WTO as a way to modernize not only its economy but also society more generally.

On the macroeconomic side, Russia will also have to figure out a strategy for dealing with the exchange rate and inflation when oil prices increase and lead to more inflow of foreign exchange. If the Central Bank again starts to accumulate reserves to keep the exchange rate at a depreciated level and lets this expand domestic credit, this will lead to inflation, and inflation does not go down very well with the general population. This is going to be one of the main policy challenges for Russia. One strategy to deal with the inflationary pressures would be to save more in the reserve fund and invest this abroad to keep the money out of the Russian economy and enhance both the "rainy day" fund and the fund for future generations. It will not be easy to convince politicians ahead of an election to be fiscally prudent, so the bet would be on less savings and higher inflation.

For Russia to be able to adopt a reasonable resource fund strategy, the rest of the world would have to accept that Russia would be looking to acquire assets abroad. There are worries that Russia could use this to gain political influence and power, in particularly when it comes to investments in the energy sector and with regard to some of its close neighbors. Although one can sympathize with this position, it is important for the West to remain open to foreign investments coming from Russia, as well as for Russia to be open to investments going the other direction; it cannot be a one-way street. This will be an important part of linking Russia into the global community and it should be in everyone's long-term interests to make Russia a more integrated part of the world economy.

Europe must also extend financial and political support to countries or citizens in countries like Ukraine, Belarus, Moldova, and Georgia to counterbalance the economic and political power Russia has in this region. The EU's Eastern partnership and other initiatives, like the donor support to Georgia after the conflict with Russia, are welcome. The current turmoil in the Eurozone and the Arab spring has shifted the attention away from this region, but the stability of the region is too important to ignore for longer periods of time. At the same time, it is in everyone's interest that Russia not be too weak economically and financially. Such a situation might lead Moscow to revert policy to more traditional ways of exerting power in the region.

The main conclusions from the discussion above are, first, that Russia's reliance on oil and gas creates significant volatility in the country's GDP; and second, that Russia cannot rely on its natural resources alone to catch up with Western income levels. This has been relatively well-known among outside observers long before the crisis. However, the crisis brought these issues to the surface also in the internal Russian policy debate with strong calls for modernizing Russia with an aim to reduce its dependency on natural resource exports. It will be in the West's interest to help Russia become a modern economy and a more stable partner politically. However, this has to be combined with a firm policy that ensures economic and political independence and stability for other countries in the region.

Russia as a Petro-State

Geir Westgaard*

The strategic belief that underpins this analysis is that Russia is a petro-state. In other words, it is a country whose development is inextricably linked to the boom-and-bust cycles of oil. Russia's fortunes therefore tend to fluctuate wildly with the oil price.

High oil prices extended the life of the USSR by masking systemic weaknesses and contradictions, and easing the pain of trade-offs between guns and butter. High oil prices account for much of Russia's economic turnaround and geopolitical comeback over the last decade, although the country has yet to overcome deep-seated economic and social problems such as inadequate and deteriorating infrastructure and outmoded physical capital, as well as the demographic and health crises. High oil prices tend to accentuate rent-seeking behaviour, strengthen resource nationalism, and spur petro-arrogance and assertiveness in foreign affairs.

Low oil prices, in combination with imperial overstretch and internal decay, precipitated the collapse of the USSR. Low oil prices also help explain why Russia hit rock bottom and defaulted on its debt in August 1998. Low oil prices spurred two impressive waves of structural reform in Russia: from 1991 to 1993 and from 1998 to 2002. Low oil prices are generally associated with a lesser degree of resource nationalism, a more welcoming attitude to foreign direct investment, and a more accommodative foreign policy.

Of course, this is clearly a simplification, as single-factor explanations usually are. But as far as single-factor explanations go, the explanatory power of the oil price is considerable in the case of Russia.

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Rethinking Russian Petro-Policies

Over the last couple of years, Russia has tended to act in a manner consistent with the low oil price scenario described above. Russian resource nationalism and petro-arrogance have subsided. There is recognition that Russia needs better relations with the outside world, and more foreign direct investment in order to modernise its economy and implement its energy strategy. This is still the prevailing view among Russian policymakers even though oil prices are above \$100 per barrel and we might find ourselves in another boom cycle.

The Great Recession forced this rethink of Russian policies and priorities. Much to the surprise and dismay of the Kremlin, the country proved vulnerable to the vagaries of global financial markets. The severe downturn also had a dramatic effect on energy prices. Additionally, the depths of the recession coincided with a crisis in Russia's relations with the outside world following the war with Georgia (August 2008) and the gas conflict with Ukraine (January 2009). This state of affairs did not serve the objective of economic revival, which requires increased flows of trade and investment.

In addition to the "reset" in U.S.-Russia relations, the renewed emphasis on a partnership for modernization in EU-Russia relations, and the thaw in relations between Poland and Russia, the most noteworthy example of a course correction in Russian foreign policy is probably the agreement reached with Norway on delimitation of the continental shelf and economic zones in the Barents Sea. After forty years of negotiations, Russia finally agreed to split the disputed maritime area 50-50.

The agreement opens up the Barents Sea to accelerated petroleum development, leaving both Norway and Russia with more of the prospective Arctic shelf to explore. This is good news for long-term European energy security. The agreement also counters impressions of the Arctic as a zone of conflict and of Russia as a neo-imperialist scrambling for Arctic resources outside the bounds of international law. Such impressions have been widespread following the Russian flag planting on the seabed of the North Pole in the summer of 2007.

Consistent with the tenets of resource nationalism, the Russian leadership tends to view international oil and gas companies primarily as contractors and insist on the transfer of skills and technology, as well as reciprocal opportunities for Russian companies abroad. Much of this is reflected in Russia's restrictive law

on foreign investments in strategic sectors – a law that was passed in the spring of 2008 and resulted in a notable loss of interest in Russia by foreign oil and gas investors.

Since the fall of 2009, when Vladimir Putin invited the chief executives of major oil and gas companies to Salekhard and encouraged them to seize opportunities both on and off the Yamal peninsula, the Russian leadership has been trying to lure back foreign investors. The deals announced this year between Rosneft and BP and Novatek and Total show that these efforts have met with some success. Russia is, indeed, open for business. The laws governing foreign direct investment in the petroleum sector will probably not be revisited and altered, but we are likely to see the government grant more ad hoc exceptions to existing rules in order to attract foreign investors to high-priority projects. The specifics in each case will determine whether international oil and gas companies find such terms appealing.

Russia has ambitious plans to increase the production of natural gas by 40 percent over the next 20 years, according to the government's energy strategy until 2030. Additionally, it is estimated that getting to a level of 900 billion cubic metres (bcm) by 2030 will require investments of nearly \$600 billion in new upstream gas projects and transport infrastructure during this period. While independent energy experts seem to doubt whether Russia will be able to implement and thus deliver on this strategy, they also agree that success will depend on the country's ability to attract foreign investors. In other words: Russia needs partners from abroad to strengthen its position as the world's energy superpower over the next two decades.

Russia's European Energy Market

For several decades, the countries of the European Union have constituted the main market for Russian energy exports. In that respect, the EU has been and remains Russia's most significant energy partner. Yet, managing the energy interdependence between the EU and Russia has become fraught with difficulty over the last few years. On the side of the EU, questions are being raised about the security of gas supply. On the Russian side, questions are being raised about the security of gas demand.

Within the EU, it is the Russia-Ukraine gas crises and the cut offs in January 2006 and January 2009 that have given natural gas a bad name from a security of supply perspective. Among the member states in Central and Eastern Europe, there is skepticism regarding reliance on natural gas because it would entail continued or increased dependence on imports, especially imports from Russia, and could lead to increased vulnerability.

Natural gas is thus viewed as a potential liability in energy security terms even though Russia's share of EU gas imports has been halved since 1980 – from 80 percent to just over 40 percent – and despite the fact that Russian gas currently accounts for just 6.5 percent of the EU's total primary energy supply, a share that has barely changed since 1990. However, the challenge is real enough for those who were left in the cold during the recent gas crises – countries with a high degree of dependence on gas from Russia and very limited access to alternative supply sources or routes.

In the member states in Western Europe, moreover, there is opposition to natural gas on climate grounds. Consequently, gas finds itself in a bit of a political squeeze. On the one hand, gas tends to lose out along the climate dimension because it is seen as less green than renewables or nuclear. On the other hand, gas tends to lose out along the security of supply dimension because it is seen as less indigenous than renewables, nuclear or even coal. This may put gas at a competitive disadvantage as European politicians endeavor to create a framework for decarbonizing the energy system by 2050.

The EU 2050 process does create some uncertainty on the gas demand side. Russia and other major gas suppliers will wonder about the role of natural gas in Europe's future energy mix. This could affect whether timely investments are made in new gas supplies for Europe.

According to the Russian government's long-term energy strategy, Asian markets could account for 20 percent of Russian gas exports in 2030, up from practically zero in 2008. While Russian authorities present this as part of a diversification strategy – reducing exposure to the European market – it primarily reflects where most of the growth in energy demand is expected to come from over the next two decades. Still, the prominence of the Arctic shelf and Yamal in the strategy shows that the Russian government is also committed to making investments in new supplies to the EU market.

Despite the current gas glut in Europe, it is already time to make decisions about supplies beyond 2020. The lead times in the industry are such that it will take at least a decade from the time that the government has granted an exploration license until new production comes onstream.

The International Energy Agency estimates that over the next two decades, the EU will need access to 250 bcm per year in new gas supplies to meet current demand. Because of declining production from existing fields, it will take gas volumes of that magnitude – half of current EU consumption or two and a half times the size of Norwegian exports – for the EU simply to tread water. Demand growth between 2010 and 2030 would put the numbers even higher.

Irrespective of where the EU lands in 2050, therefore, Europe will need access to new gas supplies in the medium-term. This will require green field developments in Russia (Shtokman, Yamal) and the Caspian region (Shah Deniz), as well as investments in pipelines (the southern corridor), interconnectors, LNG infrastructure and unconventional gas in Europe.

Can the Russians and others who produce for the European market be counted on to make these developments/investments in a timely manner so as to avoid a situation of tight supply and price spikes? That may be the central question regarding security of gas supply for the EU. Part of the answer is that the preferences of European policymakers, i.e. how much uncertainty they create about natural gas in the EU 2050 process, will matter as much, if not more, than the actions of producers. Where there is security of demand, there will generally also be security of supply.

Still, for companies to rise to the investment challenge along the entire gas value chain, they also need a robust license to operate from governments. In producer countries, they need access to acreage and reserves, that is, prospective areas in which to do exploration and production. In consumer countries, they need a regulatory framework that creates a level playing field and ensures free and fair trade in natural gas. In transit countries, they need transparent and reasonable transit conditions.

Gazprom: A Business Model Under Threat?

Alan Riley*

Gazprom Survived the Crisis and will Now Prosper?

In early 2010 it looked like the economic crisis and rapidly adverse global gas markets might overwhelm Gazprom. The economic crisis had caused a collapse in demand for gas both in Gazprom's domestic market and in its very profitable European export market. Worse still, at the same time the upswing in global LNG production led to the dumping of LNG onto European spot markets. This dumping was compounded by the diversion of LNG destined for the United States to Europe because of the boom in U.S. shale gas production. In addition, Gazprom faced the development of large scale shale gas plays in Europe which would create an additional source of supply and one which would be significantly cheaper than Russian gas.

Gazprom even had agreed to part-suspend the link of the gas price to the oil price for some of its key customers. The fear of both Gazprom and its customers was that a Europe awash with cheap alternative gas sources could erode market share and profitability of the Russian gas giant and its allies.

However, from the nadir of 2009/2010 Gazprom has come roaring back. Both profitability and volumes have soared over the last year as demand has returned.

In addition, Gazprom has been handed two largely unexpected strategic bonuses. The first flowed from the Fukushima disaster. Fukushima caused an upswing in Japanese LNG demand that resulted in a draining of global LNG liquidity, causing price increases in Europe and relieving pressure on Gazprom's customers. In addition, the German decision to close down its remaining nuclear capacity has opened the way to increased opportunities for Gazprom to sell much greater volumes of gas across Germany.

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The second bonus flows from the environmental campaigns launched across Europe against shale gas. France has adopted a ban on shale gas exploration and production. There is now an ongoing active campaign against shale gas across Europe with calls in the European Parliament for an outright ban across the continent. In the face of these protests, at the very least shale gas development is likely to be slowed down in two of the three largest European collections of shale plays, Germany and France.

Gazprom as a result now sees many more opportunities than prior to the crisis across Europe, but particularly in Germany. The likelihood is now for greater Gazprom market penetration from a German launchpad. On this view the prospects for the completion of the second Nordstream pipeline appear to have significantly improved.

Senior Gazprom officials, however, need to look much more closely at the European markets. They should not get over-enthusiastic at the demand upswing and the bonuses from Fukushima and the anti-shale gas campaign. The fundamentals continue to throw a very deep shadow over Gazprom's future and its current business model.

The Fundamentals Still Threaten Gazprom

Notwithstanding the recent increase in Gazprom's European sales, the market fundamentals are shifting against the company. For example, Gazprom's senior management sees their commercial future in exports outside of Europe. The EIA Global Shale Gas report which examines 48 shale gas plays in 32 countries provides convincing evidence as to how difficult it will be to profitably develop markets outside Europe. The EIA report indicates that China, one of Gazprom's principal target markets, has more recoverable shale gas resources than the United States. Significant quantities of recoverable shale gas are also estimated to exist in India, many African states, South-East Asia and Australia. Gazprom may well be able to export some gas to these states but the amounts are likely to be marginal and any such exports may face significant pricing pressure in states which have access to their own domestic gas resources.

What is also underplayed due to the focus on the environmental effects of shale gas is the enormous positive effect that access to large amounts of cheap gas across the planet are going to have in emerging and less developed economies.

Until the shale gas revolution, the IEA's best case scenario was that we would be able to keep the number of human beings without access to electricity at 1.5 billion as the global population rises to 8 billion toward 2040. The distribution of shale gas plays across the world; the ability to transfer shale gas technology into local economies; the accessibility of cheap domestically sourced gas close to urban centers; and the low cost and short time frames for delivering gas-fired turbines provide real opportunities to reduce the number of electricity-deprived humans to well below 1 billion.

This development of a major emerging and less developed world gas industry will further limit the opportunities for Gazprom to sell gas in foreign markets. There is also the danger that as exploration gathers pace, a number of countries will find that they have far more gas than they actually need for their own requirements, resulting in the development of regional export markets, further reducing opportunities for Gazprom.

In addition to this, the ramping up of global gas production is hardly likely to slow down. The IEA indicates that by 2014 global LNG production will have risen from 240bcm in 2008 to substantially above 410bcm. In addition, the impact of shale gas is forcing the pace of LNG production. For instance, Canadian companies faced with the loss of gas markets in the lower 48 U.S. states are now looking at developing the Asian LNG exports market. Australia also has several shale and coalbed methane (CBM) plays under development which will again add significant liquidity to the Asian LNG markets. There is also the prospect of shale gas being exported as LNG from Alaska into Asian markets, and on the east coast into European markets. Some U.S. firms have already been export cleared for the sale of LNG. Liquefaction plants are unlikely to come online much before 2015, but there is now a very strong likelihood of a flow of additional imports thereafter.

This Anglosphere LNG production is likely to have a major impact on European spot markets, increasing the price pressure on Gazprom, creating more gas to gas competition, and undermining the oil-gas price link. The economic incentive to arbitrage low cost shale gas production in the U.S. into high cost European gas markets is likely to remain significant even if there is an upward swing in U.S. gas prices. The current market tightening in LNG supplies caused by Fukushima will only provide temporary relief to Gazprom.

It is also open to doubt how far Gazprom can be confident that European shale gas production will not take off. The resource base is clearly substantial. Cambridge Energy Research Associates estimates gas in place at 173tcm. Clearly, not all of that is recoverable. However, even if only twenty percent is recoverable, the European Union would have a recoverable resource base two-thirds the size of the total Russian gas reserve – but located in Europe, not Siberia.

In Central and Eastern Europe, the overriding concern is for energy security in the face of, according to the Swedish Defence Research Agency, over 40 politically motivated energy cutoffs between 1991 and 2004, combined with the Ukraine-Gazprom dispute in January 2009. Most Central and Eastern European states in January 2009 suffered heavy gas supply losses. There is now compelling political pressure across the region to develop any domestic energy resources that are available. At the very least, therefore, we are likely to see shale gas exploration proceed in some CEE states over the next few years.

It is also far from clear how far the environmental issues raised around shale gas will maintain their traction. Following the launch of the anti-shale gas film *Gasland* in Europe, France adopted a ban on shale exploration and production. However, a series of extensive and detailed reports have been produced on both sides of the Atlantic from the New York Department of Environmental Conservation; the Pennsylvania Governor's Marcellus Shale Advisory Commission; from the UK House of Commons Energy and Climate Change Committee and the IEA. All these reports come to broadly the same conclusion: the environmental issues are controllable with good regulation, sound surveillance and good business practices.

It is possible to take the view that no matter how detailed and extensive such reports are, the emotional arguments surrounding shale gas are so great that they will prevail over any rational analysis.

The problem with that view is that while the emotional arguments have some traction, they are likely to be trumped by two factors. First, by the energy security arguments described above, and second, by the fuel poverty arguments. The current strategy for combatting climate change involves deploying extremely expensive first generation renewable technology, largely wind and solar power. This may have been a workable energy strategy before the onset of the

economic crisis. It is now increasingly difficult to implement as states find it difficult to raise the capital and impose higher fuel costs on their hard pressed citizens.

The argument for gas is that it can deliver very significant Co₂ cuts without heavy capital expenditure and much lower overall fuel costs. Given the much lower Co₂ emissions from gas compared with coal, (between 50 to 60% less Co₂ emissions) Europeans could switch from coal to gas. This is underlined by a recent report by the European Gas Advocacy Forum which pointed out that by simply increasing the utilization of the capacity of existing European gas combined cycle gas turbine (CCGT) power stations from 45% to 70% and switching off an equivalent power generation capacity of coal, 200 million tons of Co₂ would no longer be produced each year. To achieve similar Co₂ cuts with renewables, the magnitude of the capital expenditure would be of the order of €80-120 billion.

Taking a conservative view of the impact of shale gas on Gazprom, global gas production will limit Gazprom's international market development. It will also provide increasing competition via LNG imports into the European market. Even if not even a molecule of shale gas is produced in Europe, Gazprom will find itself facing competition from numerous LNG importers for the European market. It is also difficult to see how European domestic production will not have an impact. The likelihood is that the CEE states, particularly Poland, and the oil and gas states in Western Europe (the UK and Netherlands, where the local bureaucracies are much more familiar with the technologies involved and have effective regulatory regimes in place) will be the first states to produce commercial quantities of gas from shale.

Gazprom's Offensive and Defensive Strategy; A Successful Play?

Gazprom's offensive strategy is to lever the new found German demand for Russian gas into acquiring downstream access to power generation, storage facilities and pipeline networks. This can be seen in recent deals with RWE and other German energy companies such as EnBW to obtain access to generation and pipeline assets. Gazprom is also seeking to ensure it can control the flow of gas from Nordstream directly to German consumers through the OPAL

distribution pipeline. Germany would effectively become the launchpad for Gazprom's downstream market penetration of Western Europe.

Defensively, Gazprom is seeking to close down the opportunities for LNG importers and potential shale gas producers by locking in its customers. This is partly achievable by organizing long term supply contracts with its key customers. To be effective, though, this policy has to go further and encourage its key customers to lock their own customers into long term supply contracts. Clearly, if Gazprom then controls downstream assets such 'lock in' is likely to be more easily achieved and third party suppliers kept out of the network.

It is nevertheless open to question how successful this strategy is likely to be. In the first place, it is difficult to see how Gazprom and the German energy companies can avoid the application of the EU's liberalization and antitrust rules. Denial of third party access to networks and foreclosure is likely to trigger antitrust investigations by the European Commission's antitrust arm, DG Competition. Given that DG Competition was happy to take on Microsoft at the height of the Bush presidency, it is open to question how Gazprom could stop DG Competition insisting on full compliance with EU competition law rules. The Commission has in fact already blocked Gazprom's participation in the Baumgarten gas hub. This may well be a harbinger of a number of future conflicts between the Commission and Gazprom. What Gazprom does not seem to recognize is that it is almost impossible for the Commission to back down without undermining the entire liberalization project in the European gas market and thoroughly undermining its own credibility.

In addition, LNG importers and shale gas producers can use the EU's own rules to both attack Gazprom and its German allies to obtain market access and – most embarrassing for the Commission – to attack DG Competition for failure to act. Under Article 265 of the Treaty on the Functioning of the European Union, the Court of Justice can rule on whether an EU institution has failed to act. Given the scope and nature of the rules on liberalization and the depth of the case law, the Commission would be in a very difficult position if it acceded to Russian and German requests not to apply the liberalization and competition rules.

It is also unclear how far Gazprom has entirely appreciated the impact of much larger quantities of cheap gas on European energy markets. While Gazprom

may seek to lock in existing customers there is a very strong likelihood that the gas market will expand as Member States seek to cut CO₂ emissions cheaply by switching from coal to gas. LNG importers and shale gas producers will be able to obtain a significant market beachhead through provision of cheap gas into these new market opportunities while bringing pressure to bear on that part of the market which has been foreclosed.

While Gazprom's strategy is convincing at first sight, on closer examination it simply does not recognize the legal environment in which it will have to operate. It may well obtain some short term successes but it will not be able to prevail against any sustained antitrust and liberalization challenge.

Gazprom: Finally Facing up to Reality

Gazprom's business model of sales of gas on long term supply contracts linked to oil to vertically integrated domestic dominant or monopoly businesses was a viable commercial proposition in an age of limited sources of gas and limited market liberalization. Unfortunately for Gazprom, such a business model is not sustainable in a market with growing and varied sources of gas supplies and with an increasingly open and liberalized market.

This old business model will come under such pressure over the next few years that it will collapse, forcing Gazprom's market share and influence to drop considerably. To avoid such a fate, Gazprom needs to face up to the new commercial realities now. Gazprom, and the Russian gas industry, does have a good and profitable future if they want to grasp it. It is a future in which Gazprom loses some of its domestic dominance to encourage competition and efficiency – a Russian gas market which focuses on delivering cheaper sources of gas in secondary conventional fields and shale gas resources around the existing pipeline networks. It is a future in which Gazprom levers its vast cheaper gas resources to obtain a major slice of a much larger European gas market.

The danger is, however, that the Gazprom board are so locked in to their existing business model that the company cannot move fast enough to cope effectively market developments. As a result Gazprom in fact becomes the marginal European supplier of last resort with consequent loss of revenues and influence across the European Union.

Challenges and Prospects for Russian Energy Exports

Ariel Cohen*

Russia is an energy superpower. It has massive resources, including 12 percent of the world's oil reserves and ten percent of the world's current production. When taking hydrocarbons together, to include oil and gas, Russia is indeed *the* energy superpower with the largest scope of production. But a lot of its production infrastructure is Soviet-era; it is capital-intensive and aging. So the question regarding Russia's role as an energy power is not about the present; the real question is what is going to happen to Russia's energy sector in the future.

The Future of Exports

Russia has emerged as the leading supplier of European energy imports, and it is determined to occupy that position for the foreseeable future. In order to successfully develop gas fields, which at times require tens of billions of dollars of investment, the following needs to occur:

- A bankable commitment to import gas for markets with sustainable purchasing power;
- Proven, geologically and economically extractable resources
- Financial resources to develop fields
- Financial resources to develop pipelines
- Manageable political risk

When the Nord Stream pipeline connecting Russia to Germany through the Baltic Sea sails through, Russia will have its gas resources from West Siberia,

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Yamal Peninsula, Shtokman off shore gas field in the Barents Sea, more or less committed for decades to come.

South Stream, Nord Stream's southern sibling, which is planned to go over the bottom of the Black Sea, is another high-stakes and expensive project that will be a vital component of Russia's energy exports to Europe. In this region, Russia seems to be ahead of the game in comparison with the Nabucco pipeline, which is facing geopolitical, financial and structural issues. Unlike South Stream, which is eagerly advanced by Gazprom and the Russian government, there is no private sector international oil company that is the champion of Nabucco. Instead, the national oil companies of the countries that are involved in Nabucco, from SOCAR in Azerbaijan, to BOTAS in Turkey, MOL in Hungary, etc., do not appear capable of putting together a project that involves that many countries. The many countries involved have often conflicting interests, and in the meantime, the Russian leadership is making short shrift geopolitically out of Nabucco.

European security of energy supply has mainly to do with concerns about supply disruptions arising from risks associated with gas supply sources and transit. In recent years, the issue of gas corridor diversification has become increasingly important for Europe as the EU officials try to reduce dependence on Russian gas.

In spite of its problems, the Nabucco consortium – strongly supported by the European Commission in the name of EU energy security interests – seems to be moving forward. The project achieved some success during 2010 as the intergovernmental agreement between Turkey, Romania, Bulgaria, Hungary and Austria was ratified by their respective governments. At the same time, however, there still remains uncertainty about the sources of financing for Nabucco and also about viability of possible suppliers, among which are Azerbaijan, Turkmenistan, and possibly Egypt and Northern Iraq.

Russia has been able to respond to the Nabucco challenge in two ways: first, downstream, by launching the competing South Stream project, which could ship Caspian and Russian gas to the same markets and also to other ones in Southern Europe such as Serbia, Slovenia and Italy; and second, upstream, by entering into long-term contracts directly with Turkmenistan to remove all the

available gas of the western Turkmenistani fields. South Stream seems to have a competitive advantage because the project will have access to proven gas reserves. However, there are doubts about the feasibility of South Stream project, since it may cost twice as much as Nabucco, and because Gazprom has recently suffered financially from the 2008-2010 global economic crisis.

Both Nabucco and South Stream are scheduled for completion in 2015. Competition theory can be used to shed some light on the probable outcomes of the competition between the Nabucco project and the South Stream project. These two pipeline initiatives compete on two levels: upstream, for access to Caspian or other sources, and downstream, for access to markets in Central and Southern Europe. Both of these two entities compete to buy gas from the same sources and sell it to the same geographic market. An important aspect of this competition is that these two entities have to attract a large-scale investment. In order for the Nabucco project to be realized, it will require a strong commitment and political will from the EU to formulate a comprehensive strategy in developing long-term contracts with potential gas suppliers in the Caspian region as well as ensuring sufficient investment in the pipeline infrastructure.

Despite widespread consensus about the importance of reducing energy dependence on a single supplier, the EU has not been successful in diversifying its energy sources. The EU's failure to formulate a common European energy strategy toward Russian energy dependence allowed the geopolitically-motivated Kremlin to strengthen its dominant position as the single largest energy supplier on the European market.

European states such as France, Germany, and Italy have cultivated bilateral energy relations with Russia at the expense of a common energy strategy towards the continent's dependence on Russian gas, thereby undermining one of the EU's fundamental principles, the multilateral decision-making process. Furthermore, the EU currently does not have sufficiently enforceable policy regarding transparency and competition in energy trade, nor does it have a common European strategy toward keeping Russian state-controlled energy companies accountable and transparent in energy trade – though in late 2011, EU institutions were beginning anti-trust investigations of Gazprom. As a result, the Kremlin's political leverage and lack of transparency in international energy transactions permeates the European energy trading market, which also may

have negative effects on Western energy firms operating in the EU energy market.

However, even if these projects are advancing Russia's influence over the European energy market, there are challenges emerging on the horizon. One of these challenges will be natural gas exporters, which have invested tens of billions of dollars into liquefied natural gas (LNG) production infrastructure and are targeting Europe as their primary market.

Then there is shale gas. The U.S., over a short period of time, has become self-sufficient in natural gas and is exploring exporting possibilities, including to Europe. Poland, and possibly Ukraine and Romania, have considerable reserves and may contribute to Europe's energy balance.

However, because of the environmental concerns that shale gas creates, it remains to be seen to what extent European environmentalists will – or will not – allow the development of shale gas on the continent. Even in the United States, with generally more liberal exploration and exploitation regimes, shale gas raises some questions in terms of environmental impact, issues such as water pollution and consumption.

Provided one can overcome the environmental challenges, shale gas has the potential of being part of the American effort to reduce its dependency on gas. This would be bad news for Gazprom, which a while ago aimed to capture 10 percent of the U.S. gas market. If Gazprom fails to achieve this aim, the question is where Russian gas is going to go, and what the implications will be for the large and expensive new fields that are being developed in Russia. Clearly, China and other destinations in East Asia are attractive for East Siberian and Sakhalin Island gas, but it remains to be seen whether Russia will develop massive new fields in the Arctic, as the recent Rosneft-BP deal seems to suggest.

Recoverable gas and oil reserves around Sakhalin Island, one of the world's largest natural gas fields, are estimated at almost 7 billion barrels, with natural gas reserves estimated at over two trillion cubic meters. The Russian government announced a number of programs to explore and develop East

Siberian oil and gas fields and to build a network of oil and gas pipelines.¹ Such developments are very costly and require significant investments. In addition, the Russian leadership realizes the need to open up to foreign investment in its energy sector, since Russia needs Western capital and technology to successfully develop its oil and gas reserves. Furthermore, Russia, unlike any of the other major energy exporting countries, is also one of the world's leading industrial energy consumers, primarily because of the country's inefficient, aging infrastructure and utilities.

In recent years, Russia has aggressively moved forward with expanding its presence in the Arctic region, while the U.S. has been less active in advancing its interests in this strategically important region endowed with vast natural resources.² As Arctic sea lanes become more navigable, competition for the vast natural resources of the Arctic is likely to intensify. In February 2011, Russia's state-controlled Rosneft and British petroleum giant BP entered into an agreement to develop Arctic oil fields with estimated reserves of 5 billion tons of oil and 10 trillion cubic meters of gas. However, Russian Arctic energy development is likely to face difficulties because of the significant risks and costs associated with the Arctic offshore drilling.

The Shtokman field in the Arctic has now been pushed back to 2016; even then, it is highly doubtful whether Shtokman will be producing gas by that date. Other fields under development in the Arctic and polar regions are often even more challenging than Shtokman. Only in the case of the Kovykta field is there likely to be progress; this eastern Siberian field was taken away from BP essentially by force by the Russian government, and handed to state-owned Gazprom, so that Gazprom could develop it and build a pipeline to China. Likewise, there is substantial additional gas in Eastern Siberia, including in Yakutia, that could be developed for the Chinese market.

However, instead of pursuing these very expensive development projects in faraway regions, planners in Moscow also seek more gas and oil from the

¹ U.S. Energy Information Administration, *Independent Statistics and Analysis, Russia: Country Analysis Brief*, November 11, 2010, accessed at: <http://www.eia.doe.gov/cabs/Sakhalin/Background.html>.

² Ariel Cohen. "From Russian Competition to Natural Resources Access: Recasting U.S. Arctic Policy," Heritage Foundation, Backgrounder #2421, *June 15, 2010*, at http://www.heritage.org/Research/Reports/2010/06/From-Russian-Competition-to-Natural-Resources-Access-Recasting-US-Arctic-Policy#_ftn62 (March 16, 2011)

Caspian region, i.e. from Uzbekistan, Turkmenistan, and Azerbaijan. They are doing this because Russian production capacity is steadily deteriorating .

If they are able to close deals with the governments of Turkmenistan and Azerbaijan, that would enable Moscow to obtain gas that could be resold to Europe. There have been some problems as a result of the financial crisis: prices in Europe dropped further than the prices Moscow had promised Caspian producers. But this was a tactical, not strategic setback.

Turkmenistan may be considering construction of a Trans-Caspian gas pipeline to Azerbaijan which would eventually connect with the EU-backed Southern Gas Corridor to Europe. Despite Russia's opposition to the move, Ashgabat has launched construction of the East-West pipeline across its own territory to connect its onshore gas fields with the Caspian coast. The Turkmen East-West overland line is expected to be completed by 2015. If the Trans-Caspian pipeline comes to completion, Turkmenistan would be able to target European markets. However, if the pipeline were launched ahead of Nabucco, it would preempt available volumes of Azerbaijani gas, thus, potentially, delaying the realization of Nabucco project.³

If Moscow does have spare export capacity, and it is not exported as LNG to the United States, it is highly likely to be sold to China. China is a growing market and, since Europe will be either growing very slowly or remain a stagnant market, Russia appears very interested in expanding its role in the Chinese market. Achieving these aims will be expensive, as it will require longer pipelines. However, with Chinese financing, a strong energy partnership between China and Russia is already developing. On January 1, 2011, the first oil pipeline linking the world's biggest oil producer, Russia, and the world's biggest consumer of energy, China, started transporting oil.⁴ The pipeline, running between Siberia and the northeastern Chinese city of Daqing, will allow a rapid increase in oil exports between the two countries. The project, partially financed by Chinese loans, cost \$25 billion, and is expected to export 300,000 barrels of oil

³ Vladimir Socor, "Turkmenistan promotes trans-Caspian pipeline for gas to Europe," Jamestown Foundation, Volume 8, Issue 46, March 8, 2011.

⁴ Institute for Energy Research. "China: World's Largest Energy Consumer; Surpasses the U.S.," August 8, 2010, at http://www.instituteforenergyresearch.org/2010/08/06/china-world%E2%80%99s-largest-energy-consumer-surpasses-the-u-s/#_edn1 (March 16, 2011).

per day through the new pipeline during the next two decades.⁵ Prior to 2011, China received modest oil supplies from Russia only via rail, but with the new pipeline developments these volumes could substantially increase, especially as Russia plans to develop new fields in East Siberia.

The energy relationship between China and Russia is based on a convergence of interests between Russia's vast endowment in natural resources and China's increasingly growing demand in energy. The advantage of geographic proximity provides China with a direct overland link to resources rather than the vulnerable overseas routes from the Middle East and Africa. As a result, Russian supplies carry a unique strategic significance for China.

By lowering domestic consumption of gas and oil, Russia could have even more resources to put on the market. Domestic consumption provides a huge potential for energy savings, and if Russia saves more energy, it would be able to export more energy for hard cash. Selling technologies that would make Russia more energy efficient and, as a result, would put more available resources to the market would be an excellent market for American and Western European companies, if the opportunity presented itself.

Nuclear energy is another alternative to Russian gas and fossil fuels; it is relatively inexpensive, and both French and Japanese companies are able and willing to assist and sell the technology. Unfortunately, the West is caught in a narrative that is very anti-nuclear, but this is not quite true with Russia. Russia is a major player in the field of nuclear energy, and will be a major player in the global nuclear game. Presently, sometimes to U.S.-European chagrin, Russia is selling nuclear reactors to Syria, Venezuela and other suspect members of the global community.

Modernization: Bottom Up

Modernization is the overall theme that touches upon the condition of the Russian energy sector and the rest of the Russian economy. It should be recalled that going back in history and examining how Russia modernized since Peter the Great, this was always a top-down modernization, trying to capture technology without capturing the Western soft architecture. An example is

⁵ "Russia-China oil pipeline opens," January 1, 2011, at <http://www.bbc.co.uk/news/world-asia-pacific-12103865> (March 16, 2011).

when Peter the Great defeated Sweden. He took the Swedish administrative model and imposed it on Russia, but he left out the local government element. The Swedish model, an inherently much more democratic system, was made into an authoritarian model.

As Moscow is trying to kick-start its current modernization process, it is in many ways repeating those old sins. In the end of the day, real modernization, as seen elsewhere in the world, comes from inside, bottom up, with the rise of an entrepreneurial spirit and the development of the rule of law. Instead, President Medvedev put oligarch Viktor Vekselberg in charge of the modernization project, trying to do so by creating specific islands of modernization for entrepreneurs, of which the Skolkovo initiative is an example.

This is Russia's attempt to create its own version of the Silicon Valley, but unlike an organic brain-station, it is an artificial top-down project. The rationale for Skolkovo was the lackluster performance of the Russian military during the Georgia war. Russian policymakers know how poorly the Russian military actually performed, how the military hardware was breaking down and how difficult it still is, thirty years after the beginning of the revolution in military affairs, to create a high-tech, networked Russian military. They realized that they needed to boost their domestic military industrial potential.

However, in the long term, if the way the country is doing business is not changed, relying upon a pocket of subsidized innovation at Skolkovo, thirty kilometers from Moscow, will not suffice, and modernization will have a long way to go. The European Union could do its part to push for a visa-free regime for Russians and Europeans to go back and forth, and to allow Western dispute resolution for all investment projects in Russia.

Conclusion

Russia is now facing a more challenging environment than when the demand for gas was going up, but it would be a mistake to count Russia out. Certainly, Russia has missed the boat of LNG somewhat, and Russian oil will be much more expensive to produce and to transport than, for example, Iraqi or even Iranian oil. But even if Russia has difficulty competing with the Middle East on cost, it is in a much better position geopolitically and has a lot of experience

selling piped natural gas. Russia plays the oil game globally; reaching out to Hugo Chavez's Venezuela, to Africa, and to Iran to develop oil and gas through their national oil and gas companies. Since Putin came to power, the role of the state in managing oil and gas resources increased considerably. Russia prefers dealing with foreign national oil companies, not the private sector. That said, in comparison to Venezuela or even some countries in the Middle East, Russia is a more conducive environment for investment than some of the stronger state regulators.

Thus, Russia is likely to remain, in the next decade, an energy superpower with policies that often make the United States and its European allies quite uncomfortable.

How to Speak European Security: The International and Domestic Grammar of Medvedev's Proposal to Europe

Carolina Vendil Pallin^{*}

In 2011, the draft for a new European Security Treaty (EST) published on President Dmitri Medvedev's presidential website in late November 2009 no longer appeared to be a priority in Russia's Ministry of Foreign Affairs or among analysts. Instead the question of missile defence in Europe had moved forward as the top item on the agenda. In 2009, however, Russia's envoy to NATO personally handed over the draft treaty to NATO's Secretary General Anders Fogh Rasmussen. Russia probably did not harbour a serious hope of it being signed and returned by mail by the heads of states and chief executives of organizations such as NATO, the EU and OSCE – all of whom received their own copies of the text. Instead, this was Moscow's way of signalling that it did not regard the response so far to Medvedev's initiative to review the European security architecture as satisfactory.

The question thus became how to respond: how to speak EST with Russia. The fact that Russia had initiated discussions and negotiations on security in Europe was overall positive and an opportunity to embrace for the West. However, there were a number of questions for Western states that were worth examining and reaching internal agreement upon. First of all, was it indeed true that all states have the same security interests and that they perceived these in the same way? Second, was it worth attempting to reach an agreement on hard security as a way of bridging differences in values between the West and Russia? And,

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finally, should the West voice its support for the EST as a way of buttressing Dmitri Medvedev's position in the Kremlin?

Different or Similar Security Interests?

Russia had frequently accused the EU and the West as a whole of using values as an excuse for not engaging with Russia on the question of hard security. Let us for the sake of argument accept the Russian proposition that hard security could be negotiated divorced from soft questions such as human rights and economic freedom. It would be a very desirable thing to achieve a common security sphere in Europe and perhaps even one that stretches from Vancouver to Vladivostok. And if all states have the same security interests, it is difficult to see why this should not be achievable. Russia has furthermore maintained that there is only one choice – one between indivisible, collective security or no security at all. In a speech on December 9, 2008, shortly after the publication of Medvedev's draft security treaty, Deputy Minister of Foreign Affairs Alexander Grushko stated that: 'Security can be either indivisible or there is no security.' And according to Vladimir Chizhov, Russia's ambassador to the European Union, speaking in Istanbul on June 27, 2009, 'any serious and unbiased analyst would agree that there is no alternative to collective solutions of security problems, that there is no way of providing one's own security at the expense of the security of others'.

These statements by two of Russia's most distinguished diplomats suggested that security was absolute or did not exist at all, and that it was not a matter of different degrees of security for the states involved. However, this was not always the case and there were real differences, for example, when it came to the security interests of small states compared to large states, of states neighboring Russia and those geographically far removed from it. Furthermore, experience suggests that when trust and perfect information is in short supply, the risk that states will chose the least risky path towards maximizing their security should not be ignored. An adapted version of the game theory matrix of the Prisoners' dilemma illustrates the problem.

Figure 1: Adjusted Prisoners' Dilemma Matrix

	<i>Cooperate</i>	<i>Increase security at expense of other state</i>
<i>Cooperate</i>	Most security/ Most security	Very much security/ Zero-little security
<i>Increase security at expense of other state</i>	Zero-little security/ Very much security	Medium degree of security/ Medium degree of security

It is to be preferred that we all find ourselves in the upper-left box where all states cooperate and increase security overall in the system. However, the main concern of all states involved will be not to end up in the box where one's own security is dramatically reduced. That is why we often still face the risk of finding us in the box that Grushko referred to as 'no security'. This is a much better box, for a given state, than the one where willingness to enter into a compromise would allow another state or alliance to increase its security drastically at the first state's expense. In other words, a question of degrees of security probably did come into play when Russia's EST proposition was considered and the prisoners' dilemma matrix proved of some relevance. It presupposes imperfect information, which in the case of security often boils down to distorted perceptions of each other and a significant lack of trust.

The overall impression was that Western capitals and Moscow spent a considerable amount of time and money trying to figure out what the other side actually wanted, what was behind the official statements. In a speech in Vienna on June 23, 2009, Minister of Foreign Affairs Sergei Lavrov even considered it necessary to point out that: "there are no grounds for being afraid of our ideas or for seeing in them some sort of hidden traps." The statement constituted a clue as to how Russia believed its initiative was being perceived in the West. And to a considerable degree Lavrov was probably justified in thinking that a number

of states in the West suspected a Russian trap. It spoke volumes about how far from each other the West and Russia stood. Both sides tried to figure out the intentions of the other side, whether there was a hidden agenda or a trap, or if the rhetoric was realistic, a courtesy to official ideology or primarily used for consumption at home. There was no lack of information, but interpreting the information constituted a moot point.

The proposition that all states have the same security interest was thus incorrect for a number of reasons, some of them historical or cultural and tied to perceptions. More importantly, there was furthermore a basic conflict of interest between large states and small ones. Russia talked of the need for ‘collective leadership’ and ‘multipolarity’ in international relations. This entirely ignored the difference between emphasis on security of states and security of alliances. From the perspective of small states, such as Sweden and Finland, it was worth emphasizing that the devil is in the detail. When Russia used the text from the Charter of Security in Istanbul in 1999 that “no state should be allowed to increase its security at the expense of another state”, small states would tend to agree. But when Moscow added that no alliance should be allowed to increase its security at the expense of other alliances or states, the question became more complicated.

Accepting that NATO (or perhaps even the EU) should not be allowed to invite new members without the consent of Russia or the Collective Security Treaty Organization (CSTO) violated another core principle from the Istanbul declaration: the right of each state to choose its own security arrangements. Although opinion polls in both Finland and Sweden indicated that a majority of the population is clearly against NATO membership, the near to middle-term prospect of a security treaty that would curtail Sweden’s and Finland’s sovereign right to decide on membership could push both countries into NATO at full speed.

The Soft Realities of Medvedev’s Fast Track to Hard Security

Medvedev’s proposal was an attempt to build military security divorced from consensus on values and, thus, from the economic and environmental as well as human dimension of the OSCE, the so-called second and third baskets. Moscow somewhat grudgingly accepted that its initiative inside the OSCE became channeled into the Corfu Process, and there connected to the commitments in

the Helsinki Final Act. Russia's way of overcoming this disappointment became to argue that it supported the Corfu Process, but that it regarded it as separate from the original initiative to achieve hard security without the complications of involving soft security questions connected to the second and third baskets. According to the Director of the Department of Pan-European Co-operation of the Russian Ministry of Foreign Affairs, Vladimir Voronkov, speaking on September 15, 2009:

The Russian proposal regarding the drawing up of a Treaty on European Security and the Greek "Corfu Meeting" initiative are mutually overlapping but not mutually replaceable approaches. The difference is simple: The Treaty on European Security is a document drawn up with the involvement of all the international structures of the Euro-Atlantic region, while the "Corfu Meetings" are discussions within the framework of the OSCE covering a broad agenda that includes the enhancement of the Organization's effectiveness and its three "baskets".

In his remarks at a conference in London on December 9, 2009, deputy foreign minister Alexander Grushko stated that a treaty would indeed not solve all the difficulties, and according a statement by Vladimir Chizhov on June 27, 2009 "the OSCE never became a full-fledged international organization with adequate legal capacity." In his view, a legally binding agreement could overcome the confidence deficit:

The most perishable commodity in international affairs is confidence. It is best established on the basis of legally binding obligations, rather than vague political commitments. This conclusion is based on hard facts: commitments not to expand NATO eastwards, to ratify the adopted CFE (just two examples) were never adhered to by members of the North Atlantic alliance.

In other words, the Russian position was that it recognized that there was a basic lack of trust and confidence, and that the process of building this could go on inside the OSCE within the framework of the Corfu Process, but that a

legally binding document constituted a fast track to security and to reaching a greater degree of understanding between Russia and the West.

The critique of this approach was hard, both from Western and Russian experts. Usually, it is not the final document, but rather the negotiations on a treaty between states and international organizations, that makes the process worthwhile. Arriving at a text and a compromise that is acceptable to all parties concerned reveals the divisions that exist and the limits of what is possible to achieve; it also exposes differences in perceptions and goals that perhaps previously were not spelled out. In spite of the language used by Moscow to describe its proposal, such as speaking of a 'common Pan-European home', it was difficult to see how a legally binding document could solve the conflicts of interests and values that had emerged between Russia and Europe.

A good indication of this was to ask which states were to be allowed to sign the treaty. Russia stated that the draft treaty had been sent to 'the heads of relevant states'. An intriguing question then became whether Abkhazia and South Ossetia were invited to sign the treaty, and if Kosovo was considered a relevant state. The very question of which states were invited illustrated the problems inherent in Russia's proposal on a deeper level, since it pointed to how international law, which Russia has referred to as a solution to hard security problems, was interpreted differently in different capitals. The UN Security Council would not prove an effective mechanism for pronouncing a verdict according to international law. The Russian government referred to the Security Council in a foreign policy document leaked in May 2010 as an institution where Russian support "is more necessary for the Chinese than theirs to us". This is thus an institution where great powers tend to decide *not* to agree, rather than a court where best legal arguments prevail.

For Europe and the rest of the West there were some very good reasons for not attempting the idea of a fast track to hard security and hoping that convergence of values would follow automatically. It would have been unwise to sell out the Helsinki Treaty and follow-on gains for at least two reasons. First, doing so would have reduced Western cohesion internally. Europe and the West have united and built its community around these values because there is a common belief that they constitute the best way to organize states, to promote economic growth and mutual cooperation, not least in the field of security. It is also worth

underlining that Western states have not united around *laws* as such (these differ between states), but rather around the acceptance of *rule of law*, a common value and a principle that puts law above rulers and political leaderships.

Second, these are values that add to the West's and Europe's ability to attract third states to accept its *acquis* and engage in trade and other forms of exchange and cooperation. It has come to represent a formidable resource of soft power – not to be sold out lightly for uncertain gains. Values are not fluffy or a fancy glossing, they are power resources that should be used with care and also be taken care of as such. If the West accepts compromises concerning its fundamental values community, it signals that values do not matter and that they are not taken seriously even by their champions.

Medvedev's Initiative and Russian Domestic Politics

To understand the Russian proposal, it is necessary to analyze it in the context of Russia's grand strategy and of Russian domestic politics. Russia pursued great power status simultaneously with a policy conducive to modernization and – at least up until the economic crisis in 2009 – it tended to give priority to its great power status and national sovereignty before establishing better terms of trade with the EU and the rest of the West. It remained to be seen whether the “leaked” document on a new foreign policy that put modernization goals first was an attempt to pursue both goals more successfully – but with essentially the same priority accorded between them – or whether it was a real shift in Russia's foreign policy.

One of the main reasons for Russia's decision to give priority to great power status was the close link between it and Russia's national identity – and by extension, the Russian political leadership's legitimacy and ability to stay in power. In other words, much was at stake and the question was whether the Kremlin would be able to afford abandoning its great power rhetoric. Russia's leadership appeared increasingly convinced that pursuing a legally binding European security treaty was the best route to increase national security and regime survival, in spite of the skeptic response from European states, NATO and the U.S. to Medvedev's initiative.

In June 2009, Vladimir Chizhov maintained that “in spite of some reservations and objections, in general it has been received with genuine interest.” The goal

of reaching a treaty had been reiterated not only in official national security documents and international statements. The same message had been delivered to the Russian elite. At a meeting with the top military leadership on March 8, 2010, Medvedev stated that:

The barometer of our relations with the United States of America and with NATO is in many respects the reaction to the Russian initiative on signing a European Security Treaty. A deciding factor will be the degree of readiness of our partners to reinforce in a legally binding form a commitment to the principle of indivisibility of security in Europe. This document is being discussed relatively actively now. I am convinced that the Treaty that we have proposed is the very format, which could provide the framework for avoiding various regional conflicts, above all on the European continent, including conflicts such as the Georgian-Ossetian one.

This statement was surprising in view of the, at best, lukewarm response from the EU, NATO and the U.S. thus far. Making the EST into a top priority in domestic rhetoric involved the risk of losing face for the Russian leadership, or at least for Medvedev, when it failed to deliver a legally binding treaty. The fact that NATO was described as a military danger rather than threat in the military doctrine in 2010, and thus not primarily deciding the future structure of the Armed Forces, was probably difficult to swallow for Russia's generals. A painful set of reforms set in motion throughout the Armed Forces after the war in Georgia in 2008 became the target of heavy criticism from leading members of the military elite. A failure to sell the idea of a European Security Treaty probably undermined the Kremlin's security policy even further in the eyes of the military.

The Russian proposal for a European security treaty and the way it was presented said a number of interesting things about the dilemmas that the Russian political leadership stood before. The West needed to play its cards carefully not to miss opportunities to build bridges with Moscow, but at the same time needed to have a clear strategy for how to promote negotiations and cooperation without selling out its own cohesion and security gains made over a number of decades. The idea that a legally binding treaty would be a promising avenue towards overcoming the basic divisions that exist between Russia and

Europe remained difficult to accept. The West and Russia referred to the very same basic principles in international law – such as the sovereignty of states and their relationship between the right to territorial integrity and the rights of minorities – and arrived at opposite conclusions. Moscow and the Western capitals came to different conclusions when it came to deciding which states should be allowed buy air defense systems, too. Was it at all possible to come up with a legal framework that both sides agree upon and that decides whether, for example, Poland or Iran should be allowed to import such weapons systems and deploy them? A treaty would not solve this problem and the proposition that a treaty can come first and convergence of values later (if at all) would be a risky strategy for the West. Russia signed a number of international treaties and charters documents. It was difficult to see how this treaty, which contained only a very weak sanctions mechanism, would prove different from previous ones.

Should the West, then, have supported Medvedev's initiative because it believed it would be a good way of supporting a relative liberal in the Kremlin, or at least of not undermining his position? Power and politics in Russia remained very much a question of persons rather than policies. However, the West was wise in refraining from playing this game. It is impossible to correctly understand the rules and stakes in the power game inside the Kremlin and to guess who is calling the shots in Moscow now or two years from now. The issue was not whether Vladimir Putin pursued one policy and Medvedev another and who of the two leaders the West should support – if there indeed was a tug of war between them at all. The West committed the mistake of supporting individual politicians before and should avoid doing so in the future. The West would resent it if Moscow said it supported Barack Obama against Hillary Clinton or David Cameron against Nick Clegg. Perhaps most importantly, if Medvedev was indeed pursuing a modernization agenda against firm resistance from a *siloviki* block headed by Putin and Igor Sechin, which was the rather vulgarized version of Russian politics served to the Western audience, support for Medvedev personally could instead damage his position and become cumbersome political baggage in the power game in Moscow.

In other words, the discussion regarding who is top dog in Moscow should be reserved for intelligence briefings and kitchen table discussions. Instead, sound Russian policy initiatives should be applauded and when these materialize into

concrete action, supported – but not before they do. The end goal is common to the West and, most probably, to Russia and should be reiterated often: a Russia that is a strong and prosperous state and fully integrated in the world community and economy. Rather than simply forgetting Medvedev's initiative, there is every reason to try and draw the right conclusions from the experience.

Experimenting with 'Reset' in the Uncongenial NATO-Russia Relations

Pavel Baev*

The prospect for newly-reelected – and essentially self-appointed – President Vladimir Putin coming to the NATO summit in Chicago in May 2012 did not look good as of late autumn 2011. It may be useful to reflect, however, that in summer 2010, the chance for President Dmitri Medvedev coming to the NATO summit in Lisbon also appeared slim, but it did materialize marking the high point in the 'reset' policy adopted by the Alliance following the initiative pursued by the Obama administration. It took less than a year for this policy to exhaust its drive, and the 'reset' can now be added to the list of false-starts in the uninspiring history of NATO-Russia relations.

This track record of setbacks is often explained away as a consequence of misperceptions, misunderstanding, and habitual recycling of old stereotypes. It should not, then, be that hard to break through that discursive mental block to a cordial cooperation, but the fact of the matter is that the dislike and mistrust between Russia and NATO is an objective reality, and both sides dislike one another for good reason. The war in Kosovo was not an old stereotype; neither was the war in Georgia. For that matter, looking at the war in Kosovo, it is hard to overestimate the impact that it had on Russian perceptions of capabilities and intentions of the post-Cold War NATO – a truly colossal impact. By contrast, looking at the war in Georgia, it is remarkable what little impact it had – after the initial outcry – on the Western attitude to quasi-modernizing Russia. In just a year from that conflict, everybody became very eager to turn the page, and by now the war that allegedly 'shook the world' has been reduced to an unfortunate incident.

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The point here is that not just that the guns of August 2008 warrant more reflection but that the mutual mistrust between Russia and NATO is serious. The two non-partners take one another for what they really are. Other contributions to this volume discuss the issue of what Putin's Russia is and what trajectory it is following. But what is NATO as far as Russia is concerned? This paper attempts to explore the limits of Russian readiness to do business with the Alliance.

The Risks of Multi-Polarity

One of the key features of the Atlantic Alliance as far as Russia is concerned is that it constitutes the embodiment of that principle of indivisibility of security that President Medvedev speaks so much about. That indivisibility has limits, as the intervention in the civil war in Libya has shown yet again, but it is not a figure of speech and has solid real substance. Everything else in the European security system is divisible – and this is the reason why every smart idea about making the European security system really indivisible has a very pronounced anti-NATO subtext.

Two other basic features of NATO – from Moscow's perspective – are that it is an institutional manifestation of U.S. leadership, and also the incarnation of European unity. As for the former, it does not take a Russian to establish that it is in fast and probably irreversible decline, but it is in the Russian political thinking that this trend is positively stressed and the advent of a multipolar world is eagerly anticipated.

This attitude cannot be completely rationalized because the pronounced dislike of U.S. leadership clouds the judgment about its benefits for Russia. These benefits are perhaps most substantial in the Asia Pacific context, where Moscow is trying to show readiness to play hardball by accentuating the Kuril Islands dispute with Japan but is objectively in the position of deepening weakness. As Kadri Liik notes in her contribution to this volume, Russia stands to be a loser in the competitive multi-polar world, so the propagation of this concept is essentially a self-defeating proposition.

Risks related to the presumed U.S. desire to restore its leadership are seriously over-estimated in Moscow, while the risks of conflicts in the leaderless world

shaped by shifting power balances are typically downplayed and covered by talk about strengthening international institutions, while few in the Russian leadership, and Mr. Putin least of all, could be characterized as 'liberal internationalists'. The expectations of waning U.S. leadership are centered on Europe, and the assumption that Washington will have to prioritize relations with China is entirely reasonable, but the proposition that a NATO neglected by its master will degenerate into a quarrelsome talk-shop is rather far-fetched.

A similar combination of realistic assessment and wishful thinking is characteristic for the Russian perception of the European unity in the Atlantic Alliance. There are good reasons to believe that the chain of financial spasms would damage the solidarity that underpins the integrity of the EU structures, while the severe cuts in budget allocations for defense would erode the capability for collective military action on which NATO is based. Moscow presumes that these centrifugal trends would play into its hands and increase the opportunities to play the Europeans one against another – and against the U.S.. There is, however, very little acknowledgement of risks for the Russian interests generated by the European disunity. If NATO and the European Union slip into trouble, Russia slips into far greater trouble because of its deeper economic vulnerability.

The first wave of the ongoing crisis inflicted greater damage in Russia than in any G20 state, but this lesson is lost on Putin because his scheme for coming back to the Kremlin was never challenged. He observes with condescension how the European Union is struggling with the Greek troubles and scorns at NATO's attempts to declare the intervention in Libya a success, but remains in denial about the potential consequences for stagnating and self-doubting Russia.

In the Shadow of Afghanistan

Responding to the unavoidable cuts in funding for facing unexpected challenges, like the violent collapse of Qaddafi's regime in Libya, NATO keeps reinventing itself – and it has an impressive track record of resolving this well-nigh impossible task. Opinions on the optimal balance of tasks for a 'new NATO' have often differed widely, and for that matter, the work on the New Strategic Concept (adopted at the Lisbon summit) involved hammering a compromise

between two major camps. The first one brought together globalists, who saw the main mission for the Alliance in conducting 'out-of-area' operations of various kinds, from fighting piracy to muscular peace-enforcement. The second camp united traditionalists who insisted that good old collective defense should remain the prime task for the Alliance.

This battle is set to continue, but what is relevant here is that a third camp and a rather unusual one in NATO history also made a strong imprint on the Concept, and it comprised those who put priority on engaging Russia. NATO Secretary General Anders Fogh Rasmussen started his tenure in mid-2009 with a strong personal commitment to building ties with Russia, and under his instructions the group of 'wise men' chaired by resourceful Madeleine Albright made every effort at taking Russian views on board in their work on the conceptual draft. Truth be said, those efforts were not exactly warmly welcomed, and the camp of 'Russia-firsters' had good reasons to be frustrated with the less than lukewarm response in Moscow to their best intentions.

Nor that their motives were misconstrued by the Russian leadership, but it was perfectly clear that the main aim of 'engagers' was to make NATO more relevant, to strengthen the role of the Alliance in the European security system. That went exactly cross-purpose with the aims advanced by the Russian diplomacy. It is characteristic in this regard, that in the new Russian military doctrine approved in early 2010 (at the high point of the 'reset' with the U.S.), in the long list of security threats and dangers only one entry is issue-specific, and it deals with NATO. This paragraph defines as the sources of danger the Alliances's global ambitions for intervening in conflicts far from its borders and the deployment of its military infrastructure close to Russia's borders, so both the 'interventionists' and the 'collective defenders' are equally condemned for their sins.

From an impartial perspective, Moscow should be more concerned about the position of NATO 'fundamentalists' since their commitment to collective defense implicitly defines Russia as the 'enemy'. Russian leadership was indeed irked with the *Wikileaks* revelation (just a month after the Lisbon summit) regarding the new plans for deploying a strong grouping of forces in a situation where the Baltic states would feel threatened. Such plans could have qualified as a grave danger warranting the strongest possible counter-measures if NATO

stayed on track of eastward expansion, but since no movement on this track is discernible, Moscow can treat the rearrangement of dwindling capabilities by the Alliance with pro-forma protestations.

Russian criticism of NATO intervention in Libya (which did exceed the limits of the UN mandate provided by the Security Council Resolution 1973) should not be taken as a cancellation of consent for cooperating with the Alliance in the 'out-of-area' operations. The camp of 'interventionists' is perfectly aware that despite the preoccupation with domestic troubles, the need in such operations is set to increase – and that the potential for joint action with Russia is significant. One example can be found in the protection of shipping against piracy in the Indian ocean, where the Russian Navy managed to score a few successful (even if controversial) hits. The rationale for combining efforts in protecting convoys and monitoring the main sea routes is obvious, and it may still be realized because the challenge is not effectively contained. History provides ample evidence that a solution to the piracy problem can only be found on-shore, and Russia could be a very valuable partner in executing such a solution.

The main and absolutely pivotal direction of 'interventionist' cooperation between Russia and NATO is Afghanistan, and while the promising opportunities for taking Russia on board this impossibly difficult operation back in 2002 (when it did not look all that hard) were missed, the opportunities in securing NATO's withdrawal are carefully cultivated. Moscow has long concluded that this intervention is doomed to failure but it has been extremely careful not to act – or to be seen – as a 'spoiler' assuming that Russian interests are best served by NATO and the U.S. remaining engaged in this hopeless enterprise for as long as possible. It could have probably gained more political ground by being less niggardly in the bargaining about the costs of transit and the prices for helicopters, but now the Russians are worried about the consequences of NATO retreat from this war zone – and perhaps not worried enough.

Russian experts tend to believe that the Karzai government is even less stable than that of Najibullah back in 1990, so the main strategic task would be to limit the spill-over from the non-stop civil war in Afghanistan into Central Asia. It was the crisis in Kyrgyzstan in 2010 that revealed the fragility of the 20 years old 'stan'-projects, and while Moscow (as Svante Cornell argues in his chapter in

this volume) quite possibly had a hand in the coup that deposed President Kurmanbek Bakiyev, it was caught flat-footed by the escalation of violence in the Osh region. Some steps in strengthening the role of the Collective Security Treaty Organization (CSTO) have been taken since, but the Russian leadership is perfectly aware that it has no military capabilities for performing an intervention similar to the one in Tajikistan in 1992-1995, while the regional allies, and first of all the crucially important Uzbekistan, remain unreliable. Moscow is not imagining Central Asia as a subject of geopolitical contestation with the West anymore, which helps in expanding support for the NATO operation in its delicate final phase, but it has to accept the unappealing prospect that in any possible regional crisis in Central Asia it would have to ask for and provide support to China's power projection.

Out of the Euro-ABM Deadlock

Since the Reagan-Gorbachev summit at windy Reykjavik 25 years ago, the problem of strategic defense against ballistic missiles has never disappeared from the U.S.-USSR/Russia strategic bargaining, but for long periods of time it was downplayed, so that even the destruction of the ABM Treaty by President George W. Bush in 2001 produced only limited fall-out. President Barack Obama found a way to reduce its salience in the NATO-Russia relations, but it was clear that the smart diplomatic maneuvering that made it possible to welcome President Medvedev at the Lisbon summit did not pave way to any meaningful solutions.

Indeed, by the autumn of 2011 negotiations through all channels had arrived to dead-ends that require more political will than was available in Moscow, Washington and Brussels – and not for breaking through the technical obstacles, but for admitting the impossibility of a solution. Russia can count only on the reluctance, or indeed inability, of most European states to share the costs of a fully-operational system, but this complication cannot change the fact that it finds itself caught in a self-made trap, which consists of three inter-locking discordances in its firmly declared position. The first one is the irreconcilable difference between the political position that the U.S. missile defense system undermines Russian deterrent capabilities and the technical data that demonstrates that it does not. The second incoherence grows from the strong doctrinal emphasis on deploying Russia's own air-space defense system that

ignores the lack of technological capacity for building usable assets for such a system. The third one is shaped by Medvedev's non-starter Lisbon proposal to grant Russia a sector in the joint system, which is clearly unacceptable for the allies and also technically unfeasible, so that Moscow is stuck in the unenviable position of being unable to stop it – and unable to join it'.

Downplaying and back-pedaling are the only available methods of escaping from the unbreakable deadlock, but Putin is loath to swallow a proposition, which he has declared 'unacceptable' so many times. The procrastination not only stands in the way of his partaking in the Chicago summit, which is by no means of crucial importance, but also blocks the progress on two potentially productive avenues in the NATO-Russia interactions. The first one leads to deep cuts in the non-strategic nuclear weapons, which remain entirely non-transparent and, according to unreliable estimates, hugely redundant in the Russian inventory. Talks on reducing these 'battlefield' weapons, advocated by the Obama administration and many Europeans, would inevitably require far deeper cuts of the Russian arsenal and probably cannot aim at establishing any symbolic parity, so Moscow plainly rejects any beginning of conversation on this topic. The second avenue goes to the revival of conventional arms control in Europe, even if the CFE Treaty is probably beyond rescue, but confidence-building can nevertheless be advanced through small steps and non-sensational initiatives.

The area of cooperation with NATO that is most valuable and indeed badly necessary for Russia is the assistance in advancing its poorly designed and seriously troubled project of reforming the armed forces. This assistance can take many forms, from exporting major weapon systems like the *Mistral* amphibious assault ship to building combat training facilities to upgrading the military education system. It is essential for the Alliance to adopt a political line in this direction rather than letting France or Germany to pursue their parochial interests. What makes drawing such a line a very difficult political exercise is the plain obvious point that the reforms are aimed at making the Russian army stronger and capable of performing combat tasks in a wide range of possible conflicts. Eager as many allies are to turn the Georgian page, there is no way of telling what would be the wars that this Russian leadership chooses to fight.

Ukraine – Where Is It Going And How Should We Help?

James Sherr*

Ukraine Under Yanukovych

Within weeks of the elections that brought Viktor Yanukovych to power in February 2010, two distinct forecasts emerged about the nature and direction of his presidency. For one set of observers, he was both an authoritarian and a Russophone figure, determined to install a Putin-style vertical structure in the country and reverse its integration into Western institutions. Their apprehensions were swiftly given impetus by Yanukovych's crude revision of parliamentary procedures, his parliamentary coalition with the Communists and, not least, the suddenness of the agreements regarding the Black Sea Fleet (through the Kharkiv accords of 21 April). For a second set, Yanukovych was a hard-headed pragmatist, cool towards NATO, but dedicated to European integration and a potential unifier, whose priorities would be squarely focused on economic growth and effective governance after the 'chaos' of the Yushchenko-Tymoshenko years. These views, too, were swiftly reinforced by Yanukovych's visit to Brussels, his reaffirmation of the 'European choice' and his restoration of a solid relationship with the IMF.

Within months, it became plain that both perspectives required amendment. As amended, the gap between these perspectives has somewhat diminished. First, it has become clear that Yanukovych's core preoccupation is neither the West nor Russia, but the proverbial 'question of power' and the securing of long-term dominance over the politics and economics of Ukraine. In this aim he has been assisted by the striking demise of the Orange opposition. Even Yulia Tymoshenko's arrest has not arrested the decline in her support (which

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according to a September poll of the Razumkov Centre had fallen to 14 per cent).

Second, in spite of this fact, the country has not changed its character. Students, journalists, professionals and entrepreneurs, not to say ordinary people, have not lost the habit of speaking their minds and pushing back. Whilst it is true that ‘Yanukovych is governing a divided country in a divisive spirit’,¹ he is also co-opting former opponents (notably, the businesses that once supported Tymoshenko). Nevertheless, the popularity of the Party of Regions (15 per cent according to the same Razumkov poll) has reached a dangerously low ebb.

Third, well before the summer 2011 energy dispute erupted, it became clear that the honeymoon with Russia was over. What Yanukovych saw as decisive, proactive concessions that would diminish Russian pressure only increased it. When Yanukovych told Medvedev in May 2010 that ‘it is impossible to work in this way’, the latter replied, ‘it is only the beginning’.² By the summer, the dynamic had shifted from concession to resistance.

Fourth, the ever stronger logic of signing an Association Agreement with the EU this year is sharpening dilemmas for Yanukovych and strengthening Western leverage. Paradoxically, Russia’s inauguration of the Nord Stream pipeline, its refusal to be deflected from the South Stream pipeline and its ever more menacing pressure on Ukraine to join the CIS Customs Union have only enhanced the West’s influence. Yet the approach of parliamentary elections in October 2012 is an equally compelling influence. It is possible that by merging opportunistic political forces (Lytvyn’s, Tygypko’s and Baloha’s) into the Party of Regions, by financially suborning others (Yatseniuk’s) and by employing other legalized forms of guile, Yanukovych will retain a *de facto* parliamentary majority in the new parliament without dangerously upsetting apple carts in the EU. But it is also possible that these tactics will not be sufficient, and it is equally possible that Yanukovych will choose not to run the risk—in which case he will end up retaining power at the cost of internal and international

¹ James Sherr, *The Mortgaging of Ukraine’s Independence* (Chatham House Briefing Paper, August 2010), p 4.

² ‘Medvedev: It’s only the beginning’ [*Medvedev: Eto tol’ko nachalo*’], *Glavred*, 17 May 2010 [www.glavred.info]

legitimacy. The fact that Tymoshenko remains in jail in the face of advice to the contrary *from within Yanukovich's own administration* demonstrates that his mind is not made up.

A New Crisis?

The one supposed certainty that Yanukovich's victory offered the West was that that after two harrowing gas cut-offs during the Yushchenko years, its energy supplies across Ukraine would be in safe hands. Yet weeks before the Kremlin's licensed rogue (and Vice-Speaker of the Duma), Vladimir Zhirinovskiy, warned the West to expect fresh disruption, this certainty, like so many others of recent years, was being confined to the dustbin.³ As predicted by several observers, the pricing concessions secured at Kharkiv have offered very temporary respite.⁴ The trial of Yulia Tymoshenko, aimed at Russia as much as her Ukrainian supporters, is supposedly justified by the presumptive illegality of the 19 November 2009 energy supply agreement that she concluded with Prime Minister Putin. On 6 September, Ukraine formally announced that it would file suit in European arbitration courts if Russia did not revise its terms.

If Russia does revise them, it will not be on the basis of legality. The November 2009 agreement was no more than a revision—to Ukraine's benefit—of the 19 January 2009 contract concluded between *UkrNaftogaz* and *Gazprom*. The provisions that Yanukovich so reviles—the 'unjust' pricing formula and ten-year duration—were put in place by this initial contract, whose validity Yanukovich reaffirmed in the Kharkiv accords that he co-authored and signed. The November 2009 agreement is a red herring, which not only seeks to scapegoat Tymoshenko but divert attention from the flaws of the Kharkiv accord that Yanukovich concluded.

³ 'Russia will stop gas deliveries if Ukraine refuses to pay the agreed price....The West should be warned right now that Ukraine may stop paying for gas and may start stealing the gas we are sending to Europe. Let European partners take measures as regards Yanukovich.' 'Russia May Stop Gas Supplies to Ukraine if Latter Refuses to Pay Agreed Price' UPI, 6 September 2011.

⁴ Sherr, *op cit.*, p 6-11.

At the end of the 2008-9 gas crisis, the EU regarded the January contract as a welcome step forward. It was the first to establish a European-based pricing formula for Ukraine's gas imports. It eliminated the intermediary, *RosUkrEnergo*, brought into the equation by Kuchma and Putin in 2004 and enhanced with Yushchenko's blessing in the accords concluded between *Ukrnaftogaz* and *Gazprom* in January 2006. The fact that it was a ten-year supply contract was also welcomed, as it promised to provide a stable framework for the relationship. In contrast, the 2006 accord incorporated bi-annual pricing reviews that effectively institutionalised energy brinksmanship at six-month intervals.

But the January 2009 contract also contained flaws. It was a harsh settlement to an appallingly mismanaged crisis that left Ukraine weakened and internationally isolated. It kept in place a Ukrainian transit fee one-third to one-half the EU average, as well as a 'European' price that was pegged below the base price that Germany paid net of transit fees. It also maintained 'take-or-pay' clauses that exposed a double standard in the policy of *Gazprom* (which, as a buyer of Turkmen gas, refused to be bound by similar provisions). Yet as the financial crisis began to bite, and as unconventional gas became a factor in world markets, the take-or-pay regime began to crumble in the EU and in Ukraine itself. By the end of 2009, Ukraine had purchased 26.6 bn cubic meters (bcm) of Russian gas, set against a contractual requirement to take 40 bcm.

The November Putin-Tymoshenko accord that is the focus of Yanukovich's ire addressed two of these flaws. It suspended (but did not eliminate) the take-or-pay clauses, and it provided for a 60 per cent rise in Ukraine's transit tariff. Although Yulia Tymoshenko has much to answer for, the fact is that her energy accords left Ukraine less vulnerable to Russian capriciousness than any accord that preceded them.

The April 2010 Kharkiv agreement maintains this 'unjust' pricing formula; it preserves the ten-year duration of the contract at a time when changes in world markets are rendering such long-term arrangements obsolete; it annuls the increase in Ukraine's gas transit tariffs negotiated by Tymoshenko, and, whilst placing the take-or-pay provisions in limbo, it has stipulated minimum import requirements that are higher than those agreed in November 2009. In exchange, Ukraine has received a 30 per cent discount on gas, which is denominated not as

a grant but as debt to be offset against the Black Sea Fleet's rent for facilities in Crimea. The accords were designed to have an immediate economic and political impact, and they did so, but they also failed to address a single underlying problem.

Now that the bounce has worn off, Ukraine finds itself with bills that it cannot pay, and there are many who can say 'we told you so'. As in the past, Ukraine also finds itself reliant on an economy built upon rent, extortion and the caprices of power. Amongst the consequences and legacies of this system are uncompetitive practices, legal nihilism, barriers to investment, an energy sector on the point of bankruptcy and the survival of an energy-intensive stock of Soviet-era heavy industry reliant on hidden subsidy. By overcoming this inheritance, Romania and Slovakia are able to pay *Gazprom* even more 'unjust' gas prices than those that Yanukovych and Azarov deem unaffordable. Knowing this perfectly well, Russia, which has similar ills but greater resources, is playing a tough game for high stakes: the derailing of Ukraine's entry into the Deep and Comprehensive Free Trade Area and the absorption of the country into a CIS Customs Union that provides no prospects beyond subservience.

What Should We Do?

The IMF and EU would like to play an equally tough game to the benefit of Ukraine and Europe, and to a limited extent, they are doing so. By shifting from conditionality to pre-conditionality, the IMF finally obliged Ukraine to cut subsidies on household energy prices: a commitment that Tymoshenko made after all-night negotiations in 2009 and then promptly dishonoured. The pre-conditionality built into the EU Association Agreement is also obliging Ukraine to unbundle the transit and gas extraction arms of *Naftogaz*. Brussels hopes that the mechanisms of the DCFTA, once it enters force, will propel Ukraine into an ongoing sequence of structural reforms whether the parties in power relish this or not. Yet these calculations are hostage to two uncertainties.

The shorter-term uncertainty is the entry into force of the Association Agreement, which requires ratification by the European Parliament as well as every member state. Although aware of this fact, Yanukovych does not yet appear to understand its significance. His focus is on the *signing* of the agreement—which Ukraine's negotiators would like to secure with 'compromises' in October and which the EU would be happy to secure without

them by December. Because Yanukovych continues to view EU association as a geopolitically driven enterprise—and the EU as an instrument of its strongest members—he does not seem to appreciate that the second step is the critical one. More puzzling is his apparent disregard of the fact that the EU's strongest member, Germany (which is inured to moral blackmail from any country apart than Russia), harbours even more scepticism about the reliability of Ukraine than the reliability of Greece. However, it would be a mistake to assume that Yanukovych is obtuse regarding these matters, and the greater mistake would be to underestimate his acumen and ingenuity. Yanukovych is capable of a *coup de théâtre* over Tymoshenko and might already have crafted it. But he is also capable of misjudging the moment, particularly when dealing with the mind-set of the EU, which is something that he has yet to come to terms with.

The longer-term uncertainty is how Ukraine will implement its obligations if the DCFTA comes into force. The EU's faith in process and mechanisms is a *déformation professionnelle*, but one that is based upon long and fruitful experience in countries that share a particular cultural and civic inheritance. Whilst EU policy is soft and at times feeble, its model of integration is hard: harder than anything that post-Soviet Russia and the CIS have managed to construct. As Ukraine knows all too well, Russia's policy and methods are hard enough, but its schemes of integration in 'former Soviet space' have been largely ineffective. The 1993 Ukraine-Russia free trade agreement was violated from the moment of signature. By the time of Boris Yeltsin's first visit to Ukraine in 1997, over 150 Ukraine-Russia documents were, as President Kuchma politely expressed it, 'not fully operational'. This discrepancy, which survives in somewhat more disciplined form in the Putin era, reflects differences in institutional capacity. But it also reflects a post-Soviet penchant for subordinating contractual undertakings to the political factor. At a deeper level, it also reflects the subordination of principle and law to 'the question of power'. The 'European process' has yet to bear fruit in countries that are the product of this experience.

These uncertainties confront the EU with a dilemma and a challenge. The dilemma is presented by Yanukovych's understanding of democracy. Already, forceful arguments are being presented for establishing greater symmetry of

policy with respect to Ukraine and Belarus.⁵ At the least, it is argued, the EU should suspend negotiations until Tymoshenko is released and Ukraine demonstrates its respect for the 'European values' that Yanukovich rhetorically espouses. In addition, the EU should be prepared to draw up a package of restrictions and sanctions if the message is not heeded.

Yet the two cases are not symmetrical. Despite the erosion of democratic standards since Yanukovich came to power, Ukraine and Belarus continue to display marked diversions in best and worst practice. Their relationships with the EU are even more divergent. The breadth and intensity of the EU-Ukraine relationship—which now extends well beyond the state—puts Ukraine in a very different position from its northern neighbour. The EU might not be the arbiter of Ukraine's internal course, but it is a powerful influence, not to say presence. It is far from clear that Ukraine's isolation would strengthen the EU's influence, and it is difficult to see how its presence would survive under a sanctions regime. The message that (to paraphrase Kuchma) 'the EU is closed to us now' is more likely to propel Yanukovich down the path to hard authoritarianism than bring him to his senses.

The fact is that unless Yanukovich amends his course, ratification of the Association Agreement is out of the question. It is quite another thing to say that it should not be signed. Signing it will preserve incentives, it will shift the argument to ratification, and it will send a clear message to Ukrainian civil society about the EU's aspirations and intent. It will also weaken the suspicion, never far below the surface in Ukraine, that EU human rights policy is nothing but a mask for geopolitically driven anti-Ukrainian sentiment. The objective of EU policy should be to ensure that Ukraine does not become another Belarus. This requires firmness, but it also requires subtlety.

Should the agreement be signed and ratified, then the challenge will emerge: implementation. Although the EU has a fund of experience in micro-management, an audit of its results, not only in the 'new neighbourhood' but in new member states, would show considerable divergences in effectiveness. The 'European process' has facilitated integration where it has coincided with the interests of national elites and the nations they represent. In political cultures

⁵ See for example, Taras Kuzio, 'EU Sends Confusing Signals on Ukraine and Belarus', *Eurasia Daily Monitor* (Washington: Jamestown Foundation), 12 September 2011.

defined by *kto-kovo* ('who-whom') and opposition between state and society, implementation is likely to be divisive and distorted. Twenty years of independence have not defeated this political culture in Ukraine. Association will not do so either if the EU loses interest and walks away.

The Strategic Importance of the South Caucasus

Brenda Shaffer*

The South Caucasus is a strategically important region to US national interests. The region is:

- A central air corridor between Europe and the Middle East, Afghanistan and Asia.
- A major refueling and transit point for US troops and equipment deployed in Afghanistan.
- A major oil and natural gas exporting region.
- Adjacent to three important powers: Russia, Turkey and Iran. Thus, policy toward this region affects US relations and influence over those three states.

Of the three states of the South Caucasus, Georgia's location is especially strategically vital since it is the only state with sea access and thus is key to control of the entire landlocked region of the Caucasus and Central Asia.

As a strategically central region, the South Caucasus has been a focal point of Russian—US competition throughout the post-Soviet period. In addition, the region has been plagued by a number of major conflicts that have been exacerbated by the US—Russian competition. These major discords are Georgia's secessionist conflicts, South Ossetia and Abkhazia, and the Armenia-Azerbaijan conflict centered over control of the region of Nagorno-Karabakh. Moscow's support for the secessionists and fueling of the fire between the sides played a critical role in the emergence of these conflicts. In the post-Soviet space, hundreds of groups had claims and interests in conducting secessionist

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drives: those that received foreign support, chiefly from Russia, were the ones that succeeded in conducting secessionist wars. The conflicts in the region have provided an enduring lever of influence for Moscow in the region. Throughout the post-Soviet period these conflicts have been a central issue on the common policy agenda of Moscow and Washington in the region.

Following the Soviet breakup, the United States and Europe encouraged the states of the South Caucasus to cooperate intensively with Washington in the strategic realm and to affiliate themselves with Euro-Atlantic security structures. They established regular military cooperation with the US and joined NATO's Partnership for Peace Program. In addition, they joined political groupings associated with the US and Europe, such as the Council of Europe and the OSCE. In addition, Washington prodded Azerbaijan to direct its energy infrastructure towards the western energy markets. This has been accompanied by statements that have led the states of the South Caucasus to believe that they will be offered significant support in the resolution of their conflicts and establishing security in the region if they followed Washington's and Brussels' recommendations.

Of the three Caucasus states, Azerbaijan and Georgia affiliated closest with Western policies. Georgia allied itself with the US and attempted to join NATO, while Azerbaijan forged close security cooperation with the US and attempted to keep balanced relations with Russia. While formally joining NATO's Partnership for Peace Program, Armenia stayed in the Russian camp, forming a military alliance with Russia, hosting Russian military bases, sharing a united air defense system and aligning with Moscow on most major policy issues.

The United States and Europe should pursue the following goals in the South Caucasus:

- Maintain prominent presence and influence in this strategically crucial region.
- Maintain the independence of the three states of the region and their control over determining their major strategic choices.
- Promote resolution of the conflicts that affect the region (which are a lever for external powers). Thus, the US and Europe should leverage their

cooperative relations with Russia in order to promote security and stability in the south Caucasus.

- Contribute to maintenance of conditions that allow the efficient production and export of the energy riches of the region.
- Promote stability, good governance, modernization, excellence in education, and economic prosperity in the region.

Despite the orientations toward the US and Euro-Atlantic strategic structures adopted by Georgia and Azerbaijan, the US and Europe have failed to provide an adequate security structure for the region. US efforts have not led to the resolution of the conflicts afflicting the region, nor have any of the territories recognized by the US and Europe as part of Azerbaijan and Georgia returned to their sovereignty. After the Soviet breakup, the US promoted and continues to promote the building of energy transport infrastructures that link these states to the West. Washington forged ahead on the energy projects in the region without making resolution of the conflict a policy priority. The United States should view resolution of the conflict as a precondition to sustaining its other policies in the region, in both the foreign and domestic spheres.

In fact, some of the US and Europe-led security policies have actually weakened the security positions of these two staunchly pro-US allies. For instance, NATO's handling of the issue of Georgia's proposed NATO membership. In April 2008, NATO adopted a compromise position between Washington, which supported Tbilisi being placed on the alliance's membership track, and the position of most of the European members, who opposed membership. The alliance offered Georgia membership in principle, but at a future date. This decision unintentionally encouraged Russia's military attack on Georgia in August 2008, signalling to Russia that it should act to reassert control over Georgia's policies, before the state became a member of NATO.

An additional example of US policies that have damaged the security of its allies in the region is Washington's disapproval of Azerbaijan's efforts to counter Iran's destabilization actions against Baku. Due to Azerbaijan's friendly relations with the United States and Israel, Iran – which borders Azerbaijan and possesses a large ethnic Azerbaijani minority that constitutes close to a third of the population of Iran – pursues a policy of destabilization and of keeping Azerbaijan embroiled in conflict. Tehran aims to deter and disable Baku's ability to maintain its pro-Western orientation and to ensure that Azerbaijan is

not an object of attraction to its own Azerbaijani community.¹ Tehran's destabilization efforts directed toward Baku include patronage of anti-regime Islamist movements (that work not only to promote Islam, but to undermine Azerbaijani state institutions) and sponsorship of terrorists. When Azerbaijan takes actions against these Iranian sponsored movements, activists, and supporting networks in Azerbaijan, Washington regularly has condemned Baku, in the name of defense of civil rights. Washington has also found itself on the same side with Iran in condemning Azerbaijani's domestic policy that bars display of religious symbols, such as head coverings, in schools. While other democracies such as France and Turkey possess similar legislation, Washington intervenes in an Azerbaijani domestic church and state issue. Washington's support for the Islamic activists on this issue has emboldened their activities in Azerbaijan and increased Iranian influence.

An additional example of US-led policies that have hurt security and stability in the south Caucasus is the manner in which Washington encouraged Turkey to open its border and trade with Armenia, which culminated in the October 2009 Geneva Protocols. During the Obama Administration, Washington and European partners prodded Turkey to open its border and trade with Armenia, with no linkage to advancement in the peace process of the Nagorno-Karabagh conflict between Armenia and Azerbaijan. Delinkage of the issues is quite perilous, since the opening of the border with Turkey is an important strategic objective for Yerevan and thus an important non-military lever to encourage Armenia to withdraw from some of Azerbaijan's territories that it occupies.² Decoupling these issues would leave only military means as a form of pressure on Armenia at Azerbaijan's disposal, and thus unintentionally increase the chance of the emergence of war in the south Caucasus. Washington was so keen on this foreign policy success between Armenia and Turkey that it did ignore overall regional implications. Baku was able to convince Turkey to continue to maintain the linkage between the opening of the border and trade with Armenia

¹ For more on the ethnic Azerbaijani minority in Iran and Tehran's policies toward Azerbaijan, see Brenda Shaffer, *Borders and Brethren: Iran and the challenge of Azerbaijani identity* (Cambridge, MA: MIT Press, 2002) and Brenda Shaffer, "The Islamic Republic of Iran: Is it really?" in Brenda Shaffer, *Limits of Culture* (Cambridge, MA: MIT Press, 2006), pp. 219-239.

² Armenia occupied today close to twenty percent of the territory recognized by the US Government as the legal territory of Azerbaijan.

with advancement of the Nagorno-Karabagh peace process. In Armenia as well, domestic and diaspora opposition has prevented ratification of the Geneva Protocols and the agreement has not been implemented.

In order to promote conflict resolution between Armenia and Azerbaijan, the US and European negotiators must stop blaming the people of Azerbaijan and Armenia for failures in the conflict resolution process. When past agreements were not implemented, Washington and European voices stated that the people of the region were not ready for peace. The people of Armenia and Azerbaijan need a plan that will provide them with security. External powers and the rivalry between the US and Russia over control of the Caucasus has played a large role in turning a local conflict to an all-out war. Thus, these powers must find an agreeable security framework for the region instead of just blaming the citizens of the region.

Despite these past policy blunders, there is a lot of room for optimism that the US and Europe can advance their interests and improve security in the south Caucasus region. One, the Obama Administration enjoys constructive relations with Russia and these relations can be leveraged to improve security in the south Caucasus. When looking at the general issues that are in contention between the US and Russia, highest on Moscow's wish list are those issues that are lowest on Washington's list. Moscow's top goals in its agenda with the United States are preventing the development and deployment of U.S. strategic missile shields, and retaining strategic control over Central Asia and the routes of Central Asia natural gas export and removing impediments of transit states between Russia and European markets. On the U.S. priority list is Moscow's cooperation in preventing Iran from attaining nuclear weapons and allowing the states of the former Soviet Union, such as Ukraine and Georgia, to retain de facto independence from Moscow. Given that the top goals do not coincide, there is an opportunity for Moscow and Washington to trade on issues that are not of high priority and thus for the US and Russia to promote policies that will enhance security in the South Caucasus. Specifically, Washington can leverage its good relations with Moscow to the benefit of the resolution of the Nagorno—Karabagh conflict. Russia's position is central to resolution of the conflict. Moscow holds the most sway of any external power over Armenia's policies. Since Armenia holds the territories in contention, its concessions are the most important in order to achieve peace.

Frozen Conflicts in Eurasia: The Cyprus Analogy

Samuel Charap*

An underlying assumption in much of the Western approach to Georgia's secessionist conflicts with Abkhazia and South Ossetia and its inter-state conflict with Russia is that Moscow is the primary source of "the problem" (however defined). Certainly, throughout the post-Soviet period, and especially after the August 2008 war, there is ample evidence to support this argument. But regardless of one's assignment of blame for the status quo, the question for Western policy makers is a different one: how to change it. Since the war, the Russia-centric approach has led to Washington's emphasis on, on the one hand, a policy of push-back against Moscow's attempts to convince others to recognize Abkhazia and South Ossetia — a drive coined "sovereign diplomacy" — and, on the other, a push to gain transparency on and drastically reduce the Russian military presence in the two breakaway autonomies (in line with the ceasefire agreement and subsequent implementing measures), if not completely eliminate it. Prominent voices in Washington have denounced "creeping normalization" of the status quo, and asserted that only a policy that puts the screws on Moscow has a chance of achieving success.

The emphasis on achieving resolution of these three interrelated conflicts by raising the temperature surrounding political-level disputes about status, borders, and foreign military presence, by coercing one or more of the parties into changing positions, as opposed to providing them incentives to do so, and through a near-exclusive focus on elite decision-makers (as opposed to societal reconciliation), does not seem like a strategy that could plausibly achieve a successful outcome.

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Indeed, a comparison with another “frozen” conflict in Europe, Cyprus, is instructive in this respect. The political-level disputes are quite similar. According to the U.S. (and EU) official position, since its 1974 invasion of the island, Turkey has illegally occupied the sovereign state of Cyprus. Since the north’s 1983 declaration of independence as the Turkish Republic of North Cyprus (TRNC), Turkey recognized it, and it remains the only state to have done so. To this day, Turkey maintains between 30,000 and 40,000 troops on the one-third of the island controlled by the TRNC despite numerous Security Council resolutions since its initial 1974 invasion calling for immediate withdrawal.

The parallel between Turkey’s and Russia’s respective roles in the two conflicts seems clear. So too does the situation on the ground among the communities. As a Council on Foreign Relations report put it, “Since the beginning of the conflict in 1963, mutual recriminations and hard-line positions have characterized both the Greek and Turkish sides of the Cyprus dispute. Turkish Cypriots have stoked fears that there would be ethnic cleansing if they were not protected by Turkish forces and have concentrated on breaking their international isolation (with little success). Greek Cypriots have demanded the withdrawal of Turkish troops and the reunification of the island under a single Greek-dominated government.” One could easily replace “Turkish Cypriot” with “Abkhazian”, “Turkish troops” with “Russian troops,” and “Greek Cypriot” with “Georgian” and these statements would remain accurate.

One critical distinction has been Turkey’s declared willingness for almost a decade to endorse and facilitate a settlement of the Cyprus dispute that would result in a state with a “single international personality” and thus entail the withdrawal of its recognition of the TRNC. Therefore, despite continued Cypriot displeasure about the Turkish military presence, international efforts have been largely focused on achieving a broad settlement among the communities and reestablishing a central government.

Until 2002, these efforts yielded little progress. That year, UN secretary general Kofi Annan presented a draft document called *The Basis for Agreement on a Comprehensive Settlement of the Cyprus Problem*, commonly referred to as the Annan Plan. The plan called for, among many provisions, a “common state” government with a “single international legal personality” that would

participate in international affairs, similar to Switzerland. Two politically equal component states would address much of the daily responsibilities of government in their respective communities. The Plan also addressed a wide range of humanitarian and economic issues. On April 24th, 2004, the population of the divided island cast their votes in a referendum on the Annan Plan. While the referendum passed in the Turkish North with 64.9% voting yes, it ultimately failed in the Greek South with 75.8% voting no.

The failed referendum has privileged a view of Cyprus as a failed conflict resolution process. This is all the more palpable for the EU and the U.S. because of the tensions it causes in Turkey's engagement with them. Ankara blocks Cypriot cooperation with NATO on diplomatic, intelligence, and military matters, and Cyprus continues to prevent Turkey's participation in the European Defense Agency — an EU body — and is said to be preventing many chapters of Turkey's EU accession talks from proceeding.

Progress on the Ground

The failure of the Annan Plan, and ongoing lack of progress in attempts to revive a similar deal through direct negotiation between the north and the south, has led to a great deal of pessimism about the prospects for resolution. As a CRS report to Congress put it, “the harsh realities of almost four decades of separation, mistrust, misunderstanding, and in some cases, indifference to the need for a final settlement and unification of the island” have soured views on all sides.¹ But the West's focus on bringing the communities together has indeed remained a constant — a marked distinction from current policy on the Georgia conflicts.

However, while international resolution efforts in Cyprus differ from those in Georgia because of the focus on the communities, they were until very recently quite similar in their elite-centric approach. In other words, mediation efforts in both places seek to produce a settlement among political leaders, with little regard for the opinions of their electorates.

¹ Vincent Morelli, “Cyprus: Reunification Proving Elusive,” Congressional Research Service Report, July 26, 2011, <http://www.fas.org/sgp/crs/row/R41136.pdf>, pp. 16-17.

Indeed, it was the failure of the Annan plan — and the realization that whatever the desires of elites or the international community, Greek Cypriots didn't want a settlement — that sparked the first real attempts at inter-community reconciliation and interaction. Real progress to bridge the divide between North and South can be seen in the continuing efforts to open crossings along the buffer zone. There are currently seven crossings with the most recent opening October 14, 2010.²

In addition to the border crossings, there are numerous projects underway in Cyprus to promote interaction and understanding between the two sides. In 2006, a law was passed that allowed Turkish Cypriots to vote and hold office in the South. In 2008, seven technical committees working with the UN put together a list of confidence building measures to facilitate integration of the island. Overall, of the 23 measures formulated by the technical committees, six have been implemented to date, including the establishment of a joint communications room for the exchange of information on crime and criminal matters, the facilitation of ambulances through crossing points and the implementation of a project to establish an inventory of immovable cultural heritage in Cyprus.³ Through the Participatory Development Project, the Cyprus Scientific and Technical Chamber and the Union of Chambers of Cyprus Turkish Engineers and Architects came together in April of this year to engage people on both sides in the planning of shared spaces and the promotion of social inclusion in decision-making in the settlement process.⁴ The UNDP Action for Cooperation and Trust (ACT) works to educate and enable Cypriots on both sides to actively participate in the reconciliation process.⁵ There are also

² Menelaos Hadjicostis “Divided Cyprus Rival Leaders Open New Crossing”, *Boston Globe*, 14 October 2010

[http://www.boston.com/news/world/europe/articles/2010/10/14/divided_cyprus_rival_leaders_open_new_crossing/]

³ “Report on the Secretary-General on His Mission of Good Offices in Cyprus” UN Security Council, S/2010/603, 24 November 2010. [

<http://www.securitycouncilreport.org/atf/cf/%7B65BF9B-6D27-4E9C-8CD3-CF6E4FF96FF9%7D/Cyprus%20S%202010%20603.pdf>]

⁴ “Managing Shared Spaces; Building A Shared Future”, USAID, 13 April 2011, [http://www.usaid.gov/cy/ACT/110413_PDP.html]

⁵ “It supports island-wide efforts, providing Greek Cypriots and Turkish Cypriots with opportunities to work together on common issues and participate in a variety of peace-building initiatives across the divide.” “Ambassador Thanks UN Teams for Contributing

several joint projects focused on protecting the island's limited water resources. As one observer put it, "Ironically, in the case of Cyprus, the more reconciliatory climate has not emerged from EU action or policy, but through a domestic dynamic that has recaptured a spirit of cooperation between the two communities."⁶

International Presence and the Threat of Use of Force

One striking difference between the Cypriot and Georgian conflict resolution processes is the current lack of a perceived threat of the use of force in Cyprus. In Georgia, all sides regularly claim that one or more of the others are poised to launch unprovoked aggression. The calmer situation in Cyprus is, at least in part, a function of the confidence building measures described above, but a robust international monitoring mission clearly has been key as well. The UN Force in Cyprus (UNFICYP) was set up in 1964 to prevent further fighting between the Greek and Turkish Cypriot communities. While it clearly failed in that mission, after the Turkish invasion, the mandate was expanded to include supervision of ceasefire lines, maintenance of the buffer zone and humanitarian assistance. The buffer zone between the lines varies in width from less than 20 metres (21.87 yards) to some 7 kilometres (4.35 miles), covering about 3 percent of the island. UNFICYP monitors the area through a system of observation posts, and through air, vehicle and foot patrols. It frequently leads humanitarian convoys that provide welfare services to Greek Cypriots living in the North as well as Turkish Cypriots residing in the South. The mission also facilitates the movement of electricity and water across the buffer zone.⁷ The United Nations has assumed the role of facilitator for all aspects of the negotiation structure, from formulating ideas to helping the sides overcome challenges. No aspect of the elaborate negotiation structure, which includes the six working groups, seven technical committees and the full-fledged high-level negotiations, has

to Reconciliation on Cyprus," U.S. Embassy Nicosia, 19 July 2010.

[http://cyprus.usembassy.gov/usaiddcmpambresidence_jul10.html]

⁶ George Christou, "The European Union, borders and conflict transformation: The Case of Cyprus", *Cooperation and Conflict*, vol. 46 no. 2, June 2011.

⁷ See information about UNFICYP at

[http://www.unficyp.org/nqcontent.cfm?a_id=778&tt=graphic&lang=11]

functioned without the constant support and presence of the United Nations.⁸ And in 1997, Turkish and Greek non-use-of-force pledges were made in the Madrid Declaration, which declared both sides' "commitment to refrain from unilateral acts on the basis of mutual respect and willingness to avoid conflicts arising from misunderstanding" and "commitment to settle disputes by peaceful means based on mutual consent and without use of force or threat of force."⁹

The financial benefits of settling the Cyprus problem are substantial for both Turkey and Greece. Aside from saving the hundreds of millions spent each year by Turkey to support the northern part of the island, Turkey also stands to save EUR 24 billion, spread over ten years, from reducing expenditures on property litigation. With settlement of the issue, Turkey could also see FDI increase by EUR 33 billion per year.¹⁰ Greece, Cyprus and Turkey would gain from increased trade and tourism.

U.S. Policy and Assistance on Conflict Resolution

Immediately following the 1974 invasion, the U.S. Congress placed an embargo on U.S. military grants and arms sales to Turkey, which lasted from 1975 until 1978, despite the executive branch's strong objections. Turkey responded by closing U.S. defense and intelligence installations on Turkish territory until the lifting of the embargo (except for those installations that had a purely NATO function).

Since the emergence of the Annan Plan, U.S. policy has settled on the formula of achieving a "just and lasting settlement that reunifies Cyprus into a bizonal, bicomunal federation." As then Deputy Assistant Secretary of State Matt Bryza said in 2008, "The United States remains firmly committed to offering all possible support to UN efforts to foster a just and lasting Cyprus settlement . . .

⁸ See "Report on the Secretary-General on His Mission of Good Offices in Cyprus."

⁹ "Madrid communique enables direct Greek-Turkish talks, Pangalos says", Athens News Agency, 22 July 1997. [http://www.greekembassy.org/Embassy/Content/en/Article.aspx?office=3&-folder=255&article=1576]

¹⁰ Özlem Oğuz Çilsal, Praxoula Antoniadou Kyriacou, and Fiona Mullen, *The Day After III: The Cyprus Peace Dividend for Turkey and Greece*, Oslo: PRIO Cyprus Center, Paper 1, 2010. [http://www.prio.no/upload/The%20day%20after%20III.pdf]

We believe the two communities themselves must generate the solution to the longstanding division of the island.”¹¹

In 2004, the United States initiated the “Cyprus Partnership for Economic Growth,” a \$30.5 million program intended to assist Turkish Cypriot businesses in the banking, agriculture, and tourism sectors. Through the U.S. Embassy’s Bicommunal Support Program, small grants of up to \$10,000 are awarded to support Cypriots in their own bicommunal endeavors.¹² Through USAID, the U.S. has offered conflict-related assistance to Cyprus since the summer of 1974, initially as a humanitarian relief operation which evolved into a multi-sector development program aimed at increasing the quality and quantity of interaction between the Greek Cypriot and Turkish Cypriot communities.¹³ USAID also funds a Capacity Development Program that brings the two sides together to work with marginalized and at-risk youth.¹⁴ Assistance is delivered through the UN and NGOs on both sides, outside of any formal bilateral agreements, so as to avoid status-related problems.

Even though Washington does not recognize the TRNC as a sovereign state, it has in place a waiver program that allows TRNC passport-holders to travel to the U.S. with a visa attached to a stand-alone form. The Embassy maintains a small representative office in north Nicosia, which is used for limited consular business and other Embassy activities to further the reunification process and boost ties with the Turkish Cypriot community. And U.S. government officials are now permitted to travel directly to the TRNC on tourist passports. In May 2005, the U.S. Congressional Turkey Study Group flew directly to Ercan Airport in Turkish Cyprus from Istanbul, conducted a series of meetings, and flew from Ercan to Ankara. In the fall of the same year, Turkish Cypriot legislators met with members of the Congressional Turkey Study Group in

¹¹ Matthew Bryza, “Invigorating the U.S.-Turkey Strategic Partnership”, Ninth Turgut Ozal Memorial Lecture, Washington Institute for Near East Policy, 24 June 2008.

[<http://www.washingtoninstitute.org/templateCo7.php?CID=406>]

¹² “Bicommunal Support Program, U.S. Embassy Nicosia, at

[<http://cyprus.usembassy.gov/theembassy/pasbicom.html>]

¹³ USAID Cyprus, “Our Mission”,

[<http://www.usaid.gov/cy/AboutUSAIDCyprus.html>]

¹⁴ “United in Trying to Reach At-Risk Youth: Communities That Care in Cyprus”, U.S. Embassy Nicosia, 15 October, 2010.

{http://cyprus.usembassy.gov/usaid_communities_oct2010.htm.}

Washington, DC. In October 2005, Secretary of State Condoleezza Rice met with the TRNC President in her office, although the U.S. government always stresses that TRNC officials are seen in their capacity as leaders of the Turkish Cypriot community.

Questions raised by the Cyprus comparison

Clearly, the Georgia conflicts and the Cyprus conflict differ along a number of matrices. And just because a method is used in one place does not mean it should be used in another. However, despite the lack of a political settlement, the situation on the ground today in Cyprus — no violence or threat of the use of force, eased restrictions on freedom of movement, inter-community reconciliation, interaction and engagement, and an effective international monitoring and humanitarian presence — is so much better than the status quo in Georgia as to qualify to be a model for it. Further, getting Russia's position on the status dispute to be akin to Turkey's — if the communities choose to reunite, it will reverse its recognition — would be a huge step forward. The question for Western policy-makers is why these goals are in fact not being pursued as a first order-priority, instead of the current focus on the status dispute and the Russian military presence.

Russia and the Unresolved Conflicts in Eurasia

Svante E. Cornell*

For two decades, Russia has played a leading role in the negotiations surrounding the unresolved conflicts of the post-Soviet space: Abkhazia and South Ossetia in Georgia, the conflict over Nagorno-Karabakh between Armenia and Azerbaijan, and the conflict in Moldova's region of Transnistria. Russia's role as a mediator and peacekeeper has on the one hand been praised by Western powers for maintaining stability in these conflicts; on the other hand, numerous critics have detailed Russia's role in instigating these conflicts, as well as Russia's manipulation of the conflicts for its geopolitical purposes.

In August 2008, Russia's image as a peacemaker was badly damaged by its invasion of Georgia. Indeed, contrary to Russian claims of reacting to Georgian shelling of South Ossetia, subsequent research has showed convincingly that Russian leaders had long planned and sought the conflict with Georgia.¹

Thus, Russia belatedly lost its position as a mediator and peacekeeper in Georgia's conflicts. Moscow has, in the aftermath of the war, tried to re-establish the notion that it is not party to the conflicts; however, Russia's military presence on Georgian territory makes its role as a party to the conflict clear, thwarting such ambitions to alter Western perceptions. That said, in spite of President Dmitry Medvedev's overt claim to a sphere of privileged interests in the post-Soviet sphere and beyond, the changed perceptions of Russia's role

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¹ Svante E. Cornell and S. Frederick Starr, *The Guns of August 2008: Russia's War in Georgia* (Armonk, NY: M.E. Sharpe, 2009); See also Ronald D. Asmus, *A Little War that Shook the World: Georgia: Russia and the Future of the West* (Basingstoke: MacMillan, 2010).

in Georgia's conflicts did not automatically translate into a reassessment of Russia's role as a mediator in the Armenian-Azerbaijani and Transnistrian conflicts. In fact, when Moscow in November 2008 proposed to take the lead in a new round of negotiations between Baku and Yerevan to resolve the Nagorno-Karabakh issue, this was generally taken at face value by the international community.

In the months and years that followed, relations between Russia and the West have improved, as detailed in several contributions to this volume. This has also affected the West's stance to Russia's role in the unresolved conflicts. Aside from lending support to Medvedev's efforts to resolve the Karabakh dispute, involving a failed summit in Kazan in 2011, German leaders have raised the possibility of closer cooperation with Russia on resolving the conflict in Transnistria.

This policy was predicated on the notion that Russia's changed attitude toward the West represented a general change in Russian foreign policy – in other words, that the thaw in Russia's relations with the West has been mirrored by substantial changes in Russia's policy toward the post-Soviet states. Is there empirical ground for this argument? In fact, a closer analysis suggests that Russian policies toward the unresolved conflicts have remained essentially unchanged, and that Moscow's policy continues to be to maintain the status quo in these conflicts until and unless a resolution can be achieved that would cement Russia's geopolitical influence in the countries involved, preferably through a long-term military presence.

Georgia: the Conflict Continues

The ongoing situation concerning Georgia and its secessionist regions—Abkhazia and South Ossetia—remains the main area of discord between Russia and the West. Little has changed in Moscow's policies toward Georgia; indeed, the war of August 2008 should not be seen as an isolated event, but as the most violent and acute phase of a Russian-Georgian conflict that dates back to the late Soviet period.

Russia continues to violate the 2008 cease-fire agreement negotiated by the European Union, and to overtly seek regime change in Georgia. Russia likewise has rapidly expanded its military presence in the territories that it effectively

occupies, building permanent military bases there,² which include sophisticated hardware that appears directed at threatening the Georgian capital. For example, Russia deployed *Smerch* (Tornado) multiple-launch rocket systems and *Tochka-U* (SS-21 Scarab B) short-range tactical ballistic missile systems in South Ossetia, less than 60 miles from Tbilisi.³ Moreover, Russia continues to block the unarmed EU Monitoring Mission from accessing either Abkhazia or South Ossetia, and blocks the return of a quarter million ethnic Georgians displaced by the conflicts. In addition, Russia's wholesale economic embargo on Georgia is still in place.

Russian subversive activities in Georgia have not ceased. Moscow funds and supports the most radical elements of the Georgian opposition. For example, the Georgian Interior Ministry released a recording in which Nino Burjanadze and her son are overheard, while planning the May 2011 attempted coup d'état, openly discussing the possibility of assistance from Russian commandos.⁴ Moscow also continues to publicly accuse Georgia of assisting Islamist terrorism in the North Caucasus, without showing any evidence to that effect. Conversely, however, Russian military intelligence has been implicated a string of a dozen bombings that rocked Georgia in 2010 and 2011, including a bomb that went off outside the perimeter of the U.S. Embassy in Tbilisi. It is now known that the U.S. intelligence community has endorsed the conclusions of the Georgian government's investigation, which identifies an Abkhazia-based Russian Military Intelligence officer as the mastermind of the bombing spree, including the one targeting the U.S. Embassy.⁵

² Philip P. Pan, "Putin Visits Breakaway Georgian Region, Unveils Plan for Military Base," *Washington Post*, August 13, 2009.

³ "Tbilisi Condemns Russia's Smerch Rocket Systems in S. Ossetia," *Civil Georgia*, December 7, 2010, [<http://www.civil.ge/eng/article.php?id=22932>]; "Reports: Russia Deploys Tochka-U Rockets in S. Ossetia," *Civil Georgia*, January 24, 2011, [<http://www.civil.ge/eng/article.php?id=23077>].

⁴ Recording available with English translation at [<http://www.youtube.com/watch?v=qJDd8wL8AaE>]. Burjanadze has failed to deny the authenticity of the recording.

⁵ Eli Lake, "Classified Report: Russia Tied to Blast at the U.S. Embassy – Supports Local Findings", *Washington Times*, 27 July 2011. [<http://www.washingtontimes.com/news/2011/jul/26/us-report-russia-tied-to-embassy-blast/>]

These events all suggest that in its long-standing conflict with Georgia, Moscow currently emphasizes subversive and covert strategies rather than overt military action. But there should be little doubt that Russia continues to actively undermine the development and security of Georgia.

Moscow is also distorting the reality in the conflict zones, arguing that it is not a party to the conflicts—that the conflicts are between Georgia on the one hand and the “independent states” of South Ossetia and Abkhazia on the other.⁶ This diplomatic initiative has not met with success, and indeed, Georgia has remained the main thorn in Russia’s relationship with the West and in its international image. Contrary to the case before August 2008, the world firmly views Russia as a party to the conflict.

Armenia and Azerbaijan

During 2009 and 2010, the unresolved conflict between Armenia and Azerbaijan has been slowly escalating, with the war of words between the two countries mounting and skirmishes along the cease-fire line increasing.⁷ Unfortunately, this evolution is partly a result of Western neglect of the conflict, and the collapse of the U.S.-sponsored Turkish-Armenian reconciliation process. Moscow’s policies have been two-fold: asserting its role as the primary mediator between the parties, and stepping up its provision of military hardware to both of them.

Two decades in the making, the conflict is often considered the quintessential “frozen” conflict, eliciting comparisons to the Cyprus conflict. However, the conflict is far from frozen, and unlike in Cyprus, the risk of renewed hostilities is very much present. In fact, unlike in Cyprus, the status quo is untenable for one simple reason: the balance of power between the two protagonists is changing rapidly. Whereas Armenia sits on the land occupied in 1992-94, its population has shrunk considerably since independence due to emigration. By

⁶ Ibid; “We Don’t See Conflict Between Russia and Georgia—Lavrov,” *News.az*, December 3, 2010, [<http://news.az/articles/georgia/27708>]; “Russia Warns of ‘Confrontational’ UN Document on Refugees,” *Russia Today*, August 26, 2009, [<http://rt.com/politics/russia-warns-confrontational-document/>].

⁷ Nina Caspersen, “Mounting Tensions over Nagorno-Karabakh,” *Central Asia-Caucasus Analyst* 7, no. 13, July 7, 2010, [<http://www.cacianalyst.org/?q=node/5363>]; *Armenia and Azerbaijan: Preventing War*, International Crisis Group *Europe Briefing* no. 60, February 8, 2011.

contrast, oil and gas riches have made Azerbaijan the fastest-growing economy of the world in the past five years. Its economy is now almost five times larger than Armenia's; its defense budget alone by far surpasses Armenia's entire state budget.

Making matters worse are several facts: first, there are no peacekeeping forces separating the Armenian and Azerbaijani armies, which are eyeball to eyeball across the cease-fire line. Second, leaders on both sides have adopted increasingly fierce nationalistic rhetoric as the conflict has gone unresolved, and given the passage of time, most Armenians and Azerbaijani under the age of 40 have never met a person from the enemy nation. Finally, strong forces on both sides believe time is on their side. In Azerbaijan, the thinking is that the discrepancy of power will only increase to Baku's advantage, decreasing incentives to agree to a deal today when the possibility exists of imposing a better one tomorrow. In Armenia, by contrast, the feeling is that the world is increasingly receptive to the principle of self-determination that the Armenians of Karabakh champion, given the independence of East Timor, Montenegro, and especially Kosovo. Western diplomats have generally considered the conflict frozen enough to concentrate, instead, on more urgent matters elsewhere. Instead, mid-level ambassadors have held the positions of chairing the talks, a strategy that has failed to produce results.

The war in Georgia served as a stern reminder that conflicts of the South Caucasus are far from "frozen". Having failed to prevent the escalation to war in Georgia, it would have been logical for Western powers to redouble their efforts to resolve the Armenian-Azerbaijani conflict. Instead, as absurd as the thought should have appeared, Western leaders did not blink when Russia, fresh from having invaded Georgia, announced it would take the lead to seek a negotiated solution.

Soon after the war in Georgia, Russian President Dmitry Medvedev took a leading role in the negotiations between Armenia and Azerbaijan. This served two purposes: first, to improve Russia's tarnished international reputation; and second, to reinforce Russia's role as the predominant force in the South Caucasus. While both the Azerbaijani and Armenian presidents played along, not least in a high-profile summit in Moscow in November 2008, the volatile post-war regional atmosphere ensured that the talks went nowhere. In spite of

this, Medvedev organized a high-level meeting in Kazan in June 2011, which attracted substantial levels of international attention, but progress failed to materialize.

The reason is simple: Russia lacks credibility as a mediator. Indeed, while playing the part of a mediator, Moscow has simultaneously been acting as an arms merchant in the South Caucasus. Simply put, Russia has sold Armenia arms at low prices, while offering them to Azerbaijan at high cost.

In August 2010, Moscow and Yerevan amended the 1995 Russian-Armenian bilateral defense treaty, extending the lease of Russia's military base at Gyumri until 2044. The wording of the agreement was altered: whereas the original treaty included a commitment by Russia to come to Armenia's defense if the country was attacked "by a state outside the CIS," (a reference at the time mainly referring to Turkey) the amended treaty language included no such clause. Thus, Yerevan in practice received stronger commitments from Moscow for defense against a possible Azerbaijani attack to reclaim its lost territories. To make good on these obligations, Russia also transferred large amounts of armaments to Armenia.⁸

But Moscow is playing both sides of the fence. While its main focus has continued to be Armenia, Russia is reported to have sold S-300 advanced anti-aircraft to Azerbaijan as well, and to have provided Baku with considerable amounts of tanks and other armaments.⁹

Thus, Moscow's policy in the Armenian-Azerbaijani dispute seems to be to seek a negotiated solution on its own terms, one that would certainly involve Russian troops on Azerbaijani territory in some form of peacekeeping function. Barring that, it appears to strive to sustain a controlled level of instability in the South Caucasus, one that ensures Armenia's continued dependence on Moscow while attaching cost to Azerbaijan's independent policies.

⁸ Fariz Ismailzade, "Russian Arms to Armenia Could Change Azerbaijan's Foreign Policy Orientation," *Central Asia-Caucasus Analyst* 11, no. 2, January 28, 2009, [<http://cacianalyst.org/files/090128Analyst.pdf>].

⁹ Shahin Abbasov, "Azerbaijan: Baku Embarks on Military Spending Surge, Seeking Karabakh Peace," *eurasianet.org*, October 22, 2010, [<http://www.eurasianet.org/node/62223>].

No Resolution in Transnistria

Ever since a short conflict in 1992, Russian military forces have been deployed in the eastern Transnistria region of Moldova, where a secessionist pro-Russian, neo-communist regime remains in control. Russia's military presence in Moldova exists against the will of the Moldovan government and in contravention of its constitution, and has been one of the chief stumbling blocks for the entry into force of the Treaty on Conventional Forces in Europe.

In 2010, the German government launched an initiative to explore closer security cooperation between Europe and Russia. At a summit in Meseberg, near Berlin, in June 2010, German Chancellor Angela Merkel and Russian President Medvedev signed a memorandum to "explore the establishment of an EU-Russia Political and Security Committee," which would be a considerable step toward changing the architecture of European security.¹⁰ The move had taken place without consultations with Washington, and the intended body would surpass the institutional forms of coordination between the EU and NATO, or between the EU and the U.S.

However, Merkel explicitly raised resolution of the conflict in Transnistria as a test case of EU-Russia security cooperation, and the memorandum promised joint efforts in that direction.¹¹ Berlin also followed up on this memorandum: soon after the Meseberg summit, German Foreign Minister Guido Westerwelle visited Moldova, the first to do so.¹² German leaders then raised the issue with French and Polish leaders in the consultations known as the Weimar triangle, and Chancellor Merkel further coordinated with Romanian leaders during a state visit in October 2010. Yet almost a year later, Moscow had failed to reciprocate, in spite of German proposals that went a considerable distance in meeting Moscow's policy goals – involving pressuring Moldova to accept a solution based on a federalized state in which the separatist regime in Tiraspol would have significant influence, which in turn would undermine Moldova's

¹⁰ Vladimir Socor, "Meseberg Process: Germany Testing EU-Russia Security Cooperation Potential," Jamestown Foundation *Eurasia Daily Monitor* 7, no. 191, October 22, 2010; George Friedman, "Germany and Russia Moving Closer Together", *Stratfor*, June 22, 2010.

¹¹ See, for example, Judy Dempsey, "Challenging Russia to Fix a Frozen Feud," *New York Times*, October 28, 2010.

¹² "The First Visit by a German foreign Minister to Moldova," *Eastweek*, June 30, 2010, [<http://www.osw.waw.pl/en/publikacje/eastweek/2010-06-30/first-visit-a-german-foreign-minister-to-moldova>].

European integration. Although German diplomacy sidelined the EU and U.S., who unlike Germany are official parties in the 5+2 format of the negotiations on Transnistria, and moved closer to Moscow's position, Russian intransigence in the negotiations continued.¹³

Thus, Germany's initiative has failed to bear fruit in spite of the great benefits and prestige a developed security relationship with the EU would offer Moscow. Observers with first-hand information about the negotiations suggest that Russian negotiators are more polite, but have yielded nothing on substance. Indeed, Moscow has not backtracked from its stance on the conflict—which continues to back the Smirnov regime in Transnistria, while demanding a resolution and a “reliably guaranteed” special status for Transnistria as well as Moldova's “constitutional neutrality” before any military withdrawal.

The West's (Lack of) Response

What has been the Western response to these Russian policies? Simply put, it has been underwhelming. With a policy focused almost exclusively on the “reset” with Russia, Washington has avoided policies that would annoy Moscow. On the positive side, the Obama administration did realize the danger of renewed war in Georgia, and passed the right messages to Moscow in the summer of 2009. Moreover, visiting Georgia in June 2010, Secretary of State Hillary Clinton directly referred to Russia's troop presence in Georgia as “occupation,” which only very few European leaders have dared to do.

But that is where the positive steps end. This declaratory policy on Georgia has not been followed up by action to reverse the situation on the ground, or to reduce Russian pressure on the country. Washington has seemed to agree to disagree with Moscow on Georgia, but not to devise policies to help Georgia regain its territorial integrity, attach cost to Russia for its occupation, or to provide security for Georgia. In this context, perhaps the most disturbing U.S. policy is that concerning arms sales to Georgia. While Russia is arming itself to the teeth in Abkhazia and South Ossetia, the U.S. has refused to sell Georgia even defensive weapons. U.S. weapons sales to Georgia have surpassed \$10

¹³ Vladimir Socor, “Moscow Meeting Fails to Re-Launch 5+2 Negotiations On Transnistria Conflict”, *Eurasia Daily Monitor*, 22 June 2011.

million since 2003; in 2009, they dropped to zero.¹⁴ In effect, the State Department simply refuses to either approve or deny requests for permits for arms sales to Georgia, thereby effectively upholding Russia's preferred policy on Georgia—a *de facto* arms embargo.¹⁵

Washington likewise failed to react to Moscow's assertive military moves, especially the extensions of the Russian bases in Armenia and Ukraine, in spite of their negative effect on regional security. Similarly, there was no American reaction to the French government's sale of Mistral warships to Russia—former National Security Advisor James Jones even stated that the issue was not “of particular concern to us.”¹⁶ Washington's lack of engagement on Moldova persisted.

Washington's perhaps most unfortunate move was its neglect of both Azerbaijan and the conflict over Nagorno-Karabakh. Washington decided to de-link the Armenian-Azerbaijan process from the Turkish-Armenian reconciliation process, and to push the Karabakh conflict even deeper into the “freezer.” The message to Baku was that if it wanted international attention to the conflict, its only option was to escalate.

In short, the Obama administration has abdicated the bipartisan tradition, launched by the Clinton White House and dating back almost two decades, of viewing the South Caucasus and Central Asia as regions in their own right, and as subjects of international affairs where the U.S. has significant interests. Instead, it has appeared to fold the component countries of the region into other portfolios—and subjugate them to its desire for a new tenor in relations with Russia. The results so far suggest that another policy revision is sorely needed.

As for Europe, it has mirrored America's effective disengagement from the region. In February 2011, when the mandate of the EU Special Representative for the South Caucasus expired, the position was initially abolished, before being

¹⁴ See Richard Lugar, *Striking the Balance: U.S. Policy and Stability in Georgia*, Report to the Committee on Foreign Relations of the U.S. Senate, December 22, 2009, 14, [<http://lugar.senate.gov/issues/foreign/georgia/>].

¹⁵ Author's interviews with Defense Department official, Washington, DC, May 2010; Joshua Kucera, “Tbilisi Pressing Washington to OK Defense Purchases,” *eurasianet.org*, September 15, 2010, [<http://www.eurasianet.org/node/61934>].

¹⁶ Laure Mandeville, “La Relation entre Sarkozy et Obama est Très Saine”, *Le Figaro* (Paris), March 26, 2010.

reinstated in September that year. This indicated, at an institutional level, Europe's ambivalence on its role in the region.

The sole notable European initiative on the issue of the unresolved conflicts was Germany's Moldova initiative. While bold in one sense, seeking to engage Russia to deliver some form of progress in the conflict, Berlin on the other hand went out of its way to meet Moscow more than half way on the substance of the conflict resolution process – thereby endorsing positions that would leave Moldova effectively neutralized as an independent state, subjected to the veto power of Moscow's puppet regime in Tiraspol.

Conclusions

While the atmospherics in Russia's relations with the West have changed, it is clear that Russian aspirations to a sphere of influence covering the former Soviet space continues. Russia makes use of a range of mechanisms to reward positive behavior or punish undesirable actions on the part of neighboring states. The main problem for Moscow is that its means of influence in the former Soviet space is mainly negative: it has little to offer the states of Eurasia, but a great potential to undermine their security by diplomatic, economic, subversive, or military measures. Thus, Moscow has few carrots, necessitating a heavy use of sticks. More than anything, Moscow uses manipulation of unresolved conflicts to maintain its position in the countries affected.

It is well-known that Russia's main desire in establishing the "reset" diplomacy with the United States – and similar efforts with European states – has been to obtain acceptance in the West of its claim to a sphere of influence in Eurasia. Western states have publicly and repeatedly rejected such a sphere of influence. Nevertheless, Western engagement in the region since 2008 has decreased dramatically. This is in all likelihood greatly a result of the financial crisis. Yet several policies suggest that a desire not to antagonize Moscow is part and parcel of the lack of Western engagement. Most egregiously, America's refusal to normalize military relations with Georgia and to resume the sale of military equipment to Georgia to the pre-2008 levels seem to uphold the favored Russian policy of a *de facto* arms embargo on Georgia. Similarly, Western effort to develop the southern energy corridor through the Black Sea and Caspian basin have been much reduced. Thus, the inescapable conclusion is that while Western leaders reject the Russian notion of a sphere of influence, they have

reduced their level of engagement to a level allowing Moscow to conclude that its demands for a sphere of influence are not being actively challenged.

In spite of Western policies that have been markedly less principled and active in Eurasia, Moscow has been unable to make much headway in consolidating its position. The government of Mikheil Saakashvili in Georgia survives, having weathered serious internal storms while maintaining substantial public legitimacy and continuing its reform agenda, though perhaps at a slower pace than before. Moscow's war against Georgia caused enormous damage to that country, but also made inconceivable the arrival to power of a pro-Russian politician of the Yanukovich mold. Indeed, if not before, 2008 was the year when Russia lost Georgia. Similarly, Russia's renewal of its basing agreement with Armenia, and attached arms supplies, led to the abrupt end of any Russian-Azerbaijani honeymoon, preventing Moscow from capitalizing on Baku's frustration with the West. While the Azerbaijani government is cautious in its relations with Moscow and cooperates in areas of its own interests—such as gas sales and arms procurement—nothing has changed in Azerbaijan's independent foreign policy. Even in Armenia, Moscow's position is based on Armenia's dependency, a fact not lost on Armenia's leaders. In Moldova, Russian encroachments failed to measure up to the gravitational pull of the European Union. In November 2010, the fractured coalition government, aptly named the "Alliance for European Integration," won renewed confidence in an election, and was reconstituted, dashing Moscow's hopes of returning the Communist party to power.¹⁷ In Belarus, the government of Aleksandr Lukashenko remains as alienated from Moscow as it was several years ago. In Central Asia, Moscow's policies have accelerated the efforts of Turkmen and Uzbek leaders to broaden their international contacts and their energy export routes; even in Ukraine, where Moscow had initial successes following the coming to power of Viktor Yanukovich, bilateral ties have worsened as Ukrainian leaders have refused Russian efforts to gain control over Ukraine's gas infrastructure.

In sum, Moscow's aggressive tactics have largely failed to bear fruit—but have contributed to deepening the instability of the entire post-Soviet sphere and to complicating efforts at conflict resolution and development in that region.

¹⁷ Vladimir Socor, "Moldova's Alliance For European Integration: a Team of Rival Parties," Jamestown Foundation *Eurasia Daily Monitor* 8, no. 5, January 7, 2011.

Arms Control after the START Treaty

Stephen Blank^{*}

While the “New START” treaty of 2010 signified the high-water mark of the US’ reset policy towards Russia; it hardly eliminated all the strategic issues that divide East from West and may have opened up new ones that will impede progress towards the Obama Administration’s cherished dream of nuclear reductions leading ultimately to nuclear zero. The issues of tactical nuclear weapons (TNW) and missile defenses remain unresolved amidst signs of a deteriorating East-West relationship as of mid-2012. Though there is a strong tendency to berate the West and particularly Washington for their alleged failures to come to terms with Moscow, in fact Russian positions perpetuate the Cold War mistrust and, whatever the merits of the West’s positions are, contribute greatly to the ensuing impasse. But, in fact, few western sources even attempt to analyze Russia’s outlook and positions. Therefore this essay seeks to analyze those Russian positions.

Tactical Nuclear Weapons

As far as European security is concerned, the new agenda imposed by the new START Treaty above all has to do with NATO-Russian negotiations on missile defense, and it does appear that there will be a negotiation process set up with regard to short range ballistic missiles (SRBMs). Although no negotiation on SRBMs has begun, Moscow is already demanding that it share in the command and control of the U.S./NATO missile defense system, that it be given ironclad legal guarantees that NATO will not attack it and threatening as before that if not heeded, it will build nuclear weapons that can penetrate defenses and return to the Cold War. Since Moscow’s defense reform has utterly failed to produce sufficient conventional weapons of quality to enable it to compete with the

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U.S., and because its priority in military procurement has been and remains updated nuclear missiles, these new threats are empty threats. Indeed, as noted below, even before 2010 Russia was already building such weapons so future U.S. plans cannot for the foreseeable future influence its nuclear program so decisively. The failure of the conventional rearmament program means that Russia will have no choice but to make nuclear weapons its priority, and thereby remain a threat to Europe regardless of NATO plans. So too is its insistence that the U.S. missile defenses represent a threat to Russia once they are installed in 2020. Essentially, Moscow wants to retain the capability to intimidate Europe with nuclear weapons with impunity, as was the case during the Cold War, and to undermine the U.S. defense presence in Europe. As this author has written elsewhere, Russia still sees NATO and the U.S. in Cold War terms, assumes an *à priori* hostility between it and these entities, and insists on a policy of deterrence based on compensatory offensive advances for itself should the West develop missile defenses. In fact, Moscow says, be my friend on my terms – or I will threaten you with nuclear extinction. This is hardly a way to win friends and influence people.

The issue of tactical nuclear weapons (TNW), or non-strategic nuclear weapons (NSNW) as they are also called, is more contested. On the one hand, the United States and NATO have decided that they will not retain their TNWs in Europe, but that they are not going to withdraw them unless there is a negotiation that meets with their desiderata. On the other hand, the Russian position remains that American TNWs have to be taken out of Europe and that no TNWs can be deployed except in the homeland of the country, which would obviously benefit Russia given the asymmetry of the geography. Russia, in particular the Russian Navy, has also indicated that it intends to deploy new TNWs in the form of cruise missiles onboard ships and submarines. In addition, it is a known fact that there are Russian ships carrying nuclear weapons in the Baltic Sea Fleet. This raises the issue of transparency and verification at its starkest, because those kinds of weapons pose a major threat to all the Baltic littoral states.

Problems with the Ceilings Established by the New START Treaty

The limits set by the new Treaty have already been introduced in Ian Anthony's contribution to this volume. However, there are several problems

with these limits that should be pointed out. The Republicans in the Senate have voiced concerns about these ceilings, but they remain caught up in the theology of missile defense, and are therefore did not look at the other issues. For instance, one problem is that there is no restraint on any Russian offensive program underway, except in terms of numbers. Not even Russian research into fusion and low-yield nuclear weapons is restricted. A second problem is that there is no reciprocated concession for the fact that the Treaty reduces American delivery vehicle numbers to the numbers slightly above what Russians, according to most analysts, would be able to muster under the best of circumstances. These are serious issues. The Russians clearly think – and say – that they got everything they wanted in the START Treaty, and that the U.S. lost, even though it ultimately was a compromise.

A third problematic aspect of this Treaty is that the rules for counting seem bizarre, even when they work to America's advantage. As a case in point, the Treaty's rules for bombers state that nuclear weapons can be loaded on bombers on both sides. The United States has many more weapons in reserve than Russia. Nevertheless, Russia has 76 bombers that carry 16 weapons each and those Russian bombers will only count as one warhead. So, if the Russians wanted to maximize their bomber output and put 16 weapons on their 76 planes, they would have 1,140 warheads. As a matter of fact, the Russians have argued that within the counting rules of the Treaty, they could have 2,100 missiles.

The Russian Military Doctrine

Russia is not planning to start a nuclear war, but the Russian military doctrine is troubling for two reasons. First of all, the doctrinal debates indicate that Russia's military doctrine with regard to nuclear weapons is one of limited nuclear war fighting. In fact, Russian military leaders openly state that in the context of the concurrent negotiations that led to the treaty and its aftermath and Russia's defense reform that began in 2008, the role of the Strategic Rocket Forces (SRF) will actually grow despite the reductions in numbers. Moreover, beginning in 2009 the Russian military began to modernize its nuclear arsenal with new systems, prolong existing ones, and develop its command control capabilities. In that context, the chief claim of the new RS-12 and RS-24 (Yars) missile systems is that they have independently targeted warheads and can evade (or so it is claimed) any Western missile defense, an attribute that allegedly fulfills

former President Vladimir Putin's earlier promise of asymmetric measures against U.S. missile defenses. Simultaneously, Russia is pursuing an agreement with the Obama Administration that would give it access to U.S. technology for interceptors designed to destroy enemy missiles on impact.

The problem is that nobody can say what a limited nuclear war would look like, or if such a thing is possible. Beyond that, the Russians still insist that the United States and NATO are the main adversaries in their political and military statements regarding nuclear weapons. In their perception, the United States and NATO on the one hand and Russia on the other must exist in a relationship based on mutual deterrence. One major consequence of this presumption of hostility – which impedes, though it does not prevent, the reaching of accords with Moscow – is the deep-rooted belief of the Russian leadership that due to this presumption of hostility, Russia must remain wedded to a posture of mutual assured destruction, mutual deterrence and an almost literal and crude argument in favor of the offense-defense reaction described in earlier generations of writing on these subjects. From Russia's standpoint, the only way it can have security vis-à-vis the U.S. given that presupposition of conflict is if America is shackled to a continuation of the mutual hostage relationship based on mutual deterrence that characterized the Cold War, so that it cannot act unilaterally. To the degree that both sides are shackled to this mutual hostage relationship, Russia gains a measure of restraint or even of control over U.S. policy.

As Patrick Morgan has observed, this kind of classic deterrence “cuts through the complexities’ of needing to have a full understanding of – or dialogue with – the other side. Instead, it enables a state, in this case Russia, to “simplify by *dictating* the opponent's preferences.”¹ Thanks to such a mutual hostage relationship, Russian leaders see all other states that wish to attack them or even to exploit internal crises like Chechnya as being deterred. Therefore nuclear weapons remain a critical component in the ensuring of strategic stability and, as less openly stated, in giving Russia room to act freely in world affairs. Whereas the Obama and the Bush administrations have proceeded on the basis that the United States' force deployments could now take place without regard to whatever the Russians are doing, the Russian leadership looks at their

¹ Patrick M. Morgan, *Deterrence Now*, Cambridge: Cambridge University Press, 2003 p. 66

relationship with the West as a mutual hostage situation where both sides must be shackled to each other. As a result of the perception of an adversarial relationship, the Russians insist that the American deployments must be correlated with theirs. They cannot let the United States' deployments get out in front of theirs.

What is critical is that the Russian leadership still sees the use of nuclear threats against Europe as something that can give them important advantages. Their view on nuclear weapons strikes at the idea that the one fundamental thing nuclear weapons can do is deter other nukes, which is a very prevalent apprehension in America. The Russian nuclear weapons are not just a sign of their being a great power. As a matter of fact, Russia's threats of using nuclear weapons against their neighbors serve as a way to demarcate a sphere of influence and exclude the West from the former Soviet space, and this is another reason why it is going to be very difficult for Moscow to give their weapons up in appreciable numbers. In 2009, Russia deployed so-called Iskander missiles in Northwest Russia. This type of missile comes in both a conventional version and with nuclear capability, and it can function as a cruise missile as well as a ballistic missile. This is actually a mounting problem in international security and not just in transatlantic issues. There are no defenses out there against cruise missiles of any kind that are possessed by anybody.

Russia's Dependence on Nuclear Weapons

For a number of reasons, Russia is going to rely more and more on nuclear weapons in the future. First of all, the utter failure of its defense reform and defense industry all but ensure that the priority of constructing nuclear weapons will retain its pre-eminence through 2020. The Russian defense industry is still trapped in a neo-Soviet paradigm and cannot produce the high-tech repertoire of weapons Russia wants to have by 2020. In any event, it cannot produce them in the amount that Russia wants. As of 2008, according to Defense Minister Anatoliy Serdyukov, no more than 10 percent of the Russian weaponry was modern. Today it is only 15 percent modernized. Despite the huge conventional buildup of US\$ 770 Billion through 2020 (30 trillion rubles and that may go higher based on Putin's recent speeches, a figure that depends on continuing high energy prices), 20-40 percent of the defense budget is stolen according to Russian sources, and industry is trapped in a Soviet or neo-Soviet dead end.

Furthermore, the military believes that the likelihood of military threat to Russia is increasing in the nature of what Russians call local wars, which would be a war that at least starts out as a conventional war in one theater. The problem is that Russia, seeing NATO as its enemy, is going to be very tempted to go quickly to nuclear warfare in such a war because it cannot keep pace.

Second, there is China. It is very clear that the Russian Far East cannot be defended by means other than nuclear weapons. It is an economy of force theater, and the only way that the Russians can deter China from moving in, if the Chinese had such ambitions, is by nuclear threats. Moreover, the Russian military reform has encountered serious problems. The Russian Armed Forces will not be able to be a high tech army because the Russian army today is essentially composed of the lame, old, blind, morally, mentally, and physically deficient. This is the description given by the Russian press, and it is not an exaggeration. Moreover there are ever more signs of open military anxiety about Chinese capability and intentions, suggesting more suspicion of China than is commonly assumed to be the case.

Another third key determinant that needs to be taken into account is the planned return to the presidency of Vladimir Putin. In December 2009, Putin called for new offensive weapons and in March 2010, Medvedev said there were not going to be any new nuclear weapons beyond the plan. So, if we postulate that there are real policy differences between Medvedev and Putin, Putin's return makes a big difference.

Finally, at the conventional level, it is going to be very difficult for anybody to take Russia's pledges for the need of a new security architecture in Europe seriously as long as there is not a change in law. At the moment, the President basically has legal authority to call out the army without any consultation with the Duma, if it would be deemed necessary for defending the interests and honor of Russians abroad.

On December 16, 2009, the Federation Council, the upper house of Russia's Parliament, meekly gave Medvedev sole and full authority to decide how, whether, and when Russia's forces could be used beyond its borders.² This law has several other potentially dangerous consequences for all of Eastern Europe

² Moscow, *ITAR-TASS*, in English, December 16, 2009, , *FBIS SOV*, December 16, 2009

besides those listed above. In many respects, the language of this new law contradicts international law and the UN's language pertaining to relevant situations. Beyond that, as one analyst noted,

Due to its vague and ambiguous wording, the new Russian legislation has radically expanded the range of circumstances under which Moscow considers it legitimate to deploy troops abroad, as well as the list of states in which Russia may station armed forces in accordance with the law... The clause concerning the protection of Russian citizens in foreign states grants Moscow the right of unilateral military intrusion into any country in which Russian citizens reside on a permanent or temporary basis under a wide set of arbitrarily construed circumstances. It does not specify precisely what 'an armed attack' constitutes, how many Russian citizens need to be under attack to justify Russian intervention, whether such an attack would be carried out by armed forces or law enforcement agencies of a foreign state or by non-state armed groups, and whether the Russian government has to obtain an official sanction to act in a foreign territory from the UN Security Council or from the authorities of the particular state where Russian citizens are under attack.³

Third, this law radically alters the security situation in the CIS and the Baltic because it gives Russia a legal platform, so to speak, for justifying its unilateral intervention into any of the other members' territory that is not provided for in the founding documents of existing treaty organizations in the CIS and thus undermines their validity and with it the protection of those other states' sovereignty and integrity. As Yuri Fedorov writes,

Russia's self-proclaimed right to defend its troops against armed attacks affects Moscow's relations with Armenia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan, all of which are parties to the Collective Security Treaty Organization (CSTO) and, with the exception of Belarus, the Shanghai Cooperation Organization (SCO), and which also have bilateral arrangements on military assistance with Russia. Russian troops and military facilities are deployed in all of these states, with the exception of Uzbekistan. Neither the Collective Security Treaty, nor any bilateral arrangements imply Russia's right to make

³ Yuri E. Fedorov, *Medvedev's Amendments to the Law on Defence: The Consequences For Europe* Finnish Institute of International Affairs, Briefing Paper No. 47, November 2009, pp. 5-6

unilateral decisions about the form, scope and very fact of employing its forces in the aforementioned states. All of these issues were to be decided either by all parties to the CSTO collectively, or by parties to the corresponding bilateral treaty. Decisions on counter-terrorist activities in the framework of the SCO are made by consensus. The new Russian legislation did not cancel out the multilateral or bilateral decision-making procedures yet it devalued those procedures in a sense. If Russian troops deployed in some of these countries are involved in international or internal conflicts, which is quite possible, Moscow will have a pretext for using them and duly deploying additional units in a unilateral manner. The right to defend Russian troops on foreign soil is of particular importance for Russia's relations with Ukraine and Moldova. The Ukrainian government has demanded the withdrawal of the Russian naval base after 2017, while Moldova insists on the immediate departure of Russian troops from Transdniestria. In turn, Moscow has set its sights on stationing its troops there indefinitely. In such a context, skirmishes of any degree of gravity involving Russian servicemen in these countries may furnish Moscow with a pretext for military intervention.⁴

Fourth, as Fedorov notes, this law directly contradicts the language of the draft treaty on European security submitted by Medvedev to European governments on November 29, 2009.⁵ While that draft treaty preaches multilateralism; the new law shows that, "Moscow favors a unilateral approach towards security issues and wants a free hand if and when conflict situations arise."⁶ Fifth, Medvedev clearly wants to free himself from any constraint of consultation with legislative bodies over this decision. And the Federation Council's decision duly emancipates him from any formal controls related to the foreign deployment of Russian forces. As there are no truly operative controls prohibiting such deployments in Russia, he has a totally open field to do as he pleases with those forces. When the law was passed in November 2009, Medvedev originally had to agree to a proviso in the law that he had to consult with the Federation Council on the question of dispatching troops abroad in these circumstances. But by December he successfully demanded unfettered power to make this decision unilaterally. In other words, we are coming to a point where a president may send troops abroad for the vaguest of pretexts

⁴ *Ibid.*

⁵ European Security Treaty," November 29, 2009, <http://eng.kremlin.ru/text/docs/2009/11/223072.shtml>

⁶ Fedorov, p. 6

without any accountability whatsoever. Legal nihilism only begins to describe this situation.⁷

Sixth and finally, as Fedorov observes, this law may also shed some light on Moscow's thinking about future power projection scenarios beyond its borders. Specifically,

In particular, the Russian intelligence services may plan to ignite disturbances and ethnic clashes in Sevastopol, resulting in attacks against the Black Sea Fleet servicemen or facilities by criminal groups or an unruly mob. This would give Russia the legal grounds to intervene militarily in the Crimean peninsula, occupy Sevastopol or the whole peninsula and retain its naval base for an indefinite period of time. Another scenario presupposes the engineering of ethnic clashes in Estonia and/or Latvia, which may be exploited by Moscow as a pretext for military intervention, or at least for the threat of such intervention. Widespread rioting and looting in Tallinn in April 2007, provoked by the decision to relocate the Soviet Army monument, yet fuelled and orchestrated by Russian agents, confirmed that Moscow has enough instruments at its disposal to destabilize the situation in large cities in Latvia and Estonia with a substantial proportion of ethnic Russians.⁸

Given the primacy of nuclear weapons in Russian defense planning as shown in the 2009 Zapad and 2010 Vostok exercises, its refusal to observe the CFE treaty, insistence on "sovereign democracy," the manifold expansion of Russian efforts to subvert European governments and spy on them, and the aforementioned law on the military, it is hard to see how Europe can take President Medvedev's plan for European security seriously or why it should bother to do so. Genuine strategic partnership cannot be achieved through threats, undeclared wars, corruption, etc. Both the Wikileaks revelations and European diplomats and intelligence officers have long known that Russia is, to use these sources' term, a mafia state. Europe, on the other, hand prides itself on being a civilian power. Is a true and lasting partnership between them really possible on this basis?

⁷ "Medvedev's Push for Control of Russian Military Unsettles Caucasus" *Deutsche Welle*, [<http://www.dw-world.de/dw/article/0,,5004308,00.html?maca=en-rss-en-all-1573-1df>]. December 11, 2009

⁸ Fedorov, p. 7

The Next Phase of Start – What Will Be the Central Issues?

Ian Anthony^{*}

There has recently been a huge amount of activity, mostly prompted by the United States, to investigate what can be achieved through arms control as an instrument for building security after a period in which this instrument had somewhat fallen into neglect.

The start of this process can be traced back to July 2008, when the then-Presidential candidate Barack Obama gave a speech in Berlin, where he attracted a huge crowd to listen to him. At the point where he talked about the need for a nuclear weapons free world, he received the most astonishing ovation. In Prague, only a few months after his inauguration, President Obama was lowering expectations about the prospects for full nuclear disarmament, saying this is not something that would be achieved in his lifetime, but nevertheless still pointing to the benefits of reducing the numbers of nuclear weapons, in particular in the arsenals of Russia and the United States, which hold the lion's share. Towards the end of the year, President Obama sat in the chair at the Security Council leading a discussion on nuclear arms control with all of the heads of state of the permanent five present. Then, in April of 2010, he put his signature on the new START Agreement, which breaks some new ground by establishing aggregate limits on the number of deployed warheads, going beyond the previous focus on warhead delivery systems.

The expected impact of this bilateral New START Agreement is to restore the focus dialogue on strategic issues and help to preserve the kind of constituency which sees arms control as a useful instrument in stability and

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security building. It also helps to maintain some transparency in the pattern of strategic weapon development, which is not only important for the parties, but also for the rest of the world—which has very limited sources of information about what is going on inside the nuclear weapons complexes of the nuclear weapon states.

All of this establishes a basis for further discussions on future reductions and the development of new verification tools. Both sides have been clear that they see this agreement not simply as a value *per se*, but also as creating a platform for further discussions that will go more deeply into some of the issues raised. The recent new START Agreement essentially has a seven year period before it enters into effect and a ten year duration, so one could predict that by a date – five, six, seven years from now – we need to be in a position where we can say what our next steps would be in fairly concrete terms. Thus, there is a five year period in which this consensus can be forged, and a clear and systematic approach to moving towards further nuclear arms reductions can be developed.

The Next Steps

What, then, will be the next steps? Some indications have come out of the U.S. side concerning what they would like to achieve in the next phase of arms control. The main focus will be the inclusion of those weapons which are not in deployment, to try to bring these within the scope of future reductions as well. The U.S. also wants to extend the discussion to nuclear weapons which have been outside the framework of arms control, particularly nuclear weapons earmarked for forward deployed, short range delivery systems.

There are also a number of wider strategic issues on which Russia, in particular, would like to have further clarification. We do not have a clear understanding of what self-defense means in current conditions, and Russia wonders about the implications for itself of U.S. military policies intended to address conflicts with non-traditional enemies. Russian political leaders have underlined that political statements will not provide sufficient assurances that the national security policies of the United States serve the general interest. For example, what is the meaning of self-defense where drone

attacks are being carried out against non-state actors more or less wherever those actors are found, irrespective of geography? What exactly are the rules of the game for use of force once you can, with a conventionally armed ballistic missile, target any place in the world within 60 minutes?

From the Russian side, there is a clear interest, in the next phase, to try to establish more clarity about the role of missile defense. The NATO strategic concept *Active Engagement, Modern Defense*, adopted at the summit meeting of heads of state and government in Lisbon on 19-20 November 2010, made defending against ballistic missile attack a 'core element' of collective defense. Moreover, NATO extended its previous commitment to protect forces in the field from ballistic missiles into a wider commitment to protect the populations and territory of NATO. The objective is to implement the policy to provide 'indivisible' security for NATO members—that is to say, protection will be equal for all Allies. The same document stated that the Alliance would actively seek cooperation with Russia and other Euro-Atlantic partners on missile defense. However, while NATO has (at least at the level of declaratory policy) made rapid progress in elaborating plans for missile defense, the pace of discussions with Russia has been much slower and no agreement has yet been possible even on the basic principles for cooperation.

While the possibilities for progress on conventional arms control in Europe seem very limited at best, active discussions about how to widen the scope and deepen the level of detail of activities covered by confidence and security building measures under the Vienna Document are evidence that governments still see a role for dialogue and transparency. The United States, Russia and European countries would all like to limit the resources allocated to the military in times of economic difficulty in confident knowledge that this will not undermine their security or weaken the stability that has been created in a region that was previously the seat of conflict.

The future of the discussions on this inter-linked basket of issues will be determined by political developments; domestic U.S. political issues and Russian internal political conditions. We do not know whether Barack Obama is a one term president or a two term president. And then there are a broad set of economic and financial issues which are also clearly going to

have some impact on the discussion. Are current arsenals sustainable? There are clear statements from both sides that sustaining very large investments in so-called Cold War legacy systems is not really a sensible thing to do in an environment of many other priorities and shrinking budgets. And linked to that of course, is the question of whether future modernization is affordable, which will also place constraints on what can be done in terms of future force postures. And that will also set some of the parameters clearly for future arms control agreements.

The Future of Deterrents

The future will also have to bring some more clarity on how the two sides view the deterrents as an instrument within their security policy. In April 2010 the Obama Administration released the national Nuclear Posture Review (NPR), the main declaratory policy statement about the role foreseen for nuclear weapons in defending United States vital interests. Unlike previous Administrations, President Obama noted that there was no classified version of the NPR. The April 2010 public document is therefore the most authoritative guide for both adversaries and Allies to how the United States would use nuclear weapons in given circumstances.

The message of the NPR is rather clear – that the United States has already reduced the role of nuclear weapons in deterring anything other than nuclear attacks and it intends to go further down this path. One “key conclusion” in the NPR was that the United States will continue to strengthen conventional capabilities and reduce the role of nuclear weapons in deterring non-nuclear attacks, ‘with the objective of making deterrence of nuclear attack on the United States or our allies and partners the sole purpose of U.S. nuclear weapons’. While the document stopped short of a pledge never to use nuclear weapons first in any conflict, given the huge superiority of the United States in conventional armed forces the first use of nuclear weapons appears an extremely remote possibility.

In 2009 Russia published a new national security strategy and a foreign policy concept that corrected the previous over-emphasis on military security in favor of a more balanced approach. However, these documents were explicit in saying that Russia will always maintain parity with the United States in

strategic offensive weapons. In its military doctrine, published in December 2010, Russia similarly de-emphasized the role of nuclear weapons in comparison with the previous document, which dated from 2002. Whereas the 2002 document noted that failure to contain a conventional attack could lead to what was called ‘a nuclear de-escalation strike’, the 2010 document is cast firmly in terms of deterrence and refers to the use of nuclear weapons only if ‘the very existence of the State is threatened’.

Even within NATO itself, understanding the role of nuclear weapons is a pressing issue which still needs to be addressed. While the position of the United States is noted above, France and the United Kingdom have moved towards what one British civil servant called “deterrence to whom it may concern”, that is maintaining fairly small arsenals which are not linked specifically to detailed targeting strategies. Within NATO the only language that could be agreed among Allies in the new Strategic Concept is very general, envisaging an open ended reliance on nuclear weapons to deter an unspecified range of threats.

For this reason, NATO has embarked on a defense and deterrence review after the adoption of the Strategic Concept to try and reconcile the position of the Alliance on nuclear weapons with the national positions of the only Allies that possess them. NATO has taken the first steps towards opening up debate at least within the Alliance with a view to finding a common view on next steps, and has made some procedural steps towards a new discussion on the role of arms control – notably the creation of a new Committee specifically to discuss the issue.

It seems likely that Allies will prefer a phased approach, in which there will be an initial focus on transparency of information, sharing, and reaffirmation of what has been done already in the past. This will in turn lead to greater transparency about the types, locations, and operational status of weapons and a discussion of the role of particularly the short range weapons in forward deployment, including what role (if any) they play in deterrence on the two sides. The end point of this process would be an elimination of these stockpiles in some future agreement.

The Future of Nuclear Sharing

There is also an understanding now, which is pretty broad across NATO, that the present policy of nuclear sharing is broken. In advance of the discussion of the Strategic Concept a number of Allies wrote to the Secretary General, insisting that the issue should be part of the discussion. While it was the norm for countries to participate in the nuclear sharing arrangements of NATO during the Cold War, now it is the exact opposite; it is the exception to participate in the sharing arrangements. For the most part it is the countries that carry the main burden that would prefer to end the arrangements while countries that do not (and in fact cannot) participate take a more cautious view.

In these conditions a country like Germany is in effect being told that “if you are going to continue your participation, you will have to have to modernize your dual capable delivery systems”, which means the German government is going to have to stand up in front of the Parliament and tell people they have to spend several billion Euros, for which the only rationale is dropping nuclear weapons on Belarus and Ukraine.

This is not a sustainable political position for Germany to be put in – the more so when the limits of German solidarity are increasingly being tested in other areas of European policy. But an interesting development recently within NATO is that discrepancy in pragmatism between the member states and the organization as such. There is actually a much more nuanced approach in the countries than could be found in the NATO headquarters in Brussels, where the local representatives of Allies and the International Secretariat have all been captured by a kind of orthodoxy.

What is also anti-conducive for these discussions are the mindsets found in several of the countries in Central and Eastern Europe, which joined after the fall of the Berlin Wall. Among these, there is not really a preparedness to debate nuclear policies in part because it has never really been an issue up for discussion. For the whole period of the Warsaw Treaty Organization, there was no consultation process about nuclear policy and the decisions were made in Moscow. When these countries joined NATO they were told that “the three nos” – that NATO had “no intention, no plan, and no reason” to deploy nuclear weapons in the new member states – were a condition for

joining. Not being allowed to participate in the nuclear policy, there was not really much incentive for them to delve deeply into its details. When they were then suddenly asked to take a position on nuclear issues at short notice in advance of the Strategic Concept it is perhaps understandable, and not unreasonable, that these States adopted a cautious approach in favor of the status quo.

If there is not, at the moment, really a community in Central and Eastern Europe that is able to discuss nuclear weapon related issues, it is an open question whether there is a community in Western Europe (outside France, Germany and the United Kingdom) that is able to have that discussion. It is predictable that the nuclear issue will have to be discussed over an extended period, as it is not possible to leap from where we are now to having an expert community within six months.

In summary, for all the reasons noted above, it is unlikely that there will be rapid movement to a new treaty or set of treaties following on from the recent START agreement. It seems more likely that there will be a four to five year period of gestation in which both governments and wider communities come to terms with the issues under discussion.