The Implications of Russia's Elections: Relations with the 'Near Abroad'

James Sherr

POLICY PAPER
April 2008

Institute for Security & Development Policy

The Implications of Russia's Elections: Relations with the 'Near Abroad'

James Sherr

April 2008

Västra Finnbodavägen 2, 131 30 Stockholm-Nacka, Sweden
www.isdp.eu

"**The Implications of Russia's Elections: Relations with the 'Near Abroad'**" is a *Policy Paper* published by the Institute for Security and Development Policy. The *Policy Papers Series* provides concise and accessible analysis of contemporary issues and events. The Institute is based in Stockholm, Sweden, and cooperates closely with research centers worldwide. Through its Silk Road Studies Program, the Institute runs a joint Transatlantic Research and Policy Center with the Central Asia-Caucasus Institute of Johns Hopkins University's School of Advanced International Studies. The Institute is firmly established as a leading research and policy center, serving a large and diverse community of analysts, scholars, policy-watchers, business leaders, and journalists. It is at the forefront of research on issues of conflict, security, and development. Through its applied research, publications, research cooperation, public lectures, and seminars, it functions as a focal point for academic, policy, and public discussion.

This publication is kindly made possible by support from the Swedish Ministry for Foreign Affairs. The opinions and conclusions expressed are those of the author/s and do not necessarily reflect the views of the Institute for Security and Development Policy or its sponsors. The author would additionally like to state that the views expressed in this paper are entirely and solely those of the author and do not necessarily reflect official thinking and policy either of Her Majesty's Government or the Ministry of Defence.

ISBN: 978-91-85937-24-0

Printed in Singapore

Distributed in Europe by:

Institute for Security and Development Policy
Västra Finnbodavägen 2, 131 30 Stockholm-Nacka, Sweden
Email: info@isdp.eu

Distributed in North America by:

The Central Asia-Caucasus Institute
Paul H. Nitze School of Advanced International Studies
1619 Massachusetts Ave. NW, Washington, D.C. 20036
Tel. +1-202-663-7723; Fax. +1-202-663-7785
E-mail: caci2@jhuadig.admin.jhu.edu

Editorial correspondence should be addressed to Dr. Bert Edström at: bedstrom@isdp.eu

Executive Summary

We are entering a period in which Lenin's warning about the impossibility of separating foreign from internal policy is once again becoming apposite. Russia's presidential elections have focused minds on this connection, but it has been evolving and sharpening over at least the past year. The contradictions in Putin's 'vertical' system of governance always made this connection worth watching. Succession and the weakening of this vertical should have brought it into focus. Those who have focused upon it, Russia's post-Soviet neighbours, have not always drawn adequate conclusions or found adequate capacity to act on the conclusions they have drawn. Those who have the capacity to act, the members of the EU and NATO, have glanced at the problem rather than focused upon it. Accordingly, in order to have a paradigm of the future, it is important to have a paradigm of the past. Shifts of paradigm between 1991 and 2008 entitle us to speak of Yeltsin and Putin eras rather than simply Yeltsin and Putin years. Not surprisingly, these paradigm shifts accompanied shifts in Russia's approach to the newly independent states, still referred to as the 'near abroad'.

In looking forward, and unless appearances deceive entirely, Russia is headed for a weak presidency and a constitutional mess. This is likely to create as many problems for Russia's neighbours as opportunities. In one respect, the post-Putin paradigm could be like the Yeltsin paradigm. *Mnogogolosiye* or 'multi-voicedness' marked by dissonances between policy and practice as well as ambivalent confusion over Russia's demarcation of sphere of interest vis-à-vis those of its neighbours and the West could return to the political lexicon and political stage. But these multiple voices will be far stronger than they were in the 1990s, and they will be heard across Europe. The question is how neighbours will respond to them.

Here, there is some ground for optimism: while it has become clear that Russia is interested in reinforcing weakness and creating, in place of genuine partnership, subservience, Russia in spite of its growing power is ceasing to

be a magnet. Even in Kazakhstan, Kyrgyzstan and Turkmenistan, Russia's authoritarian drift has aroused discomfort. In the European parts of the former USSR, it has aroused apprehension. Despite their litany of criteria and standards, NATO and the EU are not mirages, but genuine poles of attraction, and they have provided Ukraine, Georgia (and even Moldova and Azerbaijan) with prospects, even if they have not (as yet) provided membership perspectives.

Still, Russia's future is uncertain and the implications of the shift of presidency from Putin to Medvedev are yet to be fully apparent. The big question for Russia's neighbours will be to put their house in order before this interregnum ends, as it almost certainly will.

The Yeltsin Paradigm

In the folklore of Putin's PR establishment, the essence of the Yeltsin paradigm was chaos. The reality was less apocalyptic: lack of clarity. The key themes of Yeltsin's presidency were 'multi-voicedness' (*mnogogolosiye*) in authority, chronic dissonances between 'policy' and practice, an absence of rules of the game in economic relations and a widespread, ambivalent confusion about where the interests of Russia ended and the interests of neighbours and Western 'partners' began. In the folklore of Western ideologists of 'transition', the collapse of a totalitarian state would, with nurture, assistance and time, lead to the emergence of a 'normal country' with democratic mechanisms, a rights based political culture, responsible and accountable institutions and correct, equitable relations with entities that hitherto had been dependencies and subjects. Instead, the dynamics of collapse and 'reform' consummated a process of systemic mutation underway since the time of Brezhnevite 'stagnation': the transfer of real power from the structures of 'command-administration' to the illicit and often criminal networks that had come to exercise de facto control over resources and their distribution. To find out who had real power in Russia, one had to ask who had money in Russia, and the question invariably unearthed individuals with no public position or responsibility. According to Boris Berezovsky, by 1999 over half of Russia's GDP was in the hands of seven oligarchs, largely independent of the law or state. Thus, it is no exaggeration to say that the Russian Federation functioned less as a state than as an arena upon which powerful interests competed for power and wealth, often at the expense of state and society alike.

This post-Soviet dispensation was never a purely internal matter. Key sectors of the state and economy—the fuel and energy complex, the security and intelligence services, the armed forces and the defence-industrial complex—always operated on an 'all Union' basis, and although these structures were unsettled by the upheaval, they were intact. The fuel and energy complex was a direct beneficiary of the transition from bureaucratic to financial power, the security and intelligence services played an instrumental part in that transition and Russia's emerging banking and financial sector was also swift to find that it had interests and ambitions

abroad. In these conditions, newly independent states, which had acquired juridical independence (*nezavisimost'*) but not necessarily the means to 'stand independently' (*samostoyatel'nost'*) found them- selves extremely vulnerable. Unbalanced patterns of interdependence, sovietised elites and administrative cultures, convoluted legal systems and clannish, opaque modes of business created a web of transnational connections with similar institutions in Russia and a mountain of obstacles to European integration. Obviously, vulnerabilities that existed were vulnerabilities that could be exploited.

For these reasons, Russian policy towards the near abroad was belated and, initially, complacent. The 'Russia first' policy prevalent in Washington and other Western capitals until 1994 strengthened the conviction of Russian 'democrats' that 'the West will not take them' and that 'a logic...would bring the former republics back again our way'. Yet the Kremlin was soon to question this complacency. In May 1994, Yeltsin warned the Foreign Intelligence Service that 'ideological confrontation has been replaced by a struggle for spheres of influence in geopolitics'.[1] These remarks coincided with the shift from 'romanticism' to 'centrism'. Yet it made little difference. In the absence of effective state authority and usable policy instruments, Russia continued to lose influence.

Thus, for the newly independent states, the *leitmotif* of the Yeltsin years was also an absence of clarity. Pressures were constant, but the real protagonists could rarely be found. Agreements were reached, but for the most part nothing was settled. In that configuration of power—so vastly different from today's—it was the West that appeared to be coherent and stable.

The Putin Paradigm

The essence of the Putin paradigm is clarity. Putin restored the state. In contrast to Gorbachev and Yeltsin—leaders who sought to create the international conditions necessary, in Shevardnadze's words, 'to bring about change *inside* the country'—Putin reverted to an older pattern established by Stalin: restoring the 'vertical of power' as a way of returning Russia to its rightful position on the world stage. By the time Yeltsin stood down, the revival of the state had a *prima facie* legitimacy in Russia. In social terms,

[1] In closed conferences of senior staffs of the Foreign Intelligence Service in *Rossiiyskaya Gazeta*, 30 May, 1994.

Putin represented the coming of age of a new post-Soviet class: moneyed, self-confident, impressed by the virtues of a strong Russia, uncowed by the West and totally without nostalgia for Communism. In geopolitical terms, Putin represented the revival of Russia as a 'great state' that would make history rather than be at the mercy of it. This required the crushing of *de facto* autonomy in the centres of power which, under Yeltsin, had become laws unto themselves. As in Stalin's time, this enterprise had a strong economic component. Yet Putin's enterprise had also been predicated on the conviction that times had changed. Prosperity and the market economy were seen as inseparable. The globalisation of the world economy was seen as a fact of life. Privatisation would be reversed only where the assets in question are deemed important to the state. Elsewhere, the motto was '*enrichez vous*'. This synergy between authority and money not only made the state an effective power, but a magnet of attraction to the 'best and brightest' in Russia.

Abroad, this change was swiftly felt, but in grossly dissimilar ways. According to the (2000) *Concepts of Foreign Policy*, foreign policy should 'conform to the general capabilities and resources of this country'.[2] Where these capabilities and resources were weak (as initially they were in comparison with the West), the leadership sought new openings and common ground; where they were strong (as in Ukraine and Georgia), policy became, in the words of its Kremlin adherents, 'cold', 'harsh' and 'much tougher'. The obsession with 'pragmatism'—defined as the 'strict promotion of national interests'—led to retreats on the first front and advances on the second. In December 1999, when Prime Minister Putin was only days from becoming Acting President, Russia cut the supply of oil to Ukraine for the fifth time since 1991. Yet the crisis that ensued over the following months swiftly persuaded Ukraine's security establishment that the rules had changed. Russia was no longer a problem, but a power. That crisis proved as damaging in political terms as the gas crisis of 2005-6. But because the damage was confined to Ukraine (and Moldova), few inside the EU grasped what a potent instrument energy would become.

---

[2] Sergei Ivanov (then Secretary of the Russian Federation Security Council) outlining the Russian Federation's new 'Concepts of Foreign Policy', approved by the President on 28 June 2000.

Well before the rise in global energy prices made the Putin project a matter of wider European concern, it had furnished policy in the near abroad with usable instruments. Those instruments injected fibre into an older strategy designed to enlist the services of local elites 'that have swiftly acquired wealth and dominance but feel insufficiently self-confident' and, by these means, 'secure political loyalty from the CIS countries'.[3] Moreover, in the wake of the events of 9/11, Putin assumed that the West, which now needed Russia in the 'war on terror', would acquiesce in this strategy. It took the Rose and the Orange revolutions to demonstrate that it would not, but ominously, few other lessons were drawn.

The Unraveling of the Putin Paradigm

As Putin's project advanced, it planted the seeds of its own destruction. With Khodorkovskiy disposed of, the fusion of property with state power entered a narcotic phase. By 2006, one third of national wealth was controlled by companies chaired by five Kremlin officials. But by concentrating power and wealth in the Kremlin, Putin has also concentrated rivalry there. The Kremlin power brokers—who have at their disposal the machinery of monitoring, surveillance, criminal investigation, tax inspection, regulatory/licensing authority and armed force—are not only motivated by collective interests, but their own. A president as respected, skilful and harsh as Putin could keep these rivalries in bounds, but his replacement by any one of these rivals has implications for the others. Hence, the determination of so many to keep Putin in power combined with their determination to insure themselves against the looming reality of his departure. The October 2007 article by Viktor Cherkesov, Head of the Federal Counter-Narcotics Service, testifies to the lurid nature of these manoeuvres, which have rent sanguinary divisions in what once had been a relatively unified power base, the *siloviki*.[4]

---

[3] As he went on to add, '[t]he principal instrument for realising the "CIS project" will be the achievement of understandings with the governing elites of the CIS. This will demand long-term and painstaking work to create and promote in neighbouring countries groups of influence orientated towards Moscow and a gradual weakening and neutralisation of pro-Western circles'. The CIS Project – The New Priority of Russian Foreign Policy?' ['*"Proyekt SNG"– novyy prioritet rossiyskoy vneshney politiki*?'], February 2004.

[4] Viktor Cherkesov, 'We cannot allow fighters to become merchants' [*Nel'zya dopustit', chtobiy voiniy prevratilis' v torgovtsev*'], *Kommersant*", 9 October 2007.

It would be complacent to assume that a pliant successor and a constitutional sleight of hand will heal these divisions or even patch them.

It would also be complacent not to ask how *mezhdousobitsa* [internecine struggle] will evolve in an increasingly acrid international context. When we wrote in September 2004 that 'the worst scenario for Ukraine is not that Yushchenko loses the election [but that] he wins and then fails', we had international as well as domestic consequences in mind.[5] At the end of 2004, it appeared that the art of the possible was about to change in Eurasia. Fatefully, between the collapse of the Orange coalition in September 2005 and the shabby 'resolution' of the gas crisis in January 2006, that confidence collapsed.[6]

The impact of the 'coloured revolutions' on Russia is therefore contradictory, but thanks to these contradictions, potent. First, these revolutions have strengthened the authoritarian impulse. In 2004 the Kremlin perceived that Yushchenko's victory would threaten the very existence of a system that afforded Russia dominance in the CIS and a 'vertical of power' inside the country. Since 2004, the Putin project has acquired a more militantly self-righteous edge than it had in the past, and Yushchenko's perceived failures—and the Kremlin's success at exploiting his very real weaknesses—have not diminished this self-righteousness. Second, the coloured revolutions have transformed disillusionment towards the West into antagonism. To circles schooled to believe that *samostoyatel'noy Ukrainiy nikogda ne budet* [Ukraine will never be able to stand by itself], the Orange Revolution was a Western

---

[5] James Sherr,'Ukraine and the Culture of Democracy', paper presented to 'Ukraine's Quest for Mature Nation Statehood', Washington DC 13 September 2004 and published by the Ukrainian agency *UNIAN*, October 2004, and similarly James Sherr, 'Ukraine's elections: Themes and Variations', (Sandhurst: Conflict Studies Research Centre, 04/32, 25 October 2004).

[6] There were other Russian experts who understood the reality of what had happened in Ukraine. Dmitri Trenin saw that Yushchenko's victory was not 'scripted in the White House' but 'grew up on home ground'. ('International Interference in Ukraine and Relations between Russia and the West' [*Vneshnee vmeshatel'stvo v sobiytiya na Ukraine iz rossiysko-zapadniye otnosheniya*], Moscow Carnegie Centre, December 2004). So did the editor of *Russia in Global Affairs*, Fyodor Lukyanov: 'of course [Soros] has invested money, but this is not what matters. Money does not decide. The work with people yields results...' [interview on 'Special Opinion' programme on Radio Russia, 25 November 2004, cited in *BBC Summary of World Broadcasts: Former Soviet Union* [hereafter SWB].

'special operation' from beginning to end. After the post-9/11 partnership and years of cultivating the EU, this was seen as nothing short of betrayal. Third, betrayal is now accompanied by a sense of vindication. Russia today is not only resentful but self-confident. The United States is estranged from many of its European partners and up against the limits of its own power. The EU is divisible and divided. Even if the 'right steps' in energy policy are taken, Europe will remain dependent on Russian gas for the foreseeable future, and Russia's neighbours will remain hostage to it. The message from the Kremlin, *pace* Putin, is that 'Russia has earned a right to be self-interested' and others can take it or leave it.

The Crucible of Energy

The first paragraph of the official *Energy Strategy of Russia to 2020* states that Russia's 'powerful energy sector' is 'an instrument for the conduct of internal and external policy' and that 'the role of the country in world energy markets to a large extent determines its geopolitical influence'.[7] Were Russian energy simply a geopolitical instrument, the problems faced by Russia's neighbours would be simpler than they are.

They are difficult for three additional reasons. First, whilst Russia's reserves of gas are, in principle, sufficient to supply all conceivable consumers for decades, in practice the greater portion of new reserves are undeveloped. Already, there are abundant indications that supplies will not emerge in a timely way to meet rising demand at acceptable cost. Production at three of *Gazprom's* four major fields is already declining. Even to maintain current levels of production, the International Energy Agency calculates that 200 bcm [bn cubic metres] per annum will need to be produced in new fields by 2015: a project which qualified experts believe demands $11 bn p.a. in investment. But such investment is not taking place. In the oil sector, the picture is no more encouraging. *Gazprom's* current investment strategy appears to be focused on compensating for Russia's emerging gas deficit rather than remedying it. Whilst under-investing in new fields and refurbishment of internal infrastructure, it has displayed a marked appetite for export infrastructure, downstream (i.e. foreign) acquisitions and non-gas

[7] *Energy Strategy of Russia to 2020* [*Energeticheskaya strategiya rossii na period do 2020*] (Government of the Russian Federation, 28 August 2003, No 1234-g).

projects, whilst conducting what Mikhail Gonchar calls an 'active hunt' for energy resources in other parts of the world.[8] In alliance with the Kremlin, it also seems determined to use every means at its disposal to derail new energy projects that exclude Russia, such as Nabucco and the South Caspian Gas Pipeline. Yet when pressed to say where the gas from Russia's own pet projects will come from, there are few credible answers. What is more, this pattern of investment is plunging *Gazprom* into debt.

Second, this is alarming news for Russia's rapidly growing economy and the Russian consumer, who has come to regard the provision of affordable energy as a primary function of the state. What happens when the state's ability to perform that function is questioned? Russia's rulers know that it has been questioned before—over bread in 1905, over grain in the 1920s. The tension between domestic prices—in social terms rising too quickly; in market terms too slowly—and contractions in supply has all the makings of another 'scissors crisis', and President Putin has noticed. *Gazprom* is increasingly desperate to manage demand out of the system, e.g., by converting companies from gas to fuel oil, but these measures will not satisfy Putin's demand for an ironclad assurance that there will be no recurrence of the supply problems that arose during the winter of 2006. Added to the domestic factor, commitments to the EU and China are causing serious anxiety. When the whole picture is assembled, it is clear that Putin's Central Asia strategy can only be a bridge to a solution.

Third, *Gazprom's* model—'the regulation from a single centre of regimes of extraction, transport, underground storage and sales'—has brought stability at the expense of market responsiveness and, thus, poses one of the greatest obstacles to meeting this rising demand. To all intents and purposes, *Gazprom* has been a Soviet energy company with finance capital. It is addicted to the mega project. Until comparatively recently, it was contemptuous of energy efficiency. The system in place wastes raw materials and flares gas at high volumes; ageing infrastructure breaks down and leaks. Moreover,

[8] Mikhail Gonchar, 'Russian Energy Policy in the Context of the Diversification of Markets and the Current Gas Deficit: Conclusions for the EU and Ukraine', pg 4 [*Rossiiyskaya energeticheskaya politka v kontekste diversifikatsii riynkov i voznikaiushchikh tekushchikh resursniykh defitsitov: viyvodiy dlya ES i Ukrainiy*] (NOMOS: Centre for the Promotion of the Study of Geopolitical Problems and Euro-Atlantic Cooperation in the Black Sea Region: Sevastopol and Kyiv, 2006)

independents have been squeezed out of the system (particularly post-YUKOS), which means that market signals and incentives have been blunted and responses slowed. What is more, the old mega projects, the western Siberian fields, were comparatively simple; the new fields pose unprecedented technological and financial challenges that Russia cannot possibly address on its own.

Yet, fourth, this state dominated model has become an important prop for the authority of a Kremlin congenitally distrustful of decentralisation, beset by demographic crisis and increasingly conscious of China's power. Thus, it will be modified with extreme reluctance and against multiple points of resistance. In sum, economic necessity, geopolitical ambition and 'subjective' clan interest combine to produce a cocktail more unhealthy than the sum of its parts.

For Russia's neighbours, the conclusions dictated by this picture are clear, but uncommonly difficult to accept or act upon. First, in Ukraine, Belarus, Moldova and other chronically dependent states, Russia's economic imperatives and political goals will combine to ensure that the squeeze continues and that spasms between stability and crisis grow shorter and sharper. Deals will be concluded with political forces who the Kremlin seeks to strengthen, yet economic pressures on the Russian economy will put them at risk. Second, countries like Ukraine which have resources of their own will not escape from this cycle until they become masters of their own energy sectors and confront its ills: opacity, venality and barriers to honest, urgently needed investment. Despite the benefits derived from the Baku-Ceyhan and Baku-Ezerum pipelines, Georgia's problems are not dissimilar. Third, in order to confront these ills, they will need to confront some of the most powerful figures and forces in their own countries.

There are also conclusions for the West. First, those who imagine that values have nothing to do with energy markets need to think again. The Russian definition of energy security, so graphically spelled out by Alexei Miller, is a reminder that values influence how we define markets and how we behave in them. Liberals *value* markets to the extent that they provide choice for both buyer and seller. Hence, the European Commission's own definition of energy security: 'diversity with regard to source, supplier, transport route and

transport method'.[9] In the liberal scheme of values (and certainly those of Adam Smith), monopoly is the antithesis of markets. But to Russia's lapsed Marxists, markets exist wherever money-commodity relations exist, however unbalanced, in-equitable or monopolistic they are. Just as the Soviet military felt insecure wherever it lacked superiority. *Gazprom* views challenges to its monopoly and monopsony power as threats, and both *Gazprom* and the Kremlin are determined to use all available means to obstruct any project of diversification that disrupts this power. In their *schéma*, political or economic, security requires control; in ours, the ability to be free of it. Moreover, our system is a rules-based system: hence the Commission's determination to maintain an impartial, effective and transparent regulatory framework governing energy supply and distribution. The Russian economic system is not rules based, but network based, and it is underpinned by 'civilised', i.e. subservient (and generally opaque) connections between business and the state. *Gazprom's* process of transforming itself from a 'national champion' into a 'global energy leader'[10] is becoming a process of extending these networks into our own rules based system and undermining it.

Second, if we were to accept the principle that *Gazprom's* 'needs' entitle it to 'control the whole value chain' in the supply and distribution of its energy, we would need to accept the economic consequences. Its centralised, uncompetitive and wasteful model imposes a far higher 'market' price than we would need to pay in a liberal and diversified system, and as supply constraints mount, that price will be destined to increase. Third, we need to understand that, for all the deficiencies of this model, it has produced the illusion of success. By prolonging that illusion, we undermine our ability to speak to Russia with authority on energy matters, let alone persuade it that its approach needs adjustment.

---

[9] 'Communication from the Commission to the European Council and the European Parliament: An Energy Policy for Europe', {SEC(2007) 12}, Brussels 10.1.2007, COM(2007) 1 final.

[10] cited in Alla Yeremenko, '...but it's the daughter-in-law's fault...' [<...*a nevistka vinna*...>], *Zerkalo Nedeli*, no. 37(666) 6-12 October, 2007. Since 2001, *Gazprom's* capitalisation has risen 25 times. Its sights are now set on becoming a $1,000 bn company, almost four times its size today ($270 bn).

Finally, there are clear conclusions to be drawn about our relationship with Russia's 'near abroad'. Today the West's understanding of the energy relation- ship between Russia and its neighbours is inadequate. Many accept the reasonableness of *Gazprom's* demand that they should pay market prices for gas *prima facie* without asking what conditions would make the demand reasonable to fulfil. On 7 June 2005, *Gazprom's* Deputy CEO, Aleksandr Ryazanov said of the five year contract concluded the previous year: 'The price of gas supplied to Ukraine [$50/tcm] is not high, but I think the transaction is very advantageous to us because we have a low transit fee [1.09/tcm]'.[11] What transpired within six months to prompt *Gazprom*'s December ultimatum that Ukraine pay four-and-a-half times this amount [$230/tcm] or face a cut-off of supplies on 1 January 2006? Were the UK or Germany confronted with a similar proposition, what would the political consequences be? Accompanying this lack of understanding is a lack of attentiveness. To be sure, Ukraine's energy sector is awash with opaque arrangements and venality. But that is not the whole picture. Half the significant players in Ukraine—experts inside the President's Administration, the staff of the National Security and Defence Council, the Ministry of Foreign Affairs and at least one of the mega conglomerates—wish to see EU standards introduced in Ukraine's energy markets. Were this the case in Russia, we would be describing a comparatively rosy picture, rather than the picture we describe. Yet how many inside the EU know who their interlocutors in Ukraine are? Rather than advise them and strengthen them, it is far easier (in the words of a Ukrainian diplomat) 'to look down the pipeline and see *Gazprom*'. Given the importance of Ukraine and its pipeline network, this is not a wise habit to maintain.

Advance or Isolation?

How will Russia's internal rivalries play into the current mood, configuration of power and disposition of forces? Three questions need to be

[11] The Russian-Ukrainian gas agreement of 21 June 2002, covering the period 2003 to 2013 was followed on 9 August 2004 by an addendum establishing 'unchangeable' prices and transit fees for the period 2005 to 2009. At the time, the transit fee in the Czech Republic was $2.90 and in Poland $2.74. Vladimir Milov, *The Power of Oil and Energy Insecurity* (Moscow: Institute of Energy Policy, January 2006), p 13 ff. Ryazanov quote p 15.

considered. First, when the 'question of power' is once again uppermost at home, and Russia is once again 'respected' abroad, who if anyone in Russia will be thinking about foreign policy in a careful and systematic way? Of course it is not only in Russia that we find people who believe that, if you are strong enough, you do not need to think. But that is not ground for comfort. There are already signs that methodology—reinforcing weakness wherever it can be found, emasculating potential partners through bribery and *kompromat*; *provokatsia* and the setting of traps; mendacity, brutality and threats—might be taking the place of strategy: the tailoring of means to ends and an assessment of the longer-term effects of the successes that one's unpleasantness achieves today. In its own neighbour- hood, Russia has always had the ability to make life more difficult than it already is and antagonise those who never felt antagonistic. But it has not always profited. If *mezhdousobitsa* strengthens these tendencies, the risks to Russia's neighbours are obvious. But, to pose the second question are they not launching Russia 'once again on the way to isolation' and 'in search of a suicidal path'? The fact that these questions are posed by Russians themselves underscores their importance.[12] The third question is no less ominous: are neighbouring countries at risk of becoming theatres of internal Russian rivalry? Should they and countries further afield expect new tough and demonstrative actions (e.g. in Estonia, Ukraine, Georgia or even the UK) to mobilise nationalist sentiment in Russia, distract attention from a swelling agenda of internal problems, compromise insufficiently tough rivals or engineer the 'extraordinary circumstances' needed to strengthen the coercive components of the political system?

What can one say about the balance sheet at present?

In *Ukraine*, as in the EU, the crucible of the problem is energy, but the problem is changing. From the time that direct threats to Ukraine's independence receded—certainly since the conclusion of the NATO-Ukraine Distinctive Partnership in 1997 and, that same year, Yeltsin's state visit and

[12] 'Sveta's Circle' [*B kruge Sveta*] on *Ekho Moskviy*, 12 February 2008: a four-way discussion between Mark Urnov (Director of the 'Expertise' Foundation and Professor of the Higher School of Economics), Vladimir Ryzhkov (State Duma deputy and member of the Council of the Republican Party of Russia), Gregory White (*Wall Street Journal*) and the moderator, Svetlana Sorokina.

the Black Sea Fleet accords—energy emerged as Ukraine's greatest single vulnerability to Russian pressure. But if present trends in economic and security relations between Ukraine and the West continue, it might become the only vulnerability left to exploit. Moreover, should Ukraine make progress in replacing today's opaque energy system with a rules based one—and, in so doing, allow honest investors to develop its largely untapped energy resources—that one significant vulnerability will steadily diminish. So far, Ukraine has not shown the wherewithal to proceed down this road. So far Russia has exploited the fact artfully. But it has not always done so to its advantage. The latest round of disputes beginning in October 2007 and, despite their ostensible resolution, resuming in February and March 2008, demonstrate impressive calculation by *Gazprom* and the Kremlin.

- As with the sudden announcement last October that Ukraine owed *Gazprom* $1.3 bn (and the ultimatum issued simultaneously), the replay of the scenario in February 2008 (and the gas cut-off of 3 March) exposed the Achilles heals of Ukraine's energy system: opacity, confusion about who owes what to whom and the fragmentation and incompetence of the state. In the absence of transparency and proper regulation, the actual balance of accounts between Ukraine and Russia is not a matter of record, but of assertion and opinion. During these episodes—not to say the crisis of winter 2005/06—*Gazprom* and the Kremlin displayed more knowledge about the workings of Ukraine's energy system than the political leaders of Ukraine.
- They also displayed an ability to intervene in Ukraine's internal disputes. The fault lines between President Yushchenko and Prime Minister Tymoshenko over energy are of long standing. So is the Kremlin's anxiety over Tymoshenko's independence, her courage and her determination to upset the energy status quo. After Yushchenko was weakened by the January 2006 gas crisis—and compromised by his agreement to give the shadowy intermediaries, *RosUkrEnergo* and *UkrGazEnergo*, a commanding role in the relationship—the Kremlin has found ways of supporting him. When Medvedev (then First Deputy Prime Minister and Chairman of *Gazprom*) assured Tymoshenko that he wished to see

these intermediaries dispensed with—without, incidentally, suggesting that *she* should be the one to dispense with them—he was possibly laying a trap. The President's 12 February visit to Moscow—and the agreement that followed—was designed to resolve the crisis that the government had ostensibly caused. It was also designed to reinstate *RosUkrEnergo* and add a new intermediary structure as well.[13] Tymoshenko's predictable opposition to these provisions then provided the justification for a fresh ultimatum and the supply cuts that followed.

- But these machinations also illustrate how Kremlin rivalries can damage Ukraine. Dmitriy Medvedev might not want to see the gas intermediaries eliminated on Yulia Tymoshenko's terms, but it appears that he wants to see them eliminated. His arch rival, Igor Sechin (as of this writing still Deputy Head of the President's Administration and Chairman of *Rosneft*) does not.

What have been the consequences of these machinations? Despite a 25 per cent cut in energy supplies on 3 March, neither the Kremlin nor the President could force the government to retreat from its position that debts be settled directly between *Gazprom* and Ukraine's state company, *Naftohaz*. What is more, *Gazprom's* threat to impose an additional cut of 25 per cent brought the EU back into the equation, and (just as in 2006) a resolution of the crisis swiftly followed. Who will be the political beneficiary of this settlement? Whilst its terms invite scrutiny—and whilst many will no doubt emerge *v rabochem poryadke* [in the course of implementation]—they appear to represent a retreat from the Yushchenko-Putin agreement of 12 February and a step towards the government's 'direct' model of relations between the two state companies. Those who calculated that a little crisis would torpedo Tymoshenko's government and her presidential prospects in 2009 might have miscalculated twice. If Tymoshenko is in earnest about replacing Ukraine's

[13] As revealed by *Korresondent* on 14 February, 'Dmitriy Firtash Back in Business' [*Dmitriy Firtash snova v dele*], under the Yushchenko-Putin agreement, *RosUkrEnergo* acquires the right to export Central Asian gas across Ukraine to Europe even as two new joint ventures—possibly with the same hidden owners and beneficiaries—acquire the right to sell gas to Ukraine and inside it.

opaque energy system with an EU orientated and rules based one, then they will have miscalculated even more profoundly.

Yet in *Moldova,* Russia has shown a shrewder understanding of its interlocutors and of the best way to utilise its own strengths. Moldova is not only dependent on Russia for energy, but hostage to it. Yet its greatest vulnerability is not energy, but the division of the country. So long as the EU and United States remain only partially engaged—and so long as the *nomenklaturised* elite of Moldova prefers the status quo to the reforms that might engage them—Russian cards will be trumps.

Today these cards are being presented as gifts. Russia will guarantee the reunification of Moldova (and the withdrawal of its military contingent from Transnistria) in exchange for a declaration of 'permanent neutrality'. But what does this mean exactly? Reading President Voronin's lengthy exposition is like watching a salami being sliced.

First, what is meant by neutrality? Despite Voronin's insistence that this is 'our internal matter', it will have to be defined by international agreement. In contrast to non-alignment, which is a political status, neutrality is a legal status. If it is defined imprecisely—and it would be rudely inconsistent with post-Soviet norms if it were not—then 'guarantors' will introduce their own definitions whether 'sovereign Moldova' consents or not. In today's conditions—when security is as much a function of integration as of alliances and where threats to security more often than not take a non-military form—what can neutrality mean for anyone? Anyone can see that it means no membership of NATO. But what about integration with NATO in whole or in part: participation in NATO led exercises, deployments and peace-keeping, as most non-members (including Russia) do now? Participation in NATO led programmes of security sector reform? Moldovan representatives at NATO HQ, Moldovan students at the NATO Defence College, seminars and roundtables in Chisinau? How sovereign will these decisions be once 'permanent neutrality' is established? Voronin's own judgement about the limits and freedoms of neutrality are puzzling to say the least. He implies that Moldova will have to leave GUAM—in no small part because it is considering establishing peace-keeping forces. Yet he insists that neutrality will not rule out integration with the EU, which has peace-keeping forces today, which is collaborating with NATO in the Balkans and which, through

the ESDP has a web of security connections to NATO and its guarantees. Will the Russian authorities share Voronin's judgement, and if they do so now, where is the guarantee that they will do so on a 'permanent' basis?

Second, what is meant by reunification? According to President Voronin, Moldova will be 'a unitary state with two autonomous entities: Gagauzia and Transnistria'. If this is a contradiction in terms, then in fairness to President Voronin, it would not be the sole such contradiction in Europe. Ukraine is a unified state which includes the Autonomous Republic of Crimea. But there the similarity ends. Crimea's autonomy is defined by Ukraine's constitution, not by a binding international agreement, and the ultimate 'guarantor' of its autonomy is the President of Ukraine. We are informed by Voronin that 'Transistria will keep everything: coat of arms, flag, state languages'. Is that 'everything'? Plainly not. Transnistria will have representatives in the Moldovan parliament, but in relatively far greater numbers than Crimea has in a parliament alongside representatives of 25 oblasts and the City of Kyiv. How will the laws against 'certain illegal activities' be enforced? 'By relevant local Transnistrian authorities'. How will these authorities be elected? Presumably, the same way they are now.

Third, what is meant by demilitarisation? In his interview, Voronin states that 'today we raise the question of civil guarantee forces' replacing today's military ones. Which countries would these civilians come from? What of the country that so recently provided a military contingent? If so, how will this country choose its civilians? Will it exclude non-uniformed officers of the SVR, FSB and GRU? What about active duty servicemen from Russia's Ministry of Civil Defence, Emergencies and Disaster Relief? Former 'military specialists' of the Russian Armed Forces? Would such civilians be confined to one part of the reunified country, or would they be allowed to move about freely? Who would have the power to restrict their movements or expel them? If these provisions are not carefully defined by agreement, they are likely to become a subject of disagreement and possibly a factor of insecurity.

For *Georgia* as with Moldova, the greatest vulnerability is the division of the country, and the party best placed to exploit this vulnerability is Russia. But there the parallel ends. In Georgia, Russia has no Voronin to talk to.

President Saakashvili and his government might be imperfectly democratic, but they are aggressively reformist. Whilst their Western partners have been appalled in recent months, their record before the events of autumn 2007 was one that impressed them.

For all that is changing in Russian policy, the suspicion must persist that, for Russia, the uncontrolled territories are for trade. It is a bold proposition for Russia to make or for others to infer, given the strength of local dynamics and local protagonists in at least one part of this divided territory, the so-called Republic of Abkhazia. Yet behind closed doors—and, in heated moments, at very public conferences—Russian representatives have put forward their own 'grand bargain': full restoration of Georgian sovereignty in exchange for a full reversal of Georgia's geopolitical course. The point is not lost on everyone. Those who say that Russia would be 'very helpful' in resolving these conflicts if Georgia walked away from NATO have already obliged us by admitting that their role is unhelpful today. Far from producing a Georgian Voronin, the gambit has only served to harden some very hard Georgian attitudes about their northern neighbour.

But there is more to be said, because even outside the former Soviet Union, a stalemate on one front can be a sign of advance on another—and an obdurate opponent on a public front can be willing to strike deals and cede ground on a less visible one. Today, Russia's role in Georgia's economy is substantially balanced by a Western role, but it is considerable, not least with regard to energy infrastructure and distribution. Some of the arrangements that sustain this presence are arrangements concluded with Saakashvili's opponents, but some are not. Some involve Russian interests believed to be independent of the Kremlin, and some do not. An important, as yet unanswered question in what is still a highly opaque economy, is whether Saakashvili will allow Russian surrogates into Russian economic and regulatory structures and, if so, in exchange for what. A more important question is whether a Georgian 'grand bargain' exists: restoration of Georgian territorial sovereignty in exchange for a significant diminution of its economic sovereignty and energy independence. The questions are worth raising if for no other reason than the fact that they are raised by Georgians themselves.

Yet Russians need to raise a disturbing question as well. They are the first to grasp the point that the West is so quick to miss: without stability in the south Caucasus, there will be no stability in the north Caucasus. Then why are they undermining stability in the south Caucasus? Why do its representatives speak so carelessly about trading off the interests of those, such as the Abkhaz and south Osetian leadership, who have no wish to be traded and who, moreover, have their own ways of causing trouble? In the Caucasus the Russian ability to damage Russia is second to none. Its 'normalisation' of Chechnya has removed the tumour but metastasised the cancer. The unfreezing of today's mis-labelled 'frozen conflicts' is most unlikely to cure it.

Between the elites of *Central Asia* and Russia, there has long been a worry of 'letting hold of nurse for fear of finding something worse'. Both the CSTO and Shanghai Cooperation Organisation display Russia's commitment to the internal as well as external security of these states. It is a role that West so far has shown no inclination to undertake, and when this fact became evident, Uzbekistan withdrew from GUUAM and came back into the fold. Yet anyone can see that Russia's power to strengthen internal security can also become a power to weaken it. But for how long? *Turkmenistan* under the new leadership of Gurbanguly Berdymukhamedov, is publicly reassessing his country's energy relationships. The first reason is the model of monopsony that Russia adheres to. There are those in Turkmenistan who would continue to support Putin's policy of the 'single export channel' if it allowed contracts to be concluded directly with end users and *Gazprom* simply charged a transit fee. Nevertheless, Russia (and President Putin personally) refuse to deviate from a model which makes *Gazprom* the sole purchaser and (at a considerable mark-up) the sole supplier of Central Asian gas. The second, more recent and more radical reason is the wish to break out of this straitjacket entirely. It is China, not the West that has provided this inducement—after all, a Memorandum of Understanding on a trans-Caspian oil transport system was only signed on 24 January 2007, the same month that the EU took the first clear steps towards an energy policy. Yet in his meetings in Washington on 25-26 September Berdymukhamedov spoke favourably about this possibility.[14]

[14] Turkmenistan's state media quoted him as saying, 'We highly regard our relations with Russia and will do everything to develop them in all spheres. *Energy is a separate*

Who in Russia is prepared for this possibility, and by what means might they be prepared to eliminate it?

Succession or Interregnum?

Unless appearances deceive entirely, Russia is headed for a weak presidency and a constitutional mess. This is likely to create as many problems for Russia's neighbours as opportunities. In one respect, the post-Putin paradigm could be like the Yeltsin paradigm. *Mnogogolosiye* could return to the political lexicon and political stage. But these multiple voices will be far stronger than they were in the 1990s, and they will be heard across Europe. The question is how neighbours will respond to them.

Here, as we have seen, there are some grounds for optimism. Russia's power is growing, but Russia is ceasing to be a magnet. Even in Kazakhstan, Kyrgyzstan and Turkmenistan, Russia's authoritarian drift has aroused discomfort. In the European parts of the former USSR, it has aroused apprehension. Despite their litany of criteria and standards, NATO and the EU are not mirages, but genuine poles of attraction, and they have provided Ukraine, Georgia (and even Moldova and Azerbaijan) with prospects, even if they have not (as yet) provided membership perspectives. It has become clear that, whereas the West is interested in strengthening the capacity of partners, Russia is interested in reinforcing weakness and creating, in place of genuine partnership, subser-vience.[15]

Moreover, asymmetries between national political cultures and Russian political culture—long masked by Soviet political culture—have become more pronounced. Within recent years, Russians have recovered pride in their own traditions and values: values which, increasingly, are defined in opposition

---

issue. I would not want to hide that negotiations on gas prices...are tense'. Marat Gurt, 'Turkmen Leader Says Energy Talks with Russia Tense', Reuters, 26 September 2007. At the Vilnius energy summit of 10-11 October, Berdymukhamedov's envoy, Bayrammyrat Myradov, used less direct language to the same effect.

[15] As Ukraine's recent First Deputy Defence Minister stated in 2001, 'So far, Russian officials, unlike NATO's, have never voiced their concern about the weakness of Ukraine's defence or the slow pace of its military reform. One might infer that Ukraine's problems in building its Armed Forces are simply more acceptable to Moscow than Ukraine's success in that area'. Leonid Polyakov, 'The Russian Factor in Ukraine's Relations with NATO: Possible Outcomes and Policy Implications for Ukraine and NATO', *National Security and Defence* (Ukrainian Centre of Economic and Political Studies, Kyiv, September 2001).

not only to those of the West, but those of Europe and the liberal democratic order that has become synonymous with Europe in practice. During the same period, Ukraine has experienced a rite of passage from virtual democracy to immature democracy. Confusing and maddening as Ukraine's democracy is to its citizens and international partners, there is no authoritarian alternative to it on offer and none with any foreseeable legitimacy. There is no Russian alternative either. Even if it is still the case that 'no one is waiting for Ukraine in the West', threats to adopt another model of integration ring hollow. Those who oppose integration with NATO dare not oppose the 'European course'. Those who warn that Ukraine will not be 'turned against' Russia dare not allow the Russian vector to become the determinant vector of their policy. With its own distinct patterns of upheaval and risk, Georgia has undertaken a similar rite of passage. The Georgian sense of national identity is indestructible. To the pro-Russian part of Ukraine's elite, Russian conduct frequently brings to mind the question '*protiv kogo viy druzhite?*' [against whom are you waging friendship?]. In Georgia, Russia's conduct has eviscerated this elite and made a pro-Russian stance untenable.

The Russia factor is changing for another reason. Everyone senses that Russia's future is uncertain. For the EU, the obvious conclusion is to watch Russia, but put one's own house in order.[16] For Russia's neighbours, it is the same. The big question is how adequately these things will be done before Russia's interregnum ends, as it almost certainly will.

[16] Maxim Litvinov's comment to Averell Harriman at the end of 1945 is once again pertinent. Asked 'what can my government possibly do to allay suspicions of our intentions?' Litvinov instantly replied, 'nothing!'