

**RUSSIAN FEDERATION  
2011**

**Short-term Prognosis**



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**Short-term Prognosis**

*Editor Karmo Tüür*



EESTI VÄLISPOLIITIKA INSTITUUT  
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# INTRODUCTION

Dear colleague! This symposium is special in several ways. First, it has a round number. The first symposium prepared by ABVKeskus<sup>1</sup> was titled *Russian Federation 2001* and the current symposium – *Russian Federation 2011*. Thus, we have already been into this for ten years and in the modern rapidly changing world it is quite an achievement in itself.

Second, this symposium has a flavour of rebirth in it. For some time (2008–2009) the sequence of annual forecasts was discontinued... due to objective as well as subjective reasons. We have all felt financial pressures and – there is no point to pretend otherwise – sometimes even gnawing doubts about the usefulness of the whole project.

Third, the circumstances have changed again. In 2010 ABVKeskus was finally institutionalised and blessed with commendable sponsors – Open Estonia Foundation, the Estonian Foreign Policy Institute and the Institute of Government and Politics of the University of Tartu. It provided us with an opportunity to come up with another crucial initiative in addition to the website, mailing list and forecasts – the meetings of experts of ABVKeskus in Tartu (monthly meetings of local and foreign experts).

Let's hope that our joint efforts will be increasingly fruitful in future. And for that I have to thank all those great people who embody the flesh and blood of ABVKeskus – the members of

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<sup>1</sup> <http://www.ut.ee/ABVKeskus>

ABVKlist<sup>2</sup>. Some of you have been with ABVKeskus since its very beginning in autumn 1997 and some of you joined us later, but all of you are equally important. Without you, all of this would be pointless.

My special thanks go to the co-authors who agreed to contribute their time and energy without remuneration of any kind (and no grumbling to speak of).

I would also like to express my deep gratitude to Toomas Roolaid, who helped create a legal person for ABVKeskus, and Andrei Krashevsky, who translated the parts of the symposium that needed translation.

And it goes without saying that I appreciate all those organisations whose financial support allowed you, my dear reader, to hold in your hands *The Russian Federation 2011: A Short-Term Forecast*.

Karmo Tüür  
December 2010  
Tartu

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<sup>2</sup> An electronic forum bringing together around 60 experts and interested non-professionals (as of the end of 2010).



# RUSSIA 2007: PROGNOSES and REALITY

Erik Terk

Writing of this assessment not immediately after the end of the year set as the object of the forecasts but after a sufficient period of time, in 2010, allows one to judge the content of the forecast documents from a distance and make use of hindsight. It may well be somewhat unfair towards the authors in some cases. After all, their main task was to predict what would happen in 2007. Also, the issue of how much of the forecasts was realised in that particular year tends to become of secondary importance when viewed from a greater distance. Moreover, observing the forecasts for a year against the background of later and crucial events (e.g. the Russian-Georgian war of 2008) may lead to the judging of the texts not on how well the authors could predict the dynamics of 2007 with the entire spectrum of possibilities emerging at that time, but rather on the text's apparent success in explaining the "inevitability" of the development alternative realised due to the coincidence of circumstances and decisions made at a later period than the forecast year. At the same time an approach considering the later developments would certainly be of greater interest to the reader. Since a number of the authors of the forecasts did not limit themselves to merely attempting to predict the events of the coming year in their articles produced at the end of 2006, but attempted to analyse Russia's development trends in a broader and longer perspective, I think

some “Monday morning quarterbacking” type of arguments should be also permitted in this hindsight article.

One can apparently argue that Russia’s current development model, which could be described as corporative capitalist and possesses a big share of great-power ambitions as an inseparable feature, had clearly formed well before 2006. The term *liberal empire* mentioned in some forecast texts had already become definitely outdated by the time of those forecasts and rather belonged to the ideas of the beginning of the decade. Effectively, all authors of the forecasts presumed that the established model would continue in 2007, which turned out to be correct. Accordingly, one has to admit that the forecasts in general were adequate, but they were not always able to foresee the modifications of the established basic model or its efficiency in all given spheres. 2007 had nothing surprising to offer as to the sphere of politics and ideology in comparison with the published forecasts ( E.Mikkel, V.Yushkin, A.Ventsel, M. Lotman). The centralised control system, which maintained its influence over the party political spectrum, the regional administrative level and key business activities, was operating practically without setbacks. In case of political parties the criterion was not ideological opposition but the parties’ distance from the Kremlin as the power centre (Mikkel). The political spectrum was manipulated by the power centre to such a degree that the outcome of the elections at the end of 2007 was clearly predictable and the process was of no serious interest. Yushkin posed the question in his forecast paper whether “Just Russia” as a double party created by the authority could have any chances against “United Russia” – the primary partner in power. While initially considering it possible, he reached the conclusion by the end of the analysis that the emergence of an alternative power centre, even one supporting Putin, probably would not be permitted at the verge of the 2008 presidential elections by the ruling elite facing the task of power conversion. This was how it happened. The Russian presi-

dential election as an event significantly more difficult to forecast remained outside the timeframe of the year concerned; therefore none of the authors attempted to forecast its arrangement in their texts.

M. Lotman studied in his text the ideological development of Russia, brought out the strengthening of the authoritarian and imperialist tendencies, and admitted that the spectrum of liberal and democratic ideas in Russia has been practically destroyed with no turn towards democracy being foreseeable, at least in the near future. As a natural development, he predicted foreign political opposition to the West, including “picking quarrel” with the Baltic states. At the same time Lotman pointed out that the intellectual foundation for antagonism with the West, that time-honoured phenomenon in the Russian political tradition, is actually showing a tendency of weakening. No strong ideological constructions comparable with the one-time Slavophile movement or Eurasianism are apparently forthcoming. Ideology is becoming increasingly unprincipled; sophisticated ideological debates are practically forgotten. What is left is the quite primitive imperialist chauvinism and the basic discussions are on subjects, which is more important: ethnocratism or empire (M. Lotman).

When judging the above from the viewpoint of late 2010, one has to admit regretfully the validity of that position even now, three years later. Yet the distance in time allows analysing these tendencies more broadly than from the viewpoint of a single country, i.e. Russia. It must be admitted that the discussions of recent years on the so-called non-liberal and undemocratic market economy as a competitor to the hitherto triumphant, at least ideologically, Western (Anglo-American) model do not concern Russia exclusively; the economic crisis of the last years has only intensified the debate. The missionary fervour of G. W. Bush in spreading the Western values all over the world, which was still continuing in 2006–2007, contributed to the strengthening of

geopolitical contradictions against that background and it was apparently an important context for the comprehension of the developments in Russia. The geopolitical and ideological background has significantly changed by now since 2007.

As for more global type of foreign policy, the forecasts emphasised that one of the important features of 2007 would be a weak (and having a troubled relation with Congress over foreign policy) US president versus a strong Russian president against the background of unsolved conflicts in Iraq and Afghanistan and a politically weak and fragmented EU (E. Tulvik). It was therefore presumed that US foreign policy in 2007 would be inert and simply lacking the potential to interfere with various regions which the US has considered important for its interests (e.g. Ukraine). It was expected by K. Noormägi that the coming to power of the Christian Democratic and Social Democratic coalition in Germany, due to A. Merkel's positions, would result in somewhat more vigorous efforts towards more strategic/less opportunistic relations with Russia and attempts of making greater use of the Brussels level in dealing with Russia. Yet the author of the forecast immediately admitted that the German Christian Democrats are pragmatic in their Russian policy, they are interested in profitable economic relations with Russia and would probably remain strong supporters of developing economic relations between Russia and the EU.

In case of the Baltic Sea region, if we omit Germany from the term, some increase of Russia's interests was presumed, in relation with the development of communications (the Nord Stream gas pipeline) becoming more topical as well as with the Russian minority issue, but that interest was expected to be rather temporary, and it was presumed more likely in the longer term that Russia would view the region (again) as Europe's periphery (D. Lanko).

As for the Russian-Chinese relations, the authors forecast continued cooperation based on a number of common, yet cautious interests (M. Läänemets). It was presumed that the cooperation

formula would include the maintaining of the Shanghai Co-Organisation (which *inter alia* helps to keep Central Asia under non-Western control) and the common interest in reducing the US-Japanese defence policy cooperation. The authors admitted that anti-Chinese sentiments may emerge in Russia, the Far East and Siberia, but were certain that possible conflicts, should they break out, would be limited as regional and not allowed to increase to the national level.

One could argue that the geopolitical framework described above was realised in more or less that shape.

Compared to other papers, G.R. Wegmarshaus's forecast was significantly more optimistic; the author, having interpreted Russia's recent foreign policy in the broader international arena (the UNO) as sufficiently cooperative and considerate of the partners' interests, expected these tendencies to continue in 2007. However, in reality 2007 turned out to be the year of increasing antagonism between Russia and the West.

Regarding possible conflict areas, the texts viewed Ukraine, Georgia, Moldova and Estonia-Latvia as such. The vision of E. Tulvik stated that the field of Russian-Western confrontation would move, making use of the EU's weakness and its internal contradictions, clearly from the East (the CIS countries) to the West (the EU member nations). K. Tüür warned against Russian-Estonian conflicts related to the so-called dispute over history, primarily a conflict over symbols and values based on the interpretation of the Second World War (the conflict concerning the relocation of the "bronze soldier" monument). H. Pääbo's forecast was different: no turbulent development in the Russian-Baltic relations because the framework of these relations was becoming increasingly multilateral.

Several forecast papers addressed the deterioration of the Russian-Georgian relations and the related threat of conflict, but the general opinion did not expect anything dramatic in the following year (2007). Indeed, nothing very dramatic happened in 2007 as the

war broke out in 2008, yet one received an impression that the forecasters underestimated the explosiveness of the situation, Russia's desire to teach a lesson to the West on Georgia's example (let alone to Georgia itself) and thus receive satisfaction for its foreign political humiliation.

As for the Baltic states one can argue that the more pessimistic forecasts were partially realised. The unrest in Tallinn related to the relocation of the "bronze soldier", which was clearly organised with Russia's involvement, and the aftermath of these events in Moscow were an obviously significant conflict in the foreign political dimension, yet the main confrontation area of Russia and the West remained in the CIS territory rather than the Baltic region, or any other part of the so-called New Europe.

The text by N. Ivanova, who supplied the economic forecast, listed quite emphatically several weaknesses of Russian economy, starting from the problems with the exploitation of oil and gas resources to unsatisfactory development of industry and the labour problems caused by the demographic situation. Considering these factors, the forecast predicted that the very high growth rates of Russian economy in recent years cannot be maintained at the previous level in the coming period. These arguments and premises cannot be faulted in principle and Russian economy in fact did experience a significant decline during the global economic crisis (just as other countries highly dependent on export to international markets). It seems, however, that the author estimated the potential of Russian economy and current economic model as somewhat lower than it has demonstrated in reality (which of course is more hindsight). Russia's economy did show a very high growth rate in 2007 – approximately 8 percent (about 7 % growth was predicted by N. Ivanova). The growth did cease in the middle of 2008 and a serious fall, about 8 percent, followed in 2009 due to the global economic crisis, yet the recovery in 2010 occurred faster than expected. There has been success in some sectors of high

technology (incl. ICT and electronics high end, some spheres of weapons production). In the agricultural sector, Russia has managed to become an exporter of food products. The decline of population has also ceased in recent years. It is true that the last-mentioned change has been partly achieved on account of immigration, which in turn will cause problems.

It can be questioned, of course, whether the current economic model of Russia together with its institutional setting will be sustainable in the long run as the weaknesses include high corruption related to the corporative structure and high level of centralisation, the low-quality legal environment and parameters related to the financial markets. At the same time, there can be no denying that Russia has survived, although due to high oil and gas prices, better than anyone could have expected. A large share of the weaknesses of the Russian model are similar to those of the other BRIC countries, while this group as a whole has recently displayed a remarkable economic growth rate. Macro-economic management seems to be quite good in Russia, which is not the case in an average emerging economy. As R. Vare pointed out, the current Russian administration is attempting at the national level to counter the advantages of the Western economic model by broad strategic planning, project management and a rather specific type of personnel policy. The indeterminacy related to central political planning and possible voluntarism of the administrators is obviously reducing the lower levels' interest in investments of long-term motivation and forces them to seek for opportunities to reduce or hedge their risks by means like investing some of the funds outside Russia, and in some cases linking their companies to respectable Western firms, which is viewed as a measure of protection against domestic voluntarism.

Phenomena on the borderline of economy and politics are addressed in the article by

H. Mäemeees and R. Vare. H. Mäemeees, who analysed Russia's negotiations on joining the WTO, offered that while Russia could theoretically accede to the WTO in 2007, he would rather estimate the accession to take place in 2008 considering some uncertainties. In fact Russia has not yet acceded even in 2010, although the process is moving on again. Besides other factors, this is apparently an example of Russia's stubbornness in negotiating with the WTO over some economic issues considered crucial by Russia, especially access to markets in specific sectors.

R. Vare analysed in his paper several developments in Russia and the neighbouring countries related to fuel transit, and formulated a number of forecasts on their basis, which have been validated in reality, although with a delay in some cases (e.g. pipeline projects related to China). The predictions to come true include the forecast of the realisation of the Nord Stream project without Estonia's participation. Vare also forecast tendencies like the stronger consolidation of large businesses concentrating on Russia's export and especially in the rear, transport- and sales-related end of the value chain, as well as the attempts to buy their way into the neighbouring countries' markets (acquisition of outlets under their control). This has taken place in the broader perspective, although it should be pointed out that striving to possess independent outlets has been replaced, to a greater degree than previously, by wider cooperation with Western firms, e.g. in the processing and export of oil and oil products. In such cases the desired influence would be achieved by seizing strong positions in the key elements and capitals of the presently international partnership.

One of the basic ideas of R. Vare's text states that the leading motivation of Russia's activities is the determination to restore the lost great-power positions to the greatest possible extent, but as a rational actor it will do so apparently by combining economic pressure (NB: the energy weapon) and political measures rather than by direct aggression. However, the 2008 events in Georgia



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showed that the opposite approach cannot be ruled out either. Yet the Russian-Western relations after these events have been moving towards the reduction of confrontation. It can be therefore hoped that further Russian-Western rivalry, which is probably inevitable due to the conflict of interests, would take place in the field of geoeconomics rather than military force-based geopolitics.



# INTERNAL DEVELOPMENTS OF RUSSIAN FEDERATION



# DEVELOPMENTS IN CONSTITUTIONAL LAW

Rein Lang

The following certainly does not pretend to be a scientific analysis. It is just a vision of a lawyer who once specialised in constitutional law and whose hobby is foreign policy.

Reviewing the connection between written law and actual life in Russia over the last 200 years, one may easily conclude that this connection has been rather weak. On the contrary, the role of the individual in the Russian history has been unusually large compared to other states sharing the Christian culture. Georgy Plekhanov, a Russian philosopher and founder of social democracy, wrote his famous work *On the Question of the Individual's Role in History* in 1898. The mere fact that this work was paid such a great attention in Russia and later in the Soviet Union, is rather remarkable.

Thus, my first thesis is that in Russia the interpretation and implementation of written law depend to a great extent on the individual. The same legal principle or provision may assume a completely different content for different persons. It is also interesting to note that academics' views of certain principles tend to change after the change of the rulers. The church and science in Russia shape their concepts to suit the state power, not the other way round as is the case in Western Europe.

My second thesis is that Russia has the rule of law only in the academic sense. There is an impressive school of legal thought in Russia whose representatives know the history and theory of state

and law to the minute details. The quality of written legal norms in Russia has always been high and scientific research of law has been thorough. An outside observer of the Russian legal space who is not privy to its enforcement side may easily get an impression that Russia is a state with highly developed legal culture where legal relations under private and public law are well-regulated as in a proper civilized state.

In words, the current Russian Constitution introduces the principles of the separation and balance of powers. Legally, there is no single centre of power in Russia that is able to influence the behaviour of the whole state in a desired manner. It has been the case since the abolishment of Article 6 of the Constitution of the USSR that empowered the CPSU with the status of a leading and guiding force of the Soviet society – thus, power was determined by the rules of the CPSU, rather than by constitutional law. For both Russia and the rest of the world, it is simultaneously fortune and misfortune. The Western countries have dreamed for centuries of an enlightened Russian leader to enter into agreements and do business with, not fearful of cheating or death. Paradoxically, the legal impossibility for such an almighty leader to rise is the biggest guarantee of survival for the Western states.

Legal separation of powers in the Russian style unavoidably produces some friction between power centres. Even if twin brothers come to power in Russia, to use an analogy with the recent history of Poland, their harmonious collaboration would be impossible. It is due to the fact that legal obligations cause unavoidable conflicts and the perfect adjustment of all the details in the execution of power at the highest level is a physical impossibility. Various state institutions always have their own interests and approaches. Thus, conflicts between the Russian president and government are legally objective and unavoidable.

Are they unavoidable politically? Let us have a look at the individuals. President Medvedev graduated from Saint Petersburg

## CONSTITUTIONAL LAW

State University as a lawyer. The graduates of the law school of the same university constituted a majority of politicians who secured independency for Estonia in 1918. Despite all Stalin's efforts to root out the spirit of this university in Russia, he never succeeded. Medvedev, who also practiced law as an attorney, is knowledgeable of private law that is based on the Roman law. It is, however, a legal system based on the individual. Prime-minister Vladimir Putin, a 'friend' of President Medvedev, knows nothing about it. He was educated as an intelligence specialist – a kind of education based on the superiority of public law. This contradiction is of principal importance.

Mr. Medvedev hurt the police, counter-intelligence and the military. From his publicised opinions I deduce that the president does not recognize their right to interfere with private law matters – something that the three Russian dragons consider their inseparable right. It is pitiful to see how the military reform strengthens military units stationed in the Western part of the empire at the expense of weakening the units in the Southern part which are facing real danger. There may be two logical reasons for that: preparations to expand the 'economic space' in the West which will not be feasible for the period of at least two generations or an attempt to check the dangers of corruption – it is well-known that the main occupation of the Russian military officers on the Southern border is not military service but criminal business activities which considerably raise the dangers that the state is facing there.

It is quite possible that such steps are disliked by Mr. Putin and his *siloviki*. And here we are – a conflict.

Based on the above said, I would predict the following developments in Russia in 2011:

1. Contradictions between the prime minister and the president will be ever deepening due to attempts to clip the wings of the power ministries. It will certainly help to boost the president's reputation in the business circles. It will also win the president

- some allies in the cultural elite (rock-stars Andrei Makarevich and Boris Grebenshikov already pledged their support).
2. The new Russian generation, which despises the whole vertical of power, will be more actively looking for contacts in the West. It will create some confusion because nobody knows how many of these contact-seekers will be driven by the desire to infiltrate the Western structures. One day Mr. Medvedev may use it to his advantage.
  3. As Mr. Putin is sensing a decline in his power, a plan to amend the Russian Constitution will resurface with a view to introduce a parliamentary democracy, to concentrate executive power in the hands of the government and to truncate considerably the president's power. The existence of such a plan was mentioned to the author by Sergei Stepashin, the former prime-minister and head of intelligence service, during his visit to Estonia in 2001.
  4. The struggle for power will result in many staff changes. Placement of 'own people' will be accompanied by a lot of confusion.
  5. The struggle for power in Moscow will be used to their own advantage by several regional leaders sensing that their hour is getting closer. In 2011 the struggle for power in the Russian regions will start anew.
  6. The role of Saint Petersburg will increase at the expense of Moscow. After the relocation of the Western military district headquarters to Saint Petersburg, we are likely to see the transfer of other power centres here. I would not rule out the possibility that the issue of relocating the capital to Saint Petersburg will resurface already in 2011. It is certain to rise one day when Russia wants to show the world that its paradigm is changing.
- To sum up, the times of great confusion may be coming to

Russia. It is certain to keep busy hundreds of Kremlinologists and journalists, including those in Estonia.



# POLITICAL SYSTEM

Viatcheslav Morozov

The evolution of the Russian political system in 2011 will obviously be dominated by the upcoming parliamentary and presidential elections (December 2011 and March 2012, respectively). The legal framework for the 2011/12 round has been laid down by the 2008 constitutional reform and the subsequent amendments of the legislation. Any additional innovations are unlikely and cannot be implemented in time for the next elections.

It means that the oligarchic party system, whose consolidation was correctly predicted in our prognosis for 2007, will continue to exist, making it easy to foresee the results of the Duma elections. In spite of President Dmitry Medvedev's talk about liberalising the electoral system and ensuring equal representation for the opposition parties, the whole bureaucratic machinery will continue working against the opposition by restricting the latter's access to the media, putting pressure on selected groups of the voters (the military, public sector workers, etc.) and outright falsification of the results. In a situation like that, the smaller parties will have no chance of clearing the 7 per cent barrier, even of gaining the 5 per cent of the votes that would entitle them to one mandate each. The only questions that remain open are whether Fair Russia (*Spravedlivaya Rossiya*) is going to get above the 7 per cent and whether United Russia will keep its constitutional majority. The other options, such as the creation of one more party of power or a strong showing of the consolidated opposition, look increasingly

implausible, if only because the time for them is running out fast. Besides, the democratic opposition has been trying to consolidate ever since the late 1990s, and every time it led to even greater fragmentation and marginalisation.

### Is rivalry possible?

The presidential campaign promises to be less predictable, at least until the moment when the list of candidates from the party of power is made public. It is very likely that it will follow the 2007–08 scenario, meaning that this announcement will come late next year. It was obvious back in 2007 that Vladimir Putin had taken the final decision just a few weeks, if not days, before the four political parties were instructed to propose Medvedev as presidential candidate, which they dutifully did on 10 December. Apart from enabling him to keep his hands free, this tactics also prolonged the struggle within the elites and thus allowed Putin to fully avail of his position as the supreme arbiter among the clans. There are no reasons why he should not want to repeat this scenario.

Another advantage that Putin gets by withholding his verdict is the extra leverage over Medvedev and his position. Putin supporting Medvedev for a second term remains a realistic option, and in this case Medvedev's victory would be almost guaranteed. However, if he wants to get that support, the current president must stay loyal to his powerful predecessor.

Yet at the same time if Medvedev wants to run independently, against another candidate supported by Putin or against Putin himself, he absolutely has to establish himself as an autonomous political figure. This is a task for 2011; it cannot be left for the final months before the decisive vote. Medvedev thus risks falling into a trap by keeping a low profile, fearing that an open confrontation might ruin his chances for re-election, and then *not* getting a

nomination. His key decision, unlike Putin's, needs to be taken early on, and certainly by the time when the Duma campaign is in full swing. Going against Putin will be an extremely risky strategy; it might even prove to be impossible for the simple reason that in the absence of real public politics Medvedev would not have enough resources – first of all in terms of controlling the media. The odds in this game are clearly against the incumbent, but I would still not completely exclude the possibility of an open confrontation.

### Stagnation or breakthrough?

There is nothing that prevents Putin from running for presidency again – no legal or political obstacles. The only consideration that might potentially make him decide otherwise is that if he clings to power forever, he will eventually preside over his own decline as the national leader and to go the way of Brezhnev and his gerontocracy. And yet it seems that the current ruling clan has already isolated itself from the rest of society and destroyed all mechanisms of elite rotation and renewal.

The key, if not the only priority of the current nomenklatura is to stay in power, and therefore Putin's decision not to run would simply mean that he would need to pick someone else from a narrow circle of people whom we already know for many years. Apart from Medvedev, Igor Sechin appears to be the only feasible candidate at the moment. Getting him elected would mean putting an end to even those faint hopes for liberalisation that have been associated with the current presidency. At the systemic level, however, it will not change much.

To sum up, the most likely scenario of political development for 2011 is the repetition of 2007–08, with the re-election of Putin or the victory of another candidate nominated by the ruling clique. The only – and less plausible – alternative is an open split of the

party of power which would force Medvedev to look for allies among the liberal opposition and to try to reinvigorate real public politics. This would give democracy in Russia a new chance, and it remains a realistic possibility, despite the powerful forces that solidify the current oligarchic system.

# THE POLITICAL ROLE OF THE RUSSIAN ORTHODOX CHURCH

Alar Kilp

The previous forecast overemphasized the trend towards church-state relationships of the czarist Russia, where the Orthodox Church sanctified the state, and the state acted as the protector of the Orthodox. Although some development in that direction has occurred, the situation is far more complex.

During the last decade the Russian Orthodox Church (ROC) has achieved a public status unprecedented since the October Revolution. Secular liberals, atheist Communists, non-Orthodox religious minorities fear the increasing political influence of the ROC, which could strengthen further the privileged status of the ROC, introduce classes of Orthodox tradition in state education, moral censorship of television, a ban on abortion, the state support of chaplains in social organizations. The ROC has pursued a number of such agendas for years, but mostly without a significant success. Additionally, the financial support of the state to the Orthodox Church is far from the level the Christian Churches in Germany are used to. The Russian political leaders clearly want to keep the secular framework of the state and secular basis of public education. The state does not want to become a religious state nor turn the ROC into an established moral authority in society.

The interests of the ROC and Russian state do overlap at certain instances. The social unity around the ideas of Orthodoxy and

traditional national heritage, an ideal of the restoration of the Russian Empire in some form, does unify many leading politicians with nationalist priests, bishops and the clergy. At particular instances the ROC may be even more effective in voicing the interests and concerns of the Russians living in the European Union and in the member-states of NATO rather than in the Russian Federation.

From the perspective of the state, however, the relationship with the Orthodox Church is like its relationship with the army. The state needs an army for particular purposes. But the state feels inconvenient if the army becomes too autonomous, uncontrollable and a public authority of its own. Similarly, the state does not want to have too strong a church or to strengthen purposefully the church which is institutionally weak.

The Romanian Orthodox Church is institutionally stronger and is taken more seriously by the Romanian government. The ROC, however, does not have much moral authority either among the Russian public or with the state. We should not forget that Russia has one of the least religious populations in the (Orthodox) world. According to 1999/2000 World Value Surveys, only 5.6% participated weekly in religious services (which is slightly higher than in Estonia, yet about 20 times less than in Poland). According to the Gallup Survey of 2009, the proportion of those for whom religion is important in daily life within the group of traditionally Orthodox societies was the lowest in Russia (34%, which is contrasted by 84% in Romania and 81% in Georgia).

Additionally, the ROC has been relatively weak as a political actor. Two decades of efforts to introduce Orthodox education to public schools and to add chaplains paid by the state to the armed forces are still on its political agenda. Minor progress in these issues should not be interpreted automatically as signs of strong political influence of the ROC.

## THE POLITICAL ROLE OF THE RUSSIAN ORTHODOX CHURCH

The political leaders – President Dmitry Medvedev and Russian Prime Minister Vladimir Putin – need the ROC for limited purposes only. Their inaugurations are blessed by the patriarch, they in turn participated in the enthroning ceremony of patriarch Kirill I. They have displayed publicly their personal religious devotion and participated in religious services at crucial national events sufficiently enough for the public to perceive them as committed moral Christians. For atheists and Muslims, this may be already too much within the secular state with a multiethnic and multireligious population. But actually, the connection between the state and the ROC does not go much further.

In general, the Russian political leaders try to avoid direct use of religious legitimacy. For example, in contrast to the presidents of the United States they avoid the use of the language of religious war.

The state does need the ROC as one of the symbolical resources that contributes to social unity, but it does not want the church to become a bastion of *moral values*. In reality, the Russian state does not protect effectively the spiritual moral values perceived to be represented by the ROC against the intrusion of the Western-kind moral permissibility, consumerism, ethical pluralism, 'cults of hedonism' and instrumental moral values related to competition, individualism and meritocratic success of 'the most talented', which have met the criticism of the ROC for decades. Without a clear-cut support from the state, the ROC will be just one provider of cultural identities, moral values and social meanings, and unable to become a meaningful source of spiritual and moral social unity.

Most likely the future will be with less democracy, multiculturalism and tolerance with increasing consumerism, pluralism of lifestyles, religious nationalism and public visibility of church leaders. The ROC would certainly welcome any anti-Western changes in public morals, but such changes are unlikely to occur in the year 2011.

The proportion of politicians, the clergy and politically involved citizens for whom Orthodoxy forms a basis of cultural identity, national mission and social unity will increase. The government may react to that process by meeting some of the political goals of the ROC. But it is unlikely, because the government does not need it for maintaining the political power more effectively, and inter-religious peace and social stability will be better served by keeping the ambiguous *status quo*.



# CIVIL SOCIETY

Anton Alekseyev

Civil society in Russia is represented by a rather large number of organizations most of which are short on membership and therefore also of influence. In addition to that, there are spontaneously formed (and usually short-lived) citizen action groups assembled for some specific purpose, mostly to defend their rights from encroachment by the government or business interests in connection with the state apparatus. Civil society organizations which have become traditional in other countries such as parties, trade unions and religious organizations, exist in Russia with the direct participation of the state and are sometimes even created and controlled by it, mostly serving the interests of the latter, often in contradiction to the objective interests of the citizens.

The forecast of the short-term development of civil society in Russia for the next 4–5 years prepared in the first half of 2009 by ZIRKON, a research group, pointed out that the polled experts expressed diverging opinions practically on all the questions about the prospects of civil society development. However, researchers were able to identify four scenarios of such development with equal probability for all of them. The scenarios were as follows:

1. “civic” – civil society will be developing with the minimal state participation and financing,
2. “governmental” – civil society will be developing mostly due to the state participation and financing,

3. “partnership” – civil society organizations and the state will together build a system of mutual relations, but the former will not become a hostage to the latter’s financing,
4. “confrontational” – civil society will manifest itself mostly in protests against the state actions, causing ripostes from the latter.
5. At the same time, the forecast stressed the high probability of the so-called “mixed” scenario when state support to certain segments and actors of civil society (the “governmental” and “partnership” scenarios) will be combined with an energetic fight against the other segments and actors (the “confrontational” scenario). An increase in the social activity of citizens, including protests, was also predicted. In the whole, the forecast was very vague.

After the publication of ZIRKON’s research a number of protest actions took place in Russia, some of them were successful to a certain degree (Pikalevo, Kaliningrad, Khimki), some of them were not (Raspadskaya, Siniye Vederki (Blue Buckets), Strategiya 31 (Strategy 31)). It is interesting to note that success, however limited, was achieved by those actions which were aimed at a specific objective: to pay out salaries and restart specific factories (Pikalevo), to force resignation of a specific governor (Kaliningrad), to stop cutting out of a specific forest (Khimki). On the other hand, actions of the “unofficial opposition” in Moscow have been of marginal significance, because the demands of freedom of speech and association appear abstract to the majority of Muscovites and seem not worth taking the issue to the streets. The same is true of the actions against traffic privileges of the officials (“blue buckets”) – these mostly concern car owners who are not particularly popular among the more numerous pedestrian Muscovites.

In all the aforesaid cases the “confrontational” scenario was applied. As became clear, it was this scenario that both the citizens

and the authorities were best prepared for. Nonetheless, when a large part of the European part of Russia was engulfed in forest fires last summer and volunteers offered their help to professional firefighters, it became clear that the state was unable and often reluctant to accept assistance from civil society. Thus, the parties are not ready for “partnership” or “civic” scenarios and the unpreparedness of the state is greater than the unpreparedness of society which offered help.

The flip side of the “confrontational” scenario is the “governmental” scenario when the state financial and organizational support is provided to openly pro-government and puppet organizations like NASHI (Ours) or Rossiya Molodaya (Young Russia) – partly through the loyal businessmen and partly through the budgets of different levels. There are also smaller regional analogies of such organizations (“Mestnye” (Locals) in the Moscow region and “Novye Lyudi” (New People) in the Volgograd region). The organizations existing under the umbrella of the “governmental” scenario are represented in the federal Public Chamber and regional public chambers. The Public Chamber of the Russian Federation which was envisioned as a mouthpiece for the civil society organizations to help them communicate their understanding of the situation in Russia to the government, in practice became a place of endless and useless debates about the government’s initiatives; recommendations of the Public Chamber are the least important for the legislators in the State Duma.

An analysis of the dynamics and efficiency of the civil society activity in Russia leads to certain conclusions. The first and, possibly, the most important conclusion is that the registered, “official” organizations (NGOs or, rather, GONGOs) have not played and are unlikely to play any significant role in the development of civil society in Russia. Spontaneously appearing citizen action groups assembled *ad hoc* to achieve a specific objective are moving to the foreground. Secondly, such groups are unlikely to

propose their own agenda to the government because they become energized only in response to the government's actions and only if such actions result in a serious deterioration of the financial situation (Pikalevo, Kaliningrad) or living environment (Khimki) of the active local population. Thirdly, the success of a specific action is only possible if it is beneficial not only for the citizens, but for the government as well. In Pikalevo, such benefit was a spectacular PR opportunity for Vladimir Putin, the resignation of Kaliningrad's governor allowed Dmitry Medvedev to distance himself from the functionaries of United Russia; putting a stop to cutting down the forest in Khimki also promoted the popularity of Dmitry Medvedev etc. The same reason is behind the suspension of many notorious construction projects in the historical centre of Moscow. Such suspension was achieved through the pressure from Arkhnadzor, an organization defending the historical appearance of the capital and was eventually certain to raise the popularity of Sergey Sobyenin, the newly-appointed mayor of Moscow. Fourthly, citizen action needs information support. In the conditions of media censorship, such support is viable only in the Internet. It was the lack of a proper Internet campaign that stopped the tragedy in the Rapsadskaya mine from becoming the second Pikalevo. As a result, safety arrangements and wages of the miners have not changed even after all their actions.

Political parties and trade unions have played an insignificant role in the development of civil society and this situation is unlikely to change in the next year. Experience has shown that the last thing citizens would do to defend their interests is to resort to their help. In the case of parties, United Russia is perceived as the "party of power" which shares responsibility for specific problems causing dissatisfaction of the citizens, and other parties are perceived as useless organizations unable to influence the government in any way. Representatives of the "unofficial opposition" certainly may try to "saddle" a protest movement ("Solidarnost" (Solidarity) in Ka-

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liningrad), but such attempts are unlikely to succeed. Organizations with connections to the government, such as the Public Chamber of the Russian Federation and its clones in the regions, various councils at the ministries and governmental agencies, and religious organizations will not play a leading role in this process – proximity to power is more important for them than the interests of the people they supposedly represent (it is particularly true of various “official” organizations of Muslim clergy).

In the year of the State Duma elections protest activity of citizens as well as the readiness of the state to compromise with civil society on specific issues of no principal importance for the political system will be on the rise – here we may be witnessing a peculiar symbiosis. Such activity is likely to manifest itself in single-industry towns (more than 400 in Russia) and in cities with population over one million: Yekaterinburg (construction of the church on ploschad Truda), Saint Petersburg (construction of the Okhta-Tsentr) and Moscow (construction of the mosque in Tekstilschiki district and actions on Triumfalnaya ploschad). However, these actions are unlikely to result in the radically increased importance of civil society in Russia’s domestic processes – neither the government nor the civil society is ready for that.

# PERIOD OF CHANGES IN THE RUSSIAN MILITARY

Kaarel Kaas

Since the mid-1990s there have been numerous attempts to reform and modernize the Russian military. All these efforts remained on paper, faded, or resulted in minor reorganisations like merging or splitting different units, or in attempts to increase the number of professional servicemen. However, no substantial changes were ever made and the Russian military remained a smaller copy of the Soviet armed forces until the fall of 2008.

A major shift occurred in October 2008, when Anatoly Serdyukov, the Russian Defence Minister, launched a military reform that overhauled the previous situation. As a result, during the last couple of years the Russian military have lived in the atmosphere of drastic and real changes.

The crucial points of the so called Serdyukov reform are the structure, chain of command and personnel of the Russian military.

## Background and current situation

Until the fall of 2008, the structure and organisation of the Russian military largely originated from the decade following World War II. The earlier system based upon armies, divisions and regiments was abolished and a new structure was set up in which ground forces in

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the Russian military consist of 85 brigades (39 are general purpose brigades, i.e. motorized infantry and tank brigades). The precise structure of the brigades is still being worked out, but according to the existing plans, a general purpose brigade will become a constantly combat-ready unit consisting of 5000–5500 troops and capable of independent combat operations. Three types of brigades have been proposed: the so called heavy (armed with ed infantry with infantry fighting vehicles and tanks), average (equipped with armoured cars and tanks), and light (lightly armoured all-terrain vehicles and trucks).

By 2012, when the reform is expected to be finished, the Russian ground forces should consist of 172 units and formations instead of 1980 units and formations, which was the case before the reform.

The Air Force will be re-organised into 180 units instead of 340; the earlier armies-divisions-regiments will be replaced with joint air force bases. The number of units in the Navy will be 123, down from 240.

The earlier structure will be kept in airborne troops, strategic missile forces and space troops.

These structural changes and the downsizing of the number of different units reveal the essential meaning of the Serdyukov reform – a decisive rejection of the military concept based upon mass mobilisation and intended for an all-embracing, grand-scale Cold War-style conventional conflict.

An overwhelming majority of units to be abolished by the reform were/are only partially manned (the so called “cadre units”). In peace time, such units were manned only with 10–40% of the personnel required for full combat readiness, and thus many regiments during peace time actually consisted only of a hundred officers and non-commissioned officers. Such partially manned units were supposed to be fully manned and armed only after mobilisation.

The creation of a huge multimillion war-time army based upon mass mobilisation has been a basis of the Russian and later Soviet military thinking and doctrine since the mid-19th century. A rejection of this concept is of fundamental importance.

During the reform, the earlier four-tier chain of command (military district-army-division-regiment) has been replaced with a three-tier chain of command (strategic command-operational headquarters/army-brigade). It will allow a more rapid, flexible and efficient use of armed forces, eliminating several excessive tiers from the chain of command between units conducting actual combat operations and the headquarters, which direct the combat operations.

Another pillar of the reform concerns the replacement of military districts with joint strategic commands. After 1998 there have been six military districts in Russia, and the Kaliningrad Special Defence District. In December 2010 they will be replaced with four joint strategic commands: West (headquarters in Saint Petersburg), South (headquarters in Rostov-on-Don), Centre (headquarters in Yekaterinburg), and East (headquarters in Khabarovsk). The West Command will have the greatest military potential. It will be organised on the basis of the Leningrad and Moscow military districts, the Kaliningrad Special Defence District as well as the Baltic Fleet and the Northern Fleet.

In contrast to the abolished military districts, all conventional forces in the territory of a strategic command – ground troops, the Navy, air force, airborne troops and special forces (Spetsnaz) – will be subordinated to the new strategic commands. The Moscow headquarters of respective military branches will be responsible only for training, supply, development of military equipment and other supporting issues. During a crisis or a state of war, border guards and the units of FSB, the Ministry of Internal Affairs, and the Ministry of Emergency Situations, etc. in the territory of the respective joint strategic command will also be subordinated to the command.



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The general number of personnel in the Russian military will be downsized to one million men by 2012 (in 2008, the respective official figure was 1.3 million). Personnel cuts will come mostly at the expense of officers: the number of officers will be 150 000 persons (in 2012), down from 350 000 persons (in 2008). A decrease in the number of officers will be largely achieved through the liquidation of partially manned units; in addition, significant cuts are planned in the central apparatus of the General Headquarters and the Ministry of Defence. The biggest cuts will be among officers in the rank of colonel and lieutenant colonel; a significant number of generals will be also discharged. A major part of personnel cuts are said to have been carried out by now.

Another important personnel-related change introduced by the reform is to give up attempts to make the Russian military professional, that is, to man a certain amount of units with contractual servicemen on a permanent basis (the so called *kontraktniki*). The objective of recruiting about 150 000 contractual servicemen set forth under the federal programme of making the armed forces professional (launched in 2002) has never been achieved in reality. According to present plans, the number of contractual soldiers and sergeants in the armed forces will remain within 90,000 – 105,000 persons. All brigades in the state of permanent combat readiness – including airborne troops, which are considered elite troops – are presently manned with conscripts to the extent of 60–70 percent. The period of conscription has been reduced to 12 months starting from 2008.

### Forecast for the year 2011

In accordance with the federal budget for 2011–2013 approved in October 2010, Russia's defence expenditures will grow from 1276.8 billion roubles in 2010 (30.2 billion euros, 2.84% GDP) to 1517.1

billion roubles in 2011 (35.8 billion euros, 3.07% GDP). In 2013 the defence expenditures shall already rise to 2098.6 billion roubles (49.65 billion euros, 3.39% GDP).

Salaries of the servicemen shall rise by 6.5 percent from April 2011, which should more or less compensate them for inflation.

Chronically low salaries as compared to the general living standards, mass discharges from military service because of the reform, major disturbances in the private life of professional officers due to moving and relocation of military units (many officers have had to move to a new place of service on a very short notice; such places are mostly away from larger settlements, limiting job opportunities for the wives and the availability of kindergartens and schools for children) have resulted in an atmosphere of general dissatisfaction and instability in the Russian armed forces. In its turn, it has led to low morale in military units and to open protests against the Defence Minister and the head of the general headquarters, General of the Army Nikolai Makarov. Defence Minister Serdyukov and General Makarov are both extremely unpopular in the armed forces. Thus, they are both likely to be replaced in 2011. The elections to the State Duma at the end of 2011 and the presidential elections in the spring of 2012 will influence almost any significant decision in Russia next year. The tandem of Putin and Medvedev might perceive the unpopularity of Messrs Serdyukov and Makarov as a potential political and image problem. Therefore, getting rid of them would prevent the frustration of active and retired servicemen from finding an output in political activity.

However, possible changes in the military top brass neither will have impact on nor reverse the military reform which started in 2008. In 2011 we are unlikely to see significant changes in the combat capability of the Russian military; due to the drastic structural changes and re-organisations it is still somewhat lower than before the reform. Implementation and fine tuning of the command

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and control system based upon the new brigade-based organisation and strategic commands will continue.

Ground forces will be receiving new equipment and weaponry mostly at the same rate as before – sets of armoured vehicles and tanks for four-five battalions per year. Enhancement of night operation ability for the Russian tanks and armoured vehicles will continue by way of installation of night vision equipment produced under the licence of Thales, a French company. Simultaneously, the ground forces will start to receive trial sets of command and communication equipment and the production of unmanned aerial vehicles is likely to start in Russia in co-operation with Israel. However, these developments will not influence combat capabilities of the ground forces.

The Air Force will receive 10 to 20 new Su-30, Su-27M and Su-35 fighters and Su-34 bombers; a second prototype of PAK FA (T-50), a new fifth-generation fighter, is likely to be finished.

As for the Navy, the strengthening of the Black Sea Fleet will continue. Two *Neustrashimy* class frigates (project 11540) – *Neustrashimy* and *Yaroslav Mudry* – will be transferred from the Baltic Sea Fleet to the Black Sea Fleet. As the Baltic Sea Fleet will not initially receive any replacements, its combat capability will temporarily decline.

A transfer of one-two *Steregushchy* class corvettes (project 20380) to the Black Sea Fleet is also possible.

The Northern Fleet will be strengthened with *Severodvinsk*, a new generation nuclear *Yasen* class attack submarine (project 885).

*Yuri Dolgorukiy*, a new generation *Borei* class ballistic missile nuclear submarine (project 955), will probably be officially commissioned and sea trials of the second submarine of this class – *Alexander Nevsky* – will start.

Provided the trials of the new submarine-launched ballistic missile *Bulava* intended for the *Borei* class submarines prove

successful, this missile will be finally deployed in the autumn or by the end of 2011.

If Moscow and Paris manage to agree upon the terms and conditions of the deal, the construction of a big Mistral class amphibious assault ship for the Russian Navy will start in France.

The combat capability of the Russian Strategic Missile Forces will continue to decline owing to the decommissioning of ageing land-based ICBMs. At the same time, the rearmament of the Russian Strategic Missile Forces with RS-24 Yars ICBMs will continue (a variant of RS-12M2 Topol-M missile with independently targetable warheads). In 2011 the Russian armed forces should receive 6 to 120 RS-24 Yars missiles.

## Conclusions

The last two years have been a period of dramatic, all-embracing changes for the Russian military. The reforms have been carried out rapidly and forcefully, figuratively speaking, in a shock therapy mode, but their main objectives – a new structure, a new chain of command, personnel cuts and re-organisation of the personnel structure – have been largely achieved. Thus, in 2011–2012 the Russian armed forces will enter a period of stabilisation and evaluation, consolidation, specification and adjustment of the reform results. The main emphasis will shift to ensuring the combat capability and real and effective functioning of the new structure and strategic command model.

# CENTRE vs. REGIONS IN THE RUSSIAN FEDERATION

Aimar Ventsel

The policy of the federal government for the last ten years has been a purposeful centralisation of the centre-regions relations. The first step of this policy was to establish a position of the president's regional envoys (*polpred*) in 2000. Regional constitutions were simultaneously brought into conformance with the federal constitution in a centralised manner.

Since 2004 the electability of regional leaders has been abolished and they are now nominated by the president. A reform introduced by President Medvedev in 2009 which allowed the political party that won a majority of seats in a regional parliament to propose a candidate for the governor's position changed little because a majority in all regional parliaments in Russia belongs to the United Russia party. Since 2009, when President Medvedev nominated the president of the Mari El Republic, all governors and presidents of Russia's regions have been nominated and there has not been a single elected regional leader.

Moreover, the dependency of the regions on Moscow has grown because in 2008–2009 the amount of subsidies to the regions was increased by 50%. Nikolai Petrov, a researcher at the Carnegie Moscow Centre, describes a general understanding of the power structure in Russia: “At the core of this paradigm is a view of governors as the territorial heads of a giant state corporation –

‘Russia’ – which demands strict subordination and loyalty to the leadership of the corporation.“

## Does the centre have control over governors?

The notion of governors being an extension of Moscow’s arm is a simplistic view in the extreme. The central government has never been able to establish a complete control over the regions and even experienced some setbacks.

Details of the death of Mikhail Yevdokimov, governor of the Altai Krai, who died in a car crash in August 2007, are still unclear. Immediately after his death, the Krai’s parliament moved to impeach him posthumously.

In relations with governors, the central government must consider a number of factors which distinguish regions from each other. Geopolitically, the Caucasus region stands out. Due to the terrorist and separatist threats, Moscow needs governors there capable of an effective control of the situation. It means either the necessity to give a free hand to governors (Chechnya), or to be more accommodating to the opinions of the local clans (Dagestan). Of course, it does not necessarily mean that the rest of regional leaders obey the centre implicitly.

One of the reasons to get rid of Yuri Luzhkov, mayor of Moscow, was his long-standing “opportunist” activities. Since 1998 Mr Luzhkov has stood out as a supporter of legal anti-centre dissident activities. Thus, in 2008 he demanded to restore governor elections and supported the efforts by Tatarstan’s president Mintimer Shaimiev to preserve the republican school programme. During the economic crisis of 2008–2009, several regions attempted to expand their autonomy, evidently thinking that the centre is too weak to control the situation. Many analysts had predicted for a long time

that the centre's response would be a self-assured removal of a well-known regional leader. The axe fell on Mr Luzhkov.

### Strengthening of local elites

Despite the fact that a majority of regional industries by now have been put under the centre's control and all Russia's regions are subsidised (that is, oil, gold and diamond money flows to Moscow and then comes back to the regions as subsidies), Moscow still has to take into account the interests of local elites.

A new trait of the regional policy under President Medvedev is to nominate local politicians for governors and presidents, contrary to the policy of Mr Putin, who rather preferred to support outside leaders (e.g. Alexander Lebedev, the former governor of the Krasnoyarsk Krai). Moscow has realised that its nominees must also be accepted by local elites.

According to analysts, economic and political developments in any specific region are controlled by 5–10 persons in the local elite and the new governor or president must be accepted by these people. It actually means that governors are also representatives of the local elite in the federal power structures. In unavoidable (economic) conflicts with the centre governors must also protect the interests of their regional elites.

Pressure from the regions is also increased by the custom to nominate former governors to the Federation Council, where they can lobby the interests of their former home regions. It is especially evident in non-Russian regions where the titular nation is sufficiently dominant to influence politics (e.g. Yakutia). Presently it seems that *status quo* has taken hold in a majority of regions, which means that governors, provided they comply with federal policy in general, are given a free hand to pursue their own policies in other

areas – mostly helping their cronies and relatives to cushy jobs and/or favouring certain companies at the expense of the others.

### A possible change of direction?

In the light of the forthcoming presidential elections in Russia, certain changes might be possible in the centre-regions relations.

Mr Putin has more experience in regional relations. Furthermore, his team includes people with knowledge of the regional specifics and problems. Some of these people are themselves former regional leaders. For example, Sergei Sobyenin, a former governor of Tyumen oblast and the newly nominated mayor of Moscow, who served for a long time as deputy prime minister and head of the president's administration.

Mr Medvedev's team lacks such people and he appears to be attempting to control the regions through the United Russia party. However, dramatic changes are unlikely because strategic industries have been already put under the federal control. A new law which prohibits the use of the names of federal political institutions (president, duma) is rather an echo of the 2004 reforms and merely legalizes the existing situation. Still, renaming presidents governors might cause some limited protest actions and picketing.



# THE CENTRE AND THE NORTH CAUCASUS

Jaanus Piirsalu

In spring 2009 the regime of counter-terrorism fight in Chechnya – which lasted years – was declared finished. In January 2010 the Russian president Dmitri Medvedev appointed Alexander Khloponin, a well-known manager who secured economic success both for a big company (Norilsk Nickel) and a big Russian region (the Krasnoyarsk Krai), a presidential envoy in the North Caucasus. New ambitious plans to build 15 billion dollars worth world-class ski resorts in the North Caucasus were put forward.

## War or not war?

In the time before these good tidings, when the president's office belonged to Vladimir Putin, state officials and official media were prohibited to use the word “war” to describe the situation in the North Caucasus. Only journalists hostile to the Kremlin used this word, because official news portrayed the life in the region as gradually coming back to normal after the two Chechen wars. Surely, it was not an outright lie, but it ignored the resurgent armed struggle.

On the one hand, good news seem to come more often now; on the other hand, since this autumn nobody can be called malevolent

for using the words “war” or “war-like situation” to describe the events in the North Caucasus, because the Russian officials use these expressions themselves.

In an interview to the radio station *Echo of Moscow*, on November 10, Alexander Bastrykin, Head of the Russian Investigative Committee that was recently separated from the Prosecutor’s General Office, described the situation in the North Caucasus with the following words: “it is almost a war.” According to him, the daily casualty rate in the military units stationed in Dagestan, Ingushetia, Kabardino-Balkaria and Chechnya amounts to 5–6 men. (Not confirmed by official statistics).

### Drag on the budget

At a meeting held in Yessentuki in the middle of November 2010, President Medvedev admitted that the situation in the North Caucasus “has hardly changed” during the last year. He just could not say that the situation had deteriorated for it would be an admission that his decision to establish a separate federal district consisting of the North Caucasian republics (plus the Stavropol Krai) to be lead by Mr. Khloponin has not turned the things around in the slightest. Two weeks earlier Medvedev expressed an undisguised dissatisfaction with the activities of the presidents of the republics in the region. Although he did not single out anyone by name, it was obvious that first and foremost he meant Dagestan, Chechnya and Ingushetia where, despite nice promises and talk of investments there has been no development to speak of.

I do not believe that the Kremlin takes seriously Ramzan Kadyrov’s talk of a new 400 million dollar ski resort to be soon constructed in a mountainous area in Chechnya with hotels and 17 tracks capable of receiving 12, 000 people an hour (where will all these people come from?). As an example of a big investment,

Dagestan's leaders have been ardently talking for three years now about two glass factories; somehow, neither of these factories has been completed. Such talks and ideas are in the essence openly sneering at Moscow that has been trying to nudge the Caucasian republics into doing something for their economies by themselves, in order to stop the republics from being mere leeches on the federal budget.

Russian Prime-minister Vladimir Putin said this summer that over the last ten years the amount of annual subsidies from Moscow to the North Caucasian republics has grown to be twelvefold. If in 2000 they received 15 billion roubles from the federal budget (USD 500 million), then in 2010 they will be receiving already 180 billion roubles (USD 6 billion with the combined size of the republican budgets being just USD 8.5 billion!). Financially, it is a black hole. Money is being spent but it does not translate into real jobs and income for the local population. Even according to official figures unemployment in Chechnya is 50 percent of able-bodied citizens, in Ingushetia it is 24 percent. Among the young, unemployment is allegedly 60–70 percent (surely, it does not mean that naturally active Caucasian youth just pass the time; everyone tries to find some kind of engagement. Just no official jobs with stable salaries are available.)

### Deteriorating security

Even the experts far from opposition are increasingly talking about the pre-revolutionary situation in the Russian Caucasus or that predictions of 'secession' of the Caucasian republics from the Russian Federation which were earlier considered of marginal significance, have ceased to be mere fantasies even for the Russian political elite. The talk is about 'secession', not 'separation', because

the corrupt elite of the Caucasian republics naturally oppose to killing their cash cow.

To see the deterioration of security in the North Caucasus one does not have to read reports of Memorial, a human rights organisation in Russia. It is officially admitted. Ivan Sydoruk, Russia's Deputy Prosecutor General, announced in September 2010 that during the eight months of 2010 four times more acts of terrorism were committed in the North Caucasus than during the whole year of 2009. (The number of acts of terrorism was probably downplayed before by classifying them as other types of crime, but it does not change the general picture.) According to official figures, during the eight months 150 officials of the Ministry of Internal Affairs and military servicemen were killed (including 12 high-ranked officials – nobody is safe there!), about 400 were wounded. These figures are also considerably higher than in 2009.

The head of FSB Alexander Bortnikov announced in the early October that over 300 Islamic fighters were killed in the region which is also a larger number than in 2009. In addition, many fighters have been taken alive. These figures show that there must be over thousand guerrilla fighters in the North Caucasus but even such losses in their numbers have not stopped the violence.

## The role of Dagestan

By now Chechnya has ceased to be the key region in the North Caucasus and its position has been taken by Dagestan. It is Dagestan where most attacks on the police and military occur; it is Dagestan where in the mountains armed guerrilla fighters appear to be most numerous.

The crucial and growing problem is that the Islamic fighters in Dagestan have become an inseparable part of social-economic relations in the public space. Many members of Dagestan's elite

communicate with the Islamic fighters on a half-official basis, while such fighters have become a serious 'protection' for a large part of local business. In its turn, the local power elite uses attacks by the Islamic fighters to suppress their opponents and blackmail Moscow on important financial issues and appointments to official positions.

Early in October Arsen Kanokov, president of Kabardino-Balkaria (that somewhat unexpectedly surpassed Chechnya and Ingushetia regarding the number of attacks and victims this year), showed a very characteristic and precise reaction to a candid remark made by a journalist of the Russian daily *Kommersant* who said: „Basically a war is being fought in those [North Caucasian] republics that receive more money [from Moscow]“. Kanokov's reply to this remark was: “May be that's why it [the war] is being fought there in the first place?”

At the moment there are no indications that the situation in the North Caucasus could change to the better in the next year. In Dagestan, which is the most conflict-ridden area, there are two broad possibilities – either a large-scale military operation against the Islamic militants will be started or Magomedsalam Magomedov, the new president of Dagestan, will succeed in a gradual social re-integration of the militants who do not yet have blood on their hands. It will be a difficult process because it is mostly based on trust, and should the young people who put down their weapons become arrested, all good intentions will be blown to pieces.

There is also an interesting aspect related to Ramzan Kadyrov, the most powerful regional leader in the North Caucasus. His future largely depends on who will prevail in the fight over the next presidential term in Russia. Should Medvedev become a nominee (and, consequently, the winner), it will imply a gradual decline of Kadyrov's power and maybe even his replacement after 3–4 years. However, should Putin return to the Kremlin, Kadyrov will have secured an unlimited power for at least 12 years. It explains the open support that Kadyrov has shown to Putin's return to the Kremlin.

## Conclusions

A prospect to stop the violence in the North Caucasus will have a chance only if Moscow realises that the war there is fuelled basically by Moscow's own money. FSB has quite effectively succeeded in shutting down the foreign sources of financing for the Islamic fighters. Almost all the money to the militants (*boyeviki*) comes from Russia, mostly from the federal budget. Islamic fighters and their supporters very successfully extract money from corrupt officials in the North Caucasus whose primary source of living is stealing public money. However, the militants want their cut because, being local people, they know perfectly well who is corrupt and to what extent – an information that the Kremlin lacks. And these official thieves of public money are more afraid of the militants than of the Kremlin.

By continuing the present policy of big cash injections, the Kremlin is going to satisfy only the corrupt elites of the North Caucasian republics, and not the majority of the population.

The future of the North Caucasus depends on a successful fight against corruption, improvement of social conditions and an increased sense of justice in the society. The conflict with the Islamic fighters cannot be solved by force because it is the violence of security forces which spawns the next generation of guerrilla fighters in the Caucasus.

**FOREIGN RELATIONS  
OF RUSSIAN FEDERATION**





# RUSSIA and WTO

By Kristjan Aruoja & Olga Kokoulina

The topic of Russia's relationship with the World Trade Organization (WTO) is still relevant after 17 years due to a simple reason: Russia is the largest economy outside the central trade-related institution of the WTO. In light of this observation, it is relatively difficult to provide a prognosis of Russian accession to the WTO. On the one hand, it is hard to assert any facts given the negotiations have lasted for a substantive length of time, but on the other hand, the length of negotiations may indicate that the accession of Russia to the WTO is quite near. Despite the complexity of Russian accession, it is an interesting and even a provocative one – will 2011 be the turning point? The following asserts that although Russia's economy might not be ready to operate in the WTO framework efficiently, political considerations around the accession process may prevail.

The prognosis from 2007 was not prophetic, but nevertheless gave a decent overview of the background of the interrelations. As has been rightly stated in the previous prognosis on the topic, the question of accession is dependent on Russia's readiness to open its market of goods and services and its willingness to accept WTO obligations after joining. The country's preparedness could be considered from various standpoints, however, the opinions of the Russian business community and the Russian government are arguably the most important. From the perspective of the former, it can be objectively asserted that Russian business actors are not ready

or willing to compete with their foreign counterparts on equal footing, whereas the latter perspective is mainly about political manifesto towards the direction of reforms.

### Priorities have changed

With reference to the power distribution in the modern society of Russia, the question of present interest is how far the Russian government is ready to go to tackle this item in its agenda. In this context, it can be argued that the priorities of the Russian ruling elite appear to have changed since 2007. Russian officials and media continuously inform the public that the country has achieved considerable breakthroughs in the negotiations by resolving bilateral issues and paving the way for entry into the world trade club. The claim that the remaining problems are of technical nature and could be settled during the upcoming year is contended.

In conjunction with the foregoing, it is argued that this time the prognosis is based on a different presupposition. The process of accession has been illustrated by a plethora of political considerations, protection of markets and willingness to obey rules. Owing to the fact that the previous prognosis provided the background knowledge of the topic (shortly – developments concerning the history of negotiations under discussion, signing of the bilateral agreement with the United States (US), problems relating to Russia's economy when it comes to complying with WTO standards, the question of Georgia and other general considerations also indirectly reflected in the present prognosis), this prognosis will rather concentrate on the possible aspects concerning Russia's integration to WTO's rule-based international trade next year.

In addition to Russia's political willingness (mentioned above), there are a number of objective matters that may hinder Russia's accession. Of course, it is difficult to see the line between true

reasons and *realpolitik*, but the points to be considered include, among others, the ongoing question of Georgia, the upcoming presidential elections and issues relating to the modernization of Russia's economy.

### Political decisions vs economical readiness

The WTO is theoretically a member-centered and consensus-based organization, which means that Georgia could veto Russia's accession. From the political perspective however, it could be easily overcome by diplomatic means – either the allies of Georgia (e.g. the US) exert pressure on the country to conform or Russia somehow solves the questions by itself. It seems unlikely that Russia is going to give something away in connection to this issue; therefore, it is actually up to the Georgian government to decide whether to show its attitude and formally hinder Russia's accession or lose the 'political battle'.

In addition, the accession to the WTO may also be a political competition between President Medvedev and Prime Minister Putin in relation to the presidential elections in 2012. It remains to be seen if, in reality, this subject matter has any affect on the WTO accession at all, but it could nevertheless be taken into account. This kind of approach could, to some extent, reveal the real decision-making powers in Russia, but this is just a modest assumption since there have frequently been allusions which allow to presume how Russia is actually governed.

### Question of willingness

As pointed out before, Russian economy is still not entirely ready to operate effectively within the framework of WTO. This raises the

question of willingness. The most important strategic economic sector in Russia, namely energy (oil and gas), is not covered by WTO – so why would Russia want to join then? By answering it in a cynical way, it could be stated that this is only about showing political goodwill (for comparison, the mechanism of protecting human rights under the European Convention on Human Rights is still controversial in Russia), because a rule-oriented approach towards global order really does not seem to be in the nature of Russia's behavior.

All in all, Russia's accession is essentially a political question. Even though from the perspective of global economy, according to mainstream economical theories, it might be beneficial for Russia and its partners if the former modernizes its economy and joins the WTO, the country's *status quo* seems to be so fixed (e.g. the interconnections between the business community and the government) that it is difficult to alter it without any economic damages. Moreover, the reasons lay in the lack of trust among the countries, as it seems that Russia is not treated equally on the international level – the West seems to perceive Russia as a country who notoriously tends to infringe the rules of international law even though there might not exist any firm legal basis to blame Russia. As trade is one of the most important subjects in interstate communication, the WTO would (without a wish to go into details with the critique on this organization), therefore, provide a set of strict (Western) rules which would also apply to Russia as a member and let Russia's partners to rely on something more certain than just diplomatic means in case of disputes. The West, particularly the European Union (EU) needs Russia, but they still seem to retain a haughty approach towards the latter in hope that the rules (e.g. on free trade in light of market economy principles) will solve the misunderstandings and the West could thus get what it wants from Russia (or at least have the country on their hook in theory).

## RUSSIA and WTO

Russia's WTO accession has seemingly become a ritual which recurs every year. Although rumor has it that Russia will join the WTO by the end of 2011 and the bilateral agreement with the EU concerning Russia's accession has been concluded by now, the odds of joining still seem to be 50–50. Nevertheless, this prognosis would rather take an optimistic viewpoint and claim that it will happen as a political decision, but probably with a high economical cost for Russia.

*Many thanks to Vootele Rõtov, who was kindly willing to share his ideas and thoughts on the subject.*

# RUSSIA and NATO

Taavo Lumiste

A backward glance, or the replacement of ideological struggle with manifold but limited practical co-operation.

The previous forecast of the Russia-NATO relations was written for the year 2004. At that time, the hot issues were the establishment of the NATO-Russia Council some years before, the biggest historical expansion of NATO into the so called Russian sphere of influence and the forthcoming presidential elections in Russia and the USA. Owing to the fact that the NATO expansion did occur, we may conclude that in 2004 Russia and NATO were, similarly to the Cold War era, clearly ideologically divided.

A constant and unavoidable shift in the content of security policy from ideological and military challenges toward socio-economic issues has resulted in a broader set of similarly perceived practical aspects in the Russia-NATO relations. Today's issues where both parties see common threats and challenges include, in particular, the need to prevent the spread of drug trade and terrorism, to ensure the non-proliferation of weapons of mass destruction and disarmament, to liquidate natural and technological disasters etc. Looking at these developments, we may get a perfunctory impression that the West, including NATO, and Russia have become unexpectedly close. However, the parties are still divided by principal differences on such issues as democracy, the extent of freedom of speech and freedom of press, and the limits of human rights. Considering the

areas where no mutual approach has actually occurred, we would be well advised to withdraw an excessive optimism (at least for now).

## Perception of each other

At the Lisbon summit NATO adopted a new Strategic Concept where it confirmed the desire to co-operate in areas of shared interests and declared that, posing no threat to Russia, NATO was ready to co-operate in those areas which had been taboo issues before:

*„/... cooperation is of strategic importance as it contributes to creating a common space of peace, stability and security. NATO poses no threat to Russia. On the contrary: we want to see a true strategic partnership between NATO and Russia, and we will act accordingly, with the expectation of reciprocity from Russia./*

and

*/...Notwithstanding differences on particular issues, we remain convinced that the security of NATO and Russia is intertwined and that a strong and constructive partnership based on mutual confidence, transparency and predictability can best serve our security. We are determined to: enhance the political consultations and practical cooperation with Russia in areas of shared interests, including missile defence, counter-terrorism, counter-narcotics, counter-piracy and the promotion of wider international security;/*

In its Foreign Policy Concept (July 2008) Russia also puts an emphasis on the development of co-operation within the framework of the NRC with a view to increase stability and predictability in the Euro-Atlantic region. Political dialogue and practical co-operation are envisaged in the above mentioned areas of shared interests. But

misgivings about somebody developing its security at the expense of Russia imply the existence of ideological differences. Also, Russia continues to have a negative attitude to the NATO expansion concerning Ukraine and Georgia as well as the NATO military infrastructure in the proximity of Russian borders – it would create new dividing lines in Europe and harm co-operation in dealing with contemporary threats. The last such signal came from the Russian Ministry of Foreign Affairs in December 2010 concerning the revealed US plans to deploy its Air Force unit in Poland.

### Pragmatic practicality

In rational terms, Russia has nevertheless realised that practical co-operation with NATO is beneficial. The spread of Islamic extremism and drug trade in the North Caucasus, Iran and the Central Asia causes concern in the Kremlin. Moscow has understood that the stabilisation of situation requires co-ordination of efforts with NATO. A successful antidrug raid in Afghanistan in autumn 2010 was a step forward. An agreement on the NATO air transit to Afghanistan through Russia in 2010 is definitely positive news. These steps have brought closer Russia and the USA with its ‘reset’ policy. It is clear that a great deal in the NATO relations depends on relations between the big powers.

Here we must also look at what NATO (the USA) has given up. Although the rhetoric remains firm and unchanged, differences on the *Freedom’s Lighthouse* (Georgia) or Kosovo are cited less and less frequently. A positive result that the US ‘reset’ policy has brought to Russia is that the NATO expansion, the CFE treaty and some other issues have moved to the background. Thus, a breakthrough in practical issues such as Russia’s support in Afghanistan and the non-intervention in Iran and North Korea must be compared with the fact that nothing really big and substantial has been achieved and no



real partnership has emerged on the basis of shared values. Russia has not changed domestically and the foreign policy angle is used to cover weaknesses in domestic politics. NATO as an enemy continues to be convenient, easy and understandable. Large-scale military exercises to counter an attack by the NATO member-states, the border-based deployment of Russian military and concerns over the railway transit to Afghanistan which was promised to NATO – all of them are perfectly playable domestic fears which should advise caution to all of us. Russia still demands the recognition of its sphere of influence; to be left without such recognition is perceived as the recognition of weakness or a loss.

### In need of a dramatic event

To achieve a breakthrough in the NATO-Russia relations a catalyst is once again needed – a dramatic event to raise the co-operation to the next level. To give a historical parallel, the Chechnya issue gradually slipped from the agenda years ago (nowadays it is not mentioned at all), but after the sinking of Kursk practical co-operation in maritime rescue operations intensified. A breakthrough in the relations always came as a result of specific events like 9/11 or the Kursk disaster. Possible breakthroughs in the NATO-Russia relations today could come in Iran's nuclear politics, from a large-scale cyber attack, a crisis between North and South Korea, a rise in oil and natural gas prices or the Arctic problem.

I see the largest potential in Iran and cyber defence. Missile defence has already become an issue of the NATO-Russia co-operation and the recent case of WikiLeaks with subsequent attacks in Sweden in the aftermath of Julian Assange's arrest showed that cyber attacks can be triggered by the thinnest of reasons. The other issues in the NRC co-operation are relatively unimportant compared to these.

President Medvedev showed the way to a possible breakthrough by proposing to integrate missile defences based on geographical areas of responsibility at the NATO Lisbon summit. Naturally, such a biased proposal was rejected because it outstepped the framework of cooperation and information exchange between the two systems and because the creation of an integrated system would require a prior feasibility study of technical possibilities, but the issue is certain to remain on the agenda in 2011. On the contrary, the issue of cyber defence has not become a major issue on the NRC agenda yet.

## NATO-Russia relations in 2011

Thus, the NATO-Russia relations in 2011 will be determined by the following factors:

1. Although NATO has been weakening as a military alliance, there is no reason to doubt the organisation's resolve to maintain its political and military effectiveness. Decline of the military aspect is also noticeable in the Russian foreign and security policy – an onslaught of the extremist Islam and drug trade are becoming urgent issues in the Russian domestic policy too. The forthcoming presidential elections in Russia are forcing Medvedev and Putin to look for a solution.
2. Russia may use practical benefits from closer co-operation with NATO only at the expense of an ideological confrontation – the fear of Russia 'being sold' to the West is big. To prevent doubts and accusations of surrender before the West, the Kremlin will adopt a more nationalistic tone before the elections, making it harder to deepen the NATO-Russia co-operation. The Kremlin's foreign policy rhetoric will not change before the presidential elections.

3. Russia is interested in participating in a joint missile defence system, but on its own terms. Since the promising area of practical co-operation is hampered by radical ideological clashes, any considerable progress here is possible only after a substantial change in Iran or the Korean peninsula.
4. Practical co-operation in Afghanistan will moderately expand. NATO needs a success in Afghanistan to please the public opinion. Russia needs NATO curb the lawlessness which has been spreading on its southern borders and in the Central Asia.
5. Rapid developments in the area of cyber defence are possible if the Russian governmental bodies fall victim to a malicious attack. It is a possibility because all sorts of extremist minority groups will become more active in the run-up to the elections.
6. Russia will continue to build allied relations in the selected partnership areas. Even Moscow has gradually started to give up the European Security Treaty (the so called Medvedev Initiative) due to the lack of interest from other counterparts. However, it is in Moscow's interests to strengthen relations with the key European states – to communicate directly with the capitals as much as possible, to conduct the 'reset' policy as much as possible which has been successful until now. Focus will be on the European capitals, because China is unsuitable as a strategic ally and the USA is seen as a threat to the Russian national security.

## Conclusions

To sum up, the NATO-Russia relations in 2011 will be focused on the development of practical co-operation. Crucial breakthroughs may be expected after the presidential elections, when the elected president has a longer period ahead to implement principal and time-consuming changes. Russian short-term goals in the relations with NATO were quite clearly formulated by the Russian defence

## TAAVO LUMISTE

minister Serdyukov: it is too early to join NATO and such a step will be unnecessary in the near future; to build up co-operation would be enough for a start. However, it all might be changed by an unexpected dramatic event in the world politics in relation to Iran, a conflict between the two Koreas or a cyber attack.

# RUSSIA and EU

Ahto Lobjakas

There is little to say in the way of a link-up with the preceding years. The EU has yet to decide what kind of animal it is, having attempted to reinvent itself with the Lisbon Treaty in 2009. In the ensuing institutional interregnum, Russia has found it relatively easy to pursue its natural divide-and-rule inclination, to the extent of having revived in 2010 its trilateral summits with France and Germany (last seen in 2003).

At the risk of tempting fate: 2011 will be a quiet year in the EU-Russia relationship. An immediate caveat: still waters can still run deep.

The conditions for a 12-month quiet ride could not be better with Russia increasingly preoccupied with the 2012 presidential elections and the EU trying to nurse the European External Action Service to some semblance of life.

## New winds on the eastern front

2011 will see Hungary and Poland assume the rotating EU presidency. Even if the presidency no longer has a direct role in setting foreign policy priorities or chairing the twice-yearly EU-Russia summits, the potential for things to get tense or outright wrong is clearly there. Hungarian Prime Minister Viktor Orban has been blowing hot and cold on Russia in recent months, most recently

demanding special terms for Eastern Europe in what he believes will be a forthcoming EU/Western-Russian accommodation. Poland's rapprochement with Moscow may last, but there are also indications Sikorski and Co are hedging their bets (it was the Polish foreign minister who got the European Commission involved in Warsaw's recent dealings with Gazprom).

On a somewhat larger scale, 2011 could lay the groundwork for the shape of things for years to come (if not decades).

A key question is what will become of the June 2010 Merkel-Medvedev initiative for an EU-Russia 'Political and Security Committee' (PSC). The Russian EU ambassador Vladimir Chizhov was quoted in the NYT on 18 October as saying "We want EU and Russia to be able to take joint decisions." There is (as yet) no corresponding EU vision.

A lot will depend on Germany's ability to manage the developments. Berlin's rapid rise to prominence among the shapers of EU foreign policy appears to reflect long term ambition. It further emphasizes the growing diplomatic emasculation of Brussels and EU institutions, something thrown into sharp relief by the trilateral French-German-Russian summit at Deauville in October. Symptomatically, no eastern EU member state was consulted by Berlin ahead of the PSC initiative.

### Drift to trilateralism?

The EU high representative for foreign policy, Catherine Ashton, looks increasingly marginalized. The common "song book" it is Ashton's job to enforce looks threadbare and increasingly out of date (however, one small imponderable in the equation could be the recent appointment of a Swedish diplomat to chair the meetings of EU CFSP ambassadors).

This suits Russia, which has for years tried to take the dialogue with the EU into areas where Brussels can't follow. Moscow's aim since 2008 has been to redraft the European 'security architecture' with the participation of the major Western allies. 2010 seems to have modified the plan somewhat. The US is no longer seen as pivotal for its purposes and the emphasis has shifted to the EU. The argument, most clearly expressed by Sergey Karaganov, boils down to the thesis that the EU and Russia need each other to matter on the world stage. This line of thought seems to suit the US, where Obama seems to have lost interest in Europe, appearing to prefer neutral regional stability to sharing decisions with allies on major matters of concern, such as Afghanistan. In a sense, this leaves Paris and Berlin without a viable alternative to reaching an accommodation with Moscow.

This is, once again, bad news for the EU – understood here as something more than the sum of its parts. The 'sovereignism' peddled by Russia with its focus on the UN and its Security Council may look like multilateralism, but is in fact something that can only erode the CFSP.

### Crystal ball

Meanwhile, the European Commission will be left to busy itself with matters such as the post-PCA talks, the four spaces, Russia's WTO accession and suchlike – none of which possess any first order importance.

Visa-free travel will remain the most predictably visible thorn in the side of any improvement in EU-Russia relations. Regardless of possible political shifts in EU capitals, the strict technical conditionality laid out by the European Commission should ensure that visa liberalization will remain a medium to a long-term prospect.

It is unlikely that there will be visible progress on any of the 'frozen conflicts' – if only because Russia would still stand to gain nothing from it. Even if Transdnistria should become a 'pilot project' for the EU-Russia PSC, any advances are liable to be limited to giving the EU a sense of engagement in the 'process' which will remain as open-ended as Moscow deems fit.

The conflicts in Georgia have already become an illustration of this. The Geneva talks have given the EU involvement, but its contribution is now in effect meaningless when it comes to the future status of Abkhazia and South Ossetia.

The aftermath of the presidential elections in Belarus could add an element of unpredictability to the EU-Russia relationship in 2010, as could Saakashvili's maneuverings ahead of the elections in Georgia.

Energy policy also retains a certain potential for generating discord. However, with the EU's own interests liable to remain underdefined in the foreseeable future, the game is still Russia's to give away (which Moscow most recently did in January 2009 during the transit conflict with Ukraine).

All told, as ever, 2011 will see a continuation of existing trends modified by the unforeseeable.



# RUSSIA and OECD

Kairi Saar

Russia was invited to join the OECD in 2007. On the 3rd of December 2007, Russia was presented the Roadmap for accession which specified the OECD enlargement process. According to the Roadmap, before becoming a full member of the OECD, Russia has to become a member of the WTO and complete accession reviews in 22 committees and working groups (Investment Committee; Working Group on Bribery in International Business Transactions; Committee on Fiscal Affairs; Chemicals Committee; Environment Policy Committee; Steering Group on Corporate Governance; Committee on Financial Markets; Insurance and Private Pensions Committee; Competition Committee; Committee for Scientific and Technological Policy; Committee for Information, Computer and Communications Policy; Committee on Consumer Policy; Economic and Development Review Committee; Committee on Statistics; Employment, Labour and Social Affairs Committee; Trade Committee and the Working Party on Export Credits; Public Governance Committee; Council Working Party on Shipbuilding; Fisheries Committee; Steel Committee; Committee for Agriculture; Health Committee).

The OECD has formed a Liaison Committee to conduct high level dialogue with Russia and has established an office in Moscow. From the Russian side an Inter-Agency Commission chaired by the Prime Minister is responsible for the accession process. The

establishment of the Commission has facilitated the OECD-Russia co-operation and has speeded up the accession process.

On the 25th of June 2009, Russia took the next important step in the accession negotiations and presented to the OECD the “Initial Memorandum on Position of the Russian Federation in Respect of the Acts of the OECD”. The accession reviews are based on this document and additional information gathered by the respective committee specialists.

Since the beginning of the accession process, statistics concerning Russia have been gradually included in the OECD statistical databases and currently more than 100 indicators covering a wide range of areas are available.

During the past three years the OECD has made several reviews and research papers on the Russian economy including “Towards a flexible exchange rate policy in Russia” (2009), “Product market regulation in Russia” (2009), “Russia’s long and winding road to a more efficient and resilient banking sector” (2009), and “Anti-corruption activities in the Russian Federation” (2009).

In 2011 the next Economic Survey of Russia will be prepared and as the accession process progresses, more reviews can be expected.

However, it is not foreseen that Russia will accede to the OECD in 2011 despite the progress already made. As Russia is a big federal country, the accession process is more complicated than in the case of smaller economies. Before Russia accedes to the OECD, it needs to reform many fields substantially, for example fight against corruption and ensure greater transparency.

The other four countries that received invitations in 2007 at the same time as Russia (Chile, Israel, Estonia and Slovenia) have by now completed their accession negotiations and will become full members by the end of 2010.

# RUSSIA'S ACTIVITIES IN PARLIAMENTARY ASSEMBLIES

Ivar Mölder

When the State Duma and Federation Council of the Russian Federation decided to send their delegations to international parliamentary assemblies, they indicated a desire to participate in cooperation, the protection of democratic values and human rights, and the discussion of issues related to foreign and security policy. At the same time, it appears that the goals and means here are somewhat different from those of the other states. An opposition to decisions adopted by a majority in one or another parliamentary assembly often shines through the comments and articles by the Russian politicians. It may be expected in 2011 that the Russian declarations will become somewhat more vocal – the State Duma elections are scheduled for December 4 and Vladimir Putin is to be re-elected (official) president in the near future as well. Moreover, in 2011 the 70th anniversary of the Great Patriotic War will be celebrated. To make declarations and resolutions with a specific content and for a specific purpose in order to mark such occasions has become a custom in Russia.

The State Duma has established permanent delegations to participate in the total of fourteen parliamentary organisations or assemblies; the Federation Council – in twelve. Most attention at the international level is paid to the developments in the

Parliamentary Assembly of the Council of Europe, the OSCE Parliamentary Assembly, and the NATO Parliamentary Assembly.

**The Parliamentary Assembly of the Council of Europe (PACE)** is undoubtedly the most important for Russia. The Russian delegation to PACE is headed by Konstantin Kossachev, who shapes the whole external relations of the State Duma.

The Russian delegation reacted to several resolutions adopted by PACE as an attack against Russia and considers the Baltic and Eastern European states as primary initiators of these attacks. Resolutions upon condemnation of crimes of totalitarian regimes, human rights in Chechnya and the report on the consequences of the Russian-Georgian war were especially painful. Answering to the criticism in the Russian media regarding the delegation's inability to protect Russia's interests, Mr Kossachev threatened with a possibility that Russia may leave the Council of Europe.

Such threats are likely to be repeated, should some "inconvenient" document make its way into the Assembly's agenda. The most pointed questions addressed to Russia concern the situation with human rights and the promise to abolish death penalty given in 1996 upon joining the Council of Europe. Russia employs lobbying and trivial bribery to keep these issues off the agenda. If some new scandal is uncovered in the near future, nobody will be particularly surprised: just remember the case of the British MP Mike Hancock this year or the 2007 scandal around the business interests of Rene van der Linden, the former president of PACE.

**The OCSE Parliamentary Assembly (OSCE PA)** has been recently dealing with issues that do not cause considerable opposition between delegations. The Assembly's discussions are more focused on its own role or regional co-operation than on the search for solutions to more difficult problems (e.g. frozen conflicts). Russia's showy declarations that challenged the functionality of the OSCE as an organisation and the talk about the necessity to create a new security architecture in Europe increase pessimism about the

future of the organisation. It has been in Russia's interests to remove human rights and protection of democratic values from the agenda and focus exclusively on security and arms control issues. Against the background of mediocre results that the Astana summit produced, Russia's criticism of the organisation's competence is likely to increase even more.

The Russian zest towards documents that provide an opportunity to criticize the Baltic States is usual. Thus, Russia heavily overreacted to a declaratory resolution adopted by the OSCE PA in Vilnius in 2009: "Divided Europe Reunited: Human Rights and Civil Liberties in the OSCE region in the 21st Century". Russia accused the assembly of equating fascism and communism. The Russian Ministry of Foreign Affairs sent instructions to the State Duma concerning the fight against falsifications of history at the level of inter-parliamentary ties and the preparation of a resolution praising the Soviet victory over fascism. The resolution could have been expected already on the agenda of the next plenary session of the OSCE PA, but it was obviously thought that the year 2011, when Lithuania will preside in the OSCE and the 70th anniversary of the Great Patriotic War will be commemorated, would provide a better timing for such a declaration.

A suitable question for prediction next year will be: Will the ODIHR send observers to monitor the elections to the State Duma in December 2011 and the Russian presidential elections in March 2012? As we all remember, this OSCE institution refused to monitor the previous elections. The chances for that are not exactly high – it is difficult to believe that the Russian government would cancel limitations it imposed on international monitoring missions and it would be strange for the ODIHR to accept such limitations now after it refused to do it last time.

The Russian delegation in **the NATO Parliamentary Assembly** (NATO PA) has a status of an associated member and has not been given a considerable influence in the organisation. After the 2008

war against Georgia the delegation has had a minimal representation with a right to participate only in the full Assembly sessions. Taking into account a rapprochement between NATO and Russia which occurred at the NATO Lisbon summit, the Russian delegation is likely to put forward more vocal demands to participate in the discussion of resolutions on the Assembly's agenda. Counter-terrorism is cited as an obvious example of constructive co-operation. It is possible that the Russian delegation will demand to forgo the resolution in support of Georgia as a pledge of warmer relations. Members of the Russian parliament have somewhat different understanding of co-operation. It is assumed that co-operation on security issues consists of one-way acceptance of the Russian demands.

## Conclusions

Particularly sharp confrontations in Russia-related issues are unlikely in 2011. At the level of parliamentary assemblies the contribution and role of Russia in the solution of common problems will be highlighted. At the same time, the Russian delegations have accumulated certain experience in coping with difficult issues. A possibility that more such issues will emerge due to blunt violations of human rights or unsolved high-profile murders certainly cannot be ruled out. Despite the inclination of the Western democracy to take into account interests rather than values, it is not possible to anesthetize it completely to the human rights issues. At the same time, Russia employs every opportunity to point a finger at its enemies in the agenda of different parliamentary forums, which perfectly serves its interests in domestic politics.

# RUSSIA and USA

Elvira Tulvik

The last prognosis made for 2007 was quite successful. 2007 was the time of relative quietness, with both countries mainly focussing on the preparations for 2008 elections. Russia has been taking advantage of the US's preoccupation with the war in the Middle East and its internal limbo with an unpopular president and the upcoming elections, and trying to mend the bridges with the EU 'Bigs' and hold on to the 'Smalls' all around its borders. The silent struggle over Iran continued and came to nothing. Interestingly enough, the picture is rather similar four years later.

2010 has been an extremely dynamic year, and although we are now approaching its end, the flood of important events that change the outlook for 2011 in unceasing. Still, since both Russia and the USA are now heading for the holiday season, reflection time may have finally arrived.

## Search for new perspective in the US

We should start by assessing the status quo in both states. In the US, the Democratic president is losing popularity by the day and has already lost Congress. The US is struggling to recover from the economic crisis that has brought high unemployment and both business and private insolvency. Speculations of the second wave of the crisis are abundant. Most of the energy is aimed at withdrawing

from Iraq and Afghanistan. What little is left is spared for handling the effects of the economic crisis and bracing for its possible second wave.

As 2011 progresses, however, it should be expected that the US will be regaining the perspective. This means that an eye shall be turned towards Europe again. Provided that the withdrawal from the Arabian Peninsula is successful, its hands will once again, after rather a long period, be untied, and we should expect to see much more attention turned to the state of affairs in Europe. The EU's 'big ones', France and Germany, will probably be approached regarding their relations with Russia. Increasingly uneasy Eastern European states will need a reassurance of support. Belarus, Ukraine and Georgia should receive some kind of a message regarding their options.

## Uncertainty in Russia

Uncertainty rules at the highest governmental level in Russia. There seems to be certain friction between the President and the Prime Minister, which, however, has not had any significant effect on the overall course of the country's politics. However, there is no calmness at the level of grassroots either. Every day brings news of social unrest in different regions for a myriad of reasons some of which are purely social, some economical, yet some are political, showing a growing dissatisfaction with the way the country has been run for the past years.

The upcoming presidential elections in 2012 make it probable for us to see the culmination to the Kremlin struggle, if it really exists, during the next year. Both the President and the Prime Minister have so far expressed their intent to participate in the 2012 elections.

At the same time, the social bubble is also about to burst and it just might do so during the election campaign. Still, in December



2010 the Khamovniki court is to announce the sentence to Mikhail Khodorkovsky, and that may just become the trigger that sets the protest loose.

## Rivalry

On the outside, Russia will try to take advantage of the US being preoccupied with internal and external problems and consolidate power around its borders. It will focus on Belarus, Ukraine, Moldova and Central Asian republics, as well as the Baltic States. The recent elections in Latvia opened the door for Russia to expand its influence there, and this is something to build on. Elections are approaching in Estonia as well. It is not at all certain that France and Germany would oppose Russia focussing on the Baltic States the way the US would. Therefore, unless and until the US finds time and energy to deal with these issues quickly, Russia will do all it can to gain an advantage quickly and to the maximum possible extent.

Rivalry is also probable in the Middle East. The US understands that in order for the troops pullout to be successful, it needs to stay on friendly terms with Iran. Iran is likely to be cooperative, at least for a while, since it would be rather pleased to see the American military 'out the door'. This mutual 'infatuation' will last until the troops pullout is completed. After that, however, things are likely to go back to the usual and Iran, being a key strategic player on the Arabian Peninsula, may offer its friendship to both the US and Russia, whoever is the highest bidder of the moment.

It is apparent that Russia did not get what it wanted at the last NATO summit. No agreement was reached allowing Russia to influence the ballistic missile defence plans either directly or through Germany or France. A new arms race was indicated both by Putin and Medvedev, and this should not be seen as an empty

threat. Although the Russian military is clearly outdated, undermanned and undersupplied, it is still nuclear and has enough power to wreak havoc at NATO's borders at least. And that would be just enough to create chaos all through the Western world. This is something that the US must avoid, and the beginning of 2011 will show how it plans to do so; taking into consideration that apparently missile defence plans are not negotiable in any meaningful way.

Therefore, two scenarios seem probable. Either a veiled, but rather forceful confrontation culminating towards the year-end, or a stand-off, worthy of cold-war containment, with much aggressive rhetoric on the outside, but in true essence aimed at buying time. Considering the stakes for both parties, the first scenario has better chances of occurring.

# RUSSIA and CHINA

Märt Läänemets

In general, in recent years the Sino-Russian relations have been developing in accordance with the forecasts. Either party values cooperation within the strategic partnership framework – a fact that has been confirmed at regular meetings between the heads of state and government. Although both parties talk about mutual interests and equality – the so called win-win principles, in practice China appears to be a more powerful party which is getting stronger in this partnership. It has been little by little, but firmly forcing Russia to make steps which are more beneficial to China. For example, an annex to the 1991 border agreement came into force in 2008 by which Russia conceded two small islands on the Amur river to China. Considering Russia's extreme sensitivity and inflexibility in border disputes with other countries, it must be seen as a very significant precedent. The framework programme of co-operation in regional development until the year 2018, which was signed in 2009, may be considered a similar sign. This programme covers 158 sites in the border areas of Russia's Eastern Siberia and Far East and various Chinese companies specialising in woodworking, road and infrastructure construction, agriculture etc. In Russia's parlance intended for domestic consumption, these activities are supposedly aimed at the development of Siberia and the Far East in order to bring the living standards and well-being of the local population up to the level of the European part of Russia by attracting the resources and investments of the neighbouring Asian states to this

purpose. On the other hand, it can be construed as a hidden and forced legalisation by Russia of the growing Chinese expansion which has continued for twenty years already. Russia's independent experts justly consider this expansion the greatest threat to the sovereign and national integrity of Russia in a long-term perspective.

**Energy co-operation**, the growth of mutual trade, and security have been the most important issues in the bilateral relations. Concerning energy co-operation, we may even speak of a certain breakthrough. During the meeting of the Russian and Chinese presidents in Beijing in September 2010 the Skovorodino-Mohe-Daqing oil pipeline, a branch pipeline of Transneft's Eastern Siberia – Pacific Ocean oil pipeline, was solemnly opened. China is expected to receive annually 15 million tons of crude oil through this pipeline starting from 2011. A natural gas supply contract was also signed. The issue of natural gas price has not been settled yet. Russia wants to sell at the same price it is selling to Europe, but China demands a discount. Since this price dispute is negotiated by the world's biggest exporter of energy sources and one of the world's biggest and increasingly energy-thirsty consumer, the result of this dispute is likely to influence oil and natural gas prices in the global market. The price issue is also unresolved for electricity which Russia is ready to sell to China in much larger amounts than now. It is likely to be settled in the next year, because the target figures of electricity supply have been already fixed for the period until 2020 and are expected to reach 60 billion kilowatt-hours per year by that time (up from 900 million in 2009). Nuclear energy has become an additional important aspect of energy co-operation, covering the construction of nuclear power stations and uranium-enrichment facilities in China with Russia's assistance.

**Trade** between Russia and China grew rapidly in 2007–2008, rising from USD 33.4 billion (2006) to USD 56.8 billion (2008) with Russia's exports to China growing at a faster pace than the other way round. China has become Russia's third biggest trade

partner, but for China, Russia is only the eighth biggest partner. In 2009 the volume of trade dropped drastically (by 33%). The biggest loser was China with a drop of 47% (11% for Russia). In the short-term perspective, Russia is a winner because it is currently running the 8% trade surplus. In 2010, trade grew again for both parties, but the final figure is expected to reach only USD 46 billion which is significantly lower than the pre-crisis level. In 2011, the trade is predicted to rise to USD 60–62 billion, after three years – to USD 80 billion. As Russia is expected to increase significantly its energy exports to China and taking into account conservative estimates of purchasing power in the Russian market, Russia is likely to run even greater trade surplus in 2011. In November 2010 an agreement was reached between the prime-ministers about the transition to direct trade settlements in roubles and yuans in bilateral transactions between Russia and China, thus cancelling the use of USD or other foreign exchange as an intermediate currency. A stronger Chinese interest may be noticed behind this step as well, because it allows China to economize on its stronger currency in the conditions of trade deficit. The volume of the Sino-Russian trade is relatively small compared, for example, to China-USA transactions and this step cannot be deemed a serious challenge to USD as a world currency. Low mutual investments are considered the biggest shortcoming in economic co-operation. Currently, there are no specific programs or projects to increase investments substantially in 2011, but there is some talk of the need to invest jointly into technology development (technology parks). China mostly invested in Russia in the form of loans, of which the largest were provided to Transneft and Rosneft for the development of oil production and transportation systems.

In the area of **security**, the tactic of cautious negotiations continues. A distant objective for both parties is to diminish the influence of the USA as the only great military power in the region, though both are aware that they lack the means to achieve it in the

near future. In this context, China's actions should be viewed from a long-term perspective in which it uses Russia to serve its interests. Russia's importance for China as a supplier of weapons was declining during the 2000s, because China does not need so many outdated Russian conventional weapons as before and focuses on the acquisition of the latest technologies that Russia is unable to offer. Joint military actions (exercises) in 2011 will remain very limited in scope and of rather symbolic importance, just as before. The importance of security issues in the near future is likely to rise in the framework of the Shanghai Cooperation Organisation (SCO), where the security will be more tightly linked to economic cooperation. Heads of the member-states of SCO spoke to that effect at their latest summit in November 2010. India, Iran, Pakistan and Mongolia joined SCO as observers. This organisation should be viewed as a manifestation of efforts undertaken by the states in Asia-Pacific region looking for closer relations and alternative forms of cooperation alongside other cooperation organisations such as APEC, ASEAN and BRIC. In the Russia-China-India triangle separate attempts at closer relations may be noticed as well, which was confirmed, for example, at the meeting of the ministers of foreign affairs of the three states in November 2010 in the Chinese city Wuhan.

**On the whole**, the Sino-Russian relations during the last couple of years and in the near future (2011) may be assessed as stable, without drastic breakthroughs or failures in the past and in the foreseeable future. A political game is going on with a soft domination by China, whereas Russia's role is largely reduced to the manipulation of technical issues (e.g. prices of energy sources) within given limits and for the sake of Russia's short-term benefits. However, both states certainly need stable and friendly bilateral relations at the moment, because either party as a big regional power needs the help of the other to preserve and expand its influence (especially China).

# RUSSIA and JAPAN

Akio Kawato

## International environment

The international environment around the Russo-Japanese relations will be as follows.

The Russo-American relations may be “re-reset” toward the direction of cooling down, because, most likely, the new START treaty will fail to get approval of the Congress as a result of the Democrats’ failure in the last mid-term election. In view of the fact that Russia will face a presidential election within a year, Dmitri Medvedev will have to save his face by hardening his position toward the U.S.

Russia in such an entrenchment policy will further promote its relations with China (in a sense it is tantamount to dependence on China in view of the colossal gap in economic and demographic strength of both nations). As long as the American economy does not fully recover, China will maintain its hard line toward the U.S., too. China misunderstands the nature of the world economy, thinking that China can prosper without the American market. And the ever progressing inflation will force the Chinese leaders to harden political and economic control.

In other words policies of both Russia and China will converge, largely regressing into their communist past; control by the party and the government will be strengthened, properties even more

seized by privileged officials, political freedom limited, and their foreign policies more anti-Western. Russia and China will form a quasi alliance of authoritarian states to defend the interest of those privileged against the encroachment by the West, ushering a small Cold War.

That is the general framework in which Japan and Russia will have to act.

### Japan will keep lacking in strong leadership

Japan will fail to have a stable and strong government in 2011, too. However, its economy will not suffer from it too much, because private companies possess a huge financial and technological reserve, and because monetary policy is in the hands of the relatively independent Bank of Japan.

A weak government will not have sufficient political resources to address such an intricate issue as the Northern Territories issue; any Japanese leader who attempts to seriously tackle this issue will be stopped by voices saying that Japan should wait until its political and economic strength has will recovered. Instead it will be more pertinent for Japan to strengthen its ties with NATO and the countries of NIS, if it wants to improve balance of power *vis-à-vis* Russia, though Japanese leaders will lack in the capacity to implement such complex foreign policy.

As a result of all these Japanese prime minister will not make an official visit to Russia in 2011, although prime minister Prime Minister Kan has been invited by Medvedev in their meeting in November, 2010.



## Russia will sacrifice Japan for the sake of the presidential election

Russia will attempt to go back to the hard position during the Soviet era with regard to the Northern Territories issue (the Soviet Union even denied this as an issue). They now believe that Japan is in a weak position with its permanent economic stagnation, political instability and recent confrontation with China over ownership of tiny islands off the -shore of Taiwan. They have already found out that the Japanese businesses invest their money and bring technology to Russia regardless how the negotiations on the territorial issue are going. Even if the Japanese do not come, Russia can survive with the money and advanced technologies from China and South Korea.

Thus, Russia believes that they now can dispense with the Japanese government and a solution of the territorial issue. With a view of the coming elections the Russian leadership will showcase the neglect of Japan to demonstrate to their voters how they vigorously defend their national interest and pride.

Japan will try to prevent this regress, and during the course of a tit-for-tat diplomatic battle between the two governments Russia will resort to a harassment of Japanese fishermen around the contested four small islands, effectively negating the treaty on fishing rights (1998).

## Japan's FDI in Russia

Notwithstanding the stalemate in the political relations the Japanese business will continue its advance into the Russian market. Many automobile companies have already built their factories in Russia. However, Toyota will face a hard decision whether or not to keep their production in Russia; its workers constantly leave for

better-paid factories, and the local contents hurdle will be substantially leveled up. Nissan-Renault is now considering a large investment in the Russian car maker AvtoVAZ, but it will not get a financial support from the Japanese government.

## Japan's energy import from Russia

Notwithstanding the stalemate in the political relations Japanese government will not interfere in the growing import of oil and natural gas from Sakhalin and Siberia. Imported natural gas from Sakhalin will occupy about five percent of Japanese domestic consumption, and the crude oil from Siberia is highly appreciated by the Japanese refineries because of its shorter transportation period and better quality as compared to the Middle East oil.

This will not bring about Japan's dependence on Russia's political whim, because Japan is a better customer for Russia as compared to China which tends to demand lower prices.

## Military affairs

The friendly exchanges between military personnel of both countries will continue, whereas Russia will not stop its hostile "reconnaissance" flights close to Japan's airspace. Russia's military might in the Far East is much weakened, but its development of S-500, effectively an intermediate-range missile, will become a matter of concern for Japan, China and both Koreas.

## Conclusions

All in all the relations between Japan and Russia in 2011 will proceed without particular positive developments and they will be in a general descent.

# RUSSIA and NORDIC COUNTRIES 2011

Madis Kanarbik

The following piece of writing about the possible development between the Nordic Countries and Russia in 2011 is mainly based on the strategic documents of the Nordic Council of Ministers (NCM), which are directed at the cooperation with North-West Russia. Primarily the following programmatic document should be mentioned: Guidelines for the Nordic Council of Ministers' Co-operation with North-West Russia 2009–2013. The Guidelines form the basis of co-operation with North-West Russia and were approved by the Nordic ministers for co-operation in autumn 2008.

The goal set in the guidelines of the NCM, concerning the relations with the Russian Federation (RF), is to achieve a tighter cooperation primarily with North-West Russia, which includes the Arkhangelsk and Murmansk Oblast, the Republic of Karelia, the Leningrad Oblast, the city of Saint Petersburg, the areas of Pskov and Kaliningrad. The activities of the NCM concerning North-West Russia are very much guided by the same principles and goals that are mentioned in the given series of issues in the 2007 prognosis: the co-operation focuses on strengthening democratic social development, strengthening cross-border contacts and improving conditions for economic co-operation and trade. The central areas for co-operation are education, research, innovation and the environment, climate and energy. The NCM also wants to use co-operation with

the RF to develop the Baltic Sea Region (BSR) into a highly competitive European region. The co-operation with North-West Russia is of particular significance for the NCM, as the RF is the largest neighbour of both the Nordic Region and the EU. Developments in the RF therefore affect the stability and security in the Region as a whole.

### Target area: North-West Russia

The NCM's co-operation with North-West Russia is closely linked to the EU's policies for co-operation with Russia, especially the Four Common Spaces. The co-operation shall also be seen in the context of the EU's Baltic Sea Strategy. This guarantees that Russia plays an active role in the co-operation in the BSR. The NCM's instruments for co-operation with Russia include: the Knowledge and Networking Programme, participation in the Northern Dimension's Partnership, co-operation with NGOs (the NCM's NGO programme), cross-border co-operation, co-operation through the Nordic institutions as well as co-operation with other regional players, such as the Barents Euro-Arctic Council, the Council of the Baltic Sea States and the Arctic Council. The priority areas for cooperation within the Northern Dimension's partnerships are the Partnership for Public Health and Social Well-being, with a particular focus on combating human trafficking and the spread of HIV/AIDS (which also takes into consideration the efforts being made in other forums, especially the work conducted under the auspices of the Council of the Baltic Sea States), and the Environmental Partnership. Fundamentally, Nordic-Russian co-operation is seen as a partnership on an equal footing, where each party covers its own costs.

The implementation of projects and other activities in North-West Russia is mainly carried out by the NCM's Information Offices

in St. Petersburg (founded in 1995) and in Kaliningrad (founded in 2006). To develop the cooperation further, the St. Petersburg Information Office of the NCM has opened up branches in Petrozavodsk, Murmansk and Arkhangelsk. The NCM's Information Offices are catalysts for Nordic–Russian co-operation; they cooperate closely with the Nordic diplomatic representations and coordinate joint Nordic initiatives. The aim of these offices is to help tighten the relations between the Nordic Countries and the RF, to introduce the NCM's grant- and scholarship programs, and to arrange events that introduce the Nordic region to the RF. The Information Offices co-operate with the NCM's Secretariat in Copenhagen to identify development opportunities for Nordic-Russian co-operation. The country of presidency of the NCM in 2011 is Finland.

### Role of the Baltic States

The Nordic Countries see an important role of the Baltic States in the cooperative relationships with Russia. The NCM is supporting the cooperative projects in Russia, which incorporate both the Nordic and Baltic countries, one of the examples being a project launched by the NCM's Office in Estonia “Communicating Entrepreneurship in the BSR” 2008–1010. This kind of cooperation might probably at first be considerable primarily on the regional and cross-border cooperation level, based on good examples of triple helix model of cooperation between institutions of education, local and regional governments and business. In the above mentioned context it is probably easier to find opportunities of cooperation on a regional level, and mainly in fields and projects that would involve, as equal partners, the Nordic and Baltic Countries and Russia. The opening of EU programmes, in addition to the NCM's Knowledge

and Networking Programme, serves as a good basis for this kind of cooperation for the coming years.

In 2011 the RF will in a broader perspective probably continue to concentrate on relations with bigger international players than the United States and the European Union, while the cooperation with the Nordic Countries, being a joint neighbouring geographical and economical region, will also likely continue to interest Russia. From the Nordic Countries' side it has primarily to do with creating opportunities for closer cooperation in various fields, the most important of which are education, research, innovation and the environment, climate and energy, but also activities related to the actions of children and young adults, drug prevention and other such fields belonging to the social sphere that are mutually beneficial, and where it is easier to discover the common junction points on the basis of specific projects. Likewise, the cooperation of creating economic relations between small and medium-sized businesses is readily supported. Hence it might also be of interest to develop cooperation with the Baltic States, which have during the past 20 years gone through a fast development, and being members of the EU, may turn out to be useful cooperative partners in cross-border and regional cooperation with North-West Russia.

In conclusion, we can hope that the stable development of the relations between Russia and the Nordic Countries during recent years will continue in 2011 and in the coming years. It is likely that Russia sees a good partner in the Nordic Countries for cooperation with the European structures. Frequent cooperation with the Nordic Countries might also have positive influence on the relations between the RF and the Baltic States, being members of the EU and thus influencing a closer cooperation in the BSR. The relations with the Nordic Countries might also keep Russia interested, because, although they all form a friendly unitary family, some of the Nordic Countries have tied themselves with NATO, while some of them have not; likewise, some of them have joined the EU and Euro-

## RUSSIA and NORDIC COUNTRIES

zone, some have not. This diversity might offer Russia good-neighbourly cooperative relations in a very wide variety. A potential basis for the relations with the Nordic Countries is also Russia's economic interests regarding the BSR, where all the countries of the region have their specific interest. Significant reasons for major conflicts in 2011 on the other hand are hard to be found, and thus it could be safe to assume that the co-operation between Russia and the Nordic Countries will continue steadily.

# RUSSIA and ARCTIC REGION

Dmitri Lanko

2009 was the least successful year in terms of Russian policy in the Arctic Region throughout the last decade. The reason was purely pragmatic: global financial crisis left little resources for Russia to launch any initiatives in the Arctic Region comparable to those of the previous years, among which one should first of all mention the 2007 expedition to the Lomonosov Ridge. The Arctic Region has never been a top priority of Russian foreign policy; as a result, Russian government agrees to finance any policy initiatives in the Arctic only in the case when it is sure that its policy initiatives in other regions, more important from the point of view of Russian foreign policy, are properly financed.

In fact, the Arctic Region is not a foreign policy priority for the Russian Federation at all; rather, there are two different policy priorities that concern the Arctic Region: Russian policy towards North America and Russian policy towards Europe. Both concern the Arctic, but Russian Arctic initiatives in the framework of Russian policy towards North America do not necessarily correlate with Russian Arctic initiatives in the framework of Russian policy towards Europe. Russian Arctic initiatives of 2010 are a good illustration here: while there was a significant breakthrough in the European dimension of Russian policy towards the Arctic Region, there were no changes in the North American dimension.



## Norwegian breakthrough

The significant breakthrough in the European dimension of Russian policy towards the Arctic Region achieved in 2010 is the Russian-Norwegian Treaty on delimitation of the sea and cooperation in the Barents region and in the Arctic. The Treaty ended the four-decades-long territorial dispute between the Soviet Union and Norway and the Russian Federation and Norway over the so-called 'grey zones', which are now colored into Russian and Norwegian national colors. The Treaty also established legal background for large-scale cooperation projects of Russia and Norway in the Arctic, like cooperation on the Shtokman oil and natural gas field. Besides improving the relations with Norway, in 2010 Dmitry Medvedev visited Iceland for the first time.

In 2011 Russian strategy concerning European dimension of its Arctic policy will remain the same: it will be aimed at preventing the European Union from achieving full-scale access to the resources of the Arctic Region, including both mineral resources and fisheries. That will be attempted via improving cooperation with non-EU nations of the European North. As the global financial crisis is coming to an end, Russia and Norway will find the capabilities to continue practical cooperation on the Shtokman oil and natural gas field. Russia will keep an eye on the Europeanization of Iceland with concern. Most probably, leaders of the Communist Party of the Russian Federation will be granted the honor to express that concern. Russia will also keep an eye on secessionism in Greenland.

In 2011 one can expect new initiatives in the North American dimension of Russian policy towards the Arctic Region. Those initiatives will concern Canada rather than the U.S. First, the U.S. Arctic policy mostly concerns the easternmost part of the Arctic Ocean, which is not a top Russian priority in the Arctic. Second, Russia is vitally interested in joining the World Trade Organization,

to which the U.S. is the main obstacle from the Russian perspective; thus, Russia will not sacrifice its possible admittance to WTO to territorial disputes with the U.S. over Eastern Arctic. Third, though the U.S. and Canada have very close interests in energy issues, their approaches differ greatly in the case of such important aspect of international politics in the Arctic as global climate change.

### Geopolitical concepts

Finally and probably most importantly from the point of Russian political elite, the Lomonosov Ridge is not only a part of Russian continental shelf, but its other end can be considered a part of Canadian continental shelf. For Russian political elite, among whom geopolitical concepts are of great importance, it is a good reason to improve relations with Canada, which, first, shares the same geopolitical problem and, second, can be considered a more comfortable alternative for partnership in the Arctic region than the U.S. In 2010 Dmitry Medvedev visited Canada on the occasion of the G8 summit; in 2011 one can expect Canadian Prime Minister Stephen Harper to visit Russia, if domestic disputes with the opposition allow him to.

Geographical proximity remains the basic principle for the formation of Russian foreign policy initiatives concerning the Arctic Region. In other words, the major part of Russian political elite remains being convinced that only those countries, which have direct access to the Arctic Ocean, namely Russia, Norway, Iceland, Denmark via Greenland and the Faroe, Canada and the U.S., must be considered important actors in Arctic politics. This principle does not consider Arctic ambitions of non-Arctic states, like China and Japan, as anything serious. At the same time, some representatives of Russian political elite have noticed similarities between Arctic and

Antarctic policies of great nations, including that geographical proximity does not work in the Antarctic.

In his annual address to the Federation Assembly in late 2010 Dmitry Medvedev called for the establishment of a common economic space in whole Eurasia, from the Pacific to the Arctic Ocean. Russian political elite views the role of Kazakhstan in finding peaceful solution to the distribution of the Caspian Sea's resources very positively. That experience of cooperation in the Caspian Sea Region can be used in the Arctic Region as well. In 2011 Russia will invite Kazakhstan to establish a joint cooperation project in the Arctic Region. Being the first step, that project will be a small one. At the same time, that project will become a part of Russia's response to Chinese and Japanese ambitions in the Arctic Region.

To conclude, in 2011 Russia will continue improving its relations with non-EU nations of the European North, including joint projects with Norway and a new agreement with Iceland in the field of fisheries. Russia will also improve the innovative aspect of its cooperation with Canada, also mentioned in Dmitry Medvedev's address to the Federation Assembly in 2010. Russia will try to involve Customs Union members, first of all Kazakhstan into projects in the Arctic in order to strengthen cohesion among its allies facing rising Arctic ambitions of China and Japan. However, these three dimensions of Russian policy in the Arctic Region will remain uncoordinated. What will not be done in 2011 is establishment of a unified Russian policy in the Arctic Region.

# RUSSIA and GERMANY

Kalvi Noormägi

A prediction in the previous forecast that the Russian Federation wishes to negotiate with the big European countries directly may be confirmed without reservations. Strengthening of economic relations also continued as predicted.

The German-Russian relations have been traditionally good and have developed on the basis of a strategic partnership. Their position in the system of international relations is also similar: both states are in the process of formulating a strategy for the next decade.

## Germany as the representative of the EU

Germany is still adjusting itself to the role of the EU representative and simultaneously trying to cope with its changed role in the world where much more is expected from Berlin than it is ready to give today (military missions). Berlin has moved traditional goals – European integration and Trans-Atlantic partnership – to the background. Gerhard Schröder, who started this process at the beginning of the century, called it “normalisation”.

Also, a change of generations is taking place in German politics: the new elite are more Russian-friendly. Although significant political changes are unlikely in 2011, regional elections in the German states are very important. If the CDU continues to lose, it may result in the decline of Angela Merkel’s power or even disintegration of

the governing coalition. Free Democrats, a coalition partner, have been weakened by a chronically low voters' support (5%, or the election threshold). Karl-Theodor zu Guttenberg, the German defence minister, who is enjoying the biggest popularity in the polls, may become the first federal chancellor from Bavaria, but it is too early to discard Angela Merkel – as her career in the CDU demonstrates, she has been often underestimated as a politician.

Russia is still betting on bilateral relations, reaching out to Berlin and Paris if necessary. An important development in 2011 will be the start of the presidential election campaign in Russia, where Vladimir Putin is expected to decide whether to turn the power vertical upside down by running for president again or continue (formally) as prime-minister, seriously undermining the power of the presidency.

Angela Merkel wants to support Dmitri Medvedev as a more pragmatic and democratic leader by way of keeping good relations with Moscow (Ms Merkel has never publicly criticized Medvedev). A good intention it may be, but it ignores the fact that the Russian political tandem is currently controlled by the prime minister.

### Speaking softer

Ms Merkel's manoeuvres have secured for Germany a position where Moscow listens to Berlin. Reasonably measured criticism which comes from Berlin now and then is also swallowed up (in June Ms Merkel demanded a solution for the Transnistrian conflict and, in August, withdrawal of the Russian military units from Georgia), but is at least being listened to. Ms Merkel has not outright abandoned the interests of the EU member-states by making compromises with Russia (from time to time Warsaw is invited to the so called triangle to take part in discussions on security issues), but economic pressure has been constantly growing. At the

same time, Ms Merkel's tone toward Russia has softened. It was roughed up for a short while in the aftermath of the war against Georgia, but Ms Merkel's principal argument has always been the necessity to talk, even in the deepest crisis. Thus, there is a trend in Berlin towards the constant improvement of the relations.

Germany is not a geopolitical danger to Russia – a fact that explains the well-functioning relations between the two. Russia has also realised that by being polite to the big states in the EU, it is likely to get what it wants.

Russia will continue to apply pressure to the EU to introduce a visa-free travel; the proposal was put forward by Putin already in 2002. German institutions are divided on the question of how quickly they should proceed with this issue, but the government appears to be rather in favour of the visa-free travel.

A debate on foreign policy in Germany has remained limited in scope. One reason for that lay in the grand coalition where the social democrats and conservatives agreed upon joint actions, thus eliminating many public debates in the bud. Opinions on foreign policy of the Greens and the left-wing Linke party are not particularly vocal. In the second Merkel government with Guido Westerwelle as Minister of Foreign Affairs, the Chancellor herself took charge of foreign policy to a large extent. It was also caused by the unpopularity of Mr Westerwelle.

On the basis of the trends described above, in 2011 the following may be expected in the German-Russian relations:

1. the relations will continue to improve;
2. the incumbent German government will start supporting the introduction of a visa-free travel with Russia;
3. Germany will gradually engage Russia in the European-Transatlantic security architecture, attempting by such a solution to cancel the option Europe vs. Russia;

## RUSSIA and GERMANY

4. the extent of economic ties between Russia and Germany will continue to expand; a significantly increased amount of Russian capital investments will be coming to Germany.

# RUSSIA and ITALY

Villu Varjas

The bilateral relations between the Russian Federation and Italy are often equated with the friendship between the leading figures of the two countries – Vladimir Putin and Silvio Berlusconi. Although this friendship has probably served as a catalyst of many developments between Russia and Italy, the analysis of the current processes and their time span shows with an ever-growing clarity that the Russian-Italian relations will be strengthening even if one of the two leaders disappeared from the picture for whatever reason.

The last forecast (2007) mentioned two developments of higher importance: common activities aimed at conflict resolution at the international level and a stable development of the bilateral economic ties. Co-operation on conflict resolution has not been exactly remarkable, but the economic ties have been developing on a very stable basis in the recent years. The economic crisis caused a short-lived downturn in the bilateral trade which by now has already recovered and moved again into positive numbers.

## Energy and technology

The sustainability of Russian-Italian relations becomes relatively clear from the review of developments in the recent years and the current state of relations. Taking 2010 as a benchmark, we see abundant signs of strengthened relations. Among the most important



of them is a renewed co-operation on nuclear power. Enel, a partly state-owned Italian energy consortium and the biggest energy provider in Italy, has been an active actor in the Russian energy dealings for the last couple of years, and a project of Berlusconi's government to revive nuclear power production in Italy within the next ten years only cements this relationship.

Another important event in the bilateral economic relations was a memorandum of understanding signed by and between the Russian Railways and Finmeccanica, a partially state-owned Italian industrial conglomerate with stakes in space and defence technologies. According to the memorandum, Finmeccanica will equip 100 railway stations, 100 trains and 50 railway lines in Russia with the required infrastructure by 2020; the preliminary estimate of the contract price is 1.5 billion Euros. This agreement is also one of those developments that strengthen the friendly foundation of the Russian-Italian relations. Like several other companies in the same conglomerate, Finmeccanica is not a novice in the Russian market.

In addition to these two obvious manifestations, a remarkable number of conferences and meetings took place between the representatives of the two states in 2010. The dominant issue at these events was the modernisation of Russian industry and infrastructure. The above mentioned memorandum on the upgrade of railway technology perfectly falls into this category too. On the other hand, the Russian investors are also interested in the Italian market, in particular, in the metalworking industry.

### Network of economic ties

Putting these events in a broader context, the bilateral relations between Italy and Russia may be largely boiled down to the economic ties. What is important here is that not only a small part of the political elite or exclusively big companies are behind these

relations. Bilateral co-operation is taking place at every level, for example, in the field of energy between the Leningrad oblast and Saint Petersburg and the Italian region of Lombardy.

The review of the Russian-Italian relations in 2010 provides a solid base to predict the events in 2011. Until now, the bilateral relations have been pretty much steadfast and free of significant obstacles; it is difficult to see why it should change in the next year. Italy is officially among the privileged partners of Russia which implies that the parties do not easily criticise each other in matters of no mutual concern.

One question mark for the next year is the Italian domestic politics. The third Berlusconi government is very unlikely to survive until the end of 2011. However, it should not significantly affect Italy's relations with Russia. Russia is an important partner for Italy irrespective of the current occupant of the prime-minister's office. For example, the previous prime-minister Romano Prodi was offered a cushy job in the management of South Stream.

### Three developments

It is difficult to make any striking predictions for the next year, but three important issues or developments may be pointed out in Russian-Italian relations. The first has a lasting impact and is rather a continuation of the previous year. As modernisation is a topical issue in Russia at the moment, at least part of the conferences and meetings that took place in 2010 might later translate into more specific agreements. Bilateral meetings in search of joint solutions to Russia's modernisation problems are also likely to continue.

Another issue concerns the Russia-EU travel arrangements, i.e. a visa-free travel. It would be a major factor in the development of tourism, because Italy is one of the most popular destinations for the Russians in Europe. At the same time, the current regulations and

bureaucracy are an impediment to longer stays and, thus, negatively affect the conditions faced by the Italian companies in Russia. A visa-free travel to Europe is a well-known objective of the Russian foreign policy. Italy is likely to become a strong ally of Russia inside the EU, because Italy's interest in the visa-free travel is as big as Russia's.

The third issue is cultural co-operation. The year 2011 has been declared the Year of the Italian Culture and Language in Russia and the Year of the Russian Culture and Language in Italy. Although no fast changes may be predicted in this field, the example of some Italian universities gives us grounds to believe that cultural co-operation will result in a broader mutual representation of the two cultures in the educational system. In other words, there will be more opportunities for studying Russian language and culture.

### Conclusions

Economy is the foundation of Russian-Italian relations and both parties are likely to continue the further development of economic ties in 2011. It will proceed without remarkable upswings, but will not be hampered by setbacks either. At least one of the next few big public procurement contracts in Russia is very likely to be awarded to an Italian company. Both parties would welcome a visa-free travel between the EU and Russia and continue to promote this issue strongly in 2011. Cultural projects are like icing on the cake, but they will certainly help to improve the image of both countries in the eyes of the general public.

# RUSSIA and SPAIN

Hendrik Lõbu

Russian interests in Spain are simple: To secure the market for its gas and to keep Spain's foreign policy oriented on France and Germany (read: anti-USA orientation). In the last four or five years it has been quite effective. To predict developments in 2011 we should at first make a quick flashback. In my opinion, there have been two aspects that have created the contemporary basis for Russian-Spain relations: 1. Gas treaties 2. Eastern policy of the EU and NATO.

**Energy.** On July 2, 2008 an agreement was signed between Gazprom and Spanish concern Gas Natural to trade liquefied natural gas (LNG) cargoes and it could be extended to include power, carbon and pipeline gas trade. On March 4, 2009 Gazprom and Gas Natural signed a memorandum of mutual understanding in Madrid during the Russian President Dmitry Medvedev's state visit to Spain. An Energy Agreement gave Spanish companies greater access to Russian fields and simplified made it easier for Russian companies to buy stakes in Spanish energy companies. In January 2010 while taking over the European Union Presidency, Spain declared energy ties with Russia as one of its top priorities. Spain has never seen energy dependence on Russia as a security issue. (In the last decade Spain's main energy supplier for gas and oil has been Algeria (45–50% of total import). From Spain's gas import holds Russia, together with Nigeria and Mexico (14-15% of market), holds second to fourth position in Spain's gas import together with Nigeria

and Mexico (14–15% of market), while the import of the Russian oil has been quite minor. In coming years Russia's share in Spain's gas and oil market is expected to rise significantly. On the other hand, Spain gets 28% of Uranium for its nuclear powerplants from Russia.).

**East.** Spain has been traditionally skeptical about the EU Enlargement to the East; the and that process has been seen as a threat for different adjustment programs that the EU has granted for the Mediterranean countries since early 1980s. While Russia and Spain do not have any major clashes of political interests, thereof Russia is using Spain's mistrust towards Eastern Europe in its own interests quite well. Mutual understanding between Russia and Spain has grown in accordance with traditional anti-American sentiments of Prime Minister José Luis Rodríguez Zapatero's Socialist Party and Spain's different rhetoric on Kosovo and Georgia (non-recognition of Kosovo and ignoring problems with Abkhazia and South Osetia).

### **Developments in 2011**

1. Russian State and Spanish oil companies will continue bilateral talks over the conditions of joint exploitation of oilfields in the Barents Sea. The project involves the Stokman field, which is hoped to be launched in 2014; and there are also continual talks over the development of Russia's Yamal gas field (Repsol and Gazprom).
2. In 2011 Spain will lobby more and more for visa freedom for the Russians who want to visit the EU. Economically desperate Spain is trying to attract more Russian tourists to visit Spain, which perfectly fits with Russian interests on abolishing the EU visa system.
3. Russia will continue influencing Spain to oppose NATO's enlargement to the East and Spain will stay skeptical on European Neighbourhood Policy in Post-Soviet space.

4. Year 2011 is declared to be official “Year of Spain” in Russia and “Year of Russia” in Spain. There will be held more than 700 different events will be held in both countries. I am sure that this will involve substantial Russo-Spanish interactions through some mutual high-level state visits. Developments in the “soft” dimension of policies will be part of president Medvedev’s wider strategy to strengthen Russia’s positions in the West. Growing cultural interaction between two countries will amend Russia’s reputation in Spain’s public opinion.
5. Considering the forthcoming Spanish parliamentary elections in 2012, Spanish government tries to show itself as a saviour of its economy by imposing active measures in foreign economic policy on securing strong positions in the growing markets. New investment opportunities on the Russian market and gas deals with Russian oil companies will give exactly the kind of expression of Zapatero’s cabinet to Spanish voters. Presumably, the Russian policy-makers are aware of this and use it in their advantage to design Spain’s foreign policy even more acceptable for Russia’s interests.

## Conclusions

In the coming year we will see more cultural and economic cooperation between Russia and Spain than before. There will be one or two high level state visits in both countries to facilitate economic relations. It would be very interesting to see how the would Wiki-Leaks disclosures will affect Russian-Spain relations. (During November 2010 it has evoked a great public shock in Spain. The leaks have cast light upon the relations between Spanish business elite and politicians and upon secret deals between the ruling Socialists and the emissaries of The White House. Allegedly there have been over 1,600 documents revealed about Spain.)

# RUSSIA and THE BALKANS

Mart Nutt

Russia's relations with the Balkan states are difficult to assess from a single-year perspective. Since these states do not immediately border Russia but have strong historical ties with it, the Russian policy in the Balkans can rather be characterized as strategic and planned for a longer time-frame.

Much depends on the priority that Russia assigns to the Balkans compared with other regions and on the extent of Russia's resources available for this direction of policy. The Russian economic and geopolitical interests in the Balkans will remain considerable in the future as well. In Russia's European policy framework, the Balkans might even occupy the second or third place after the so-called near-abroad (in that case, Scandinavia would be on the second place).

From the Russian perspective, the ongoing integration of the Balkan states into the European-Atlantic system means the decline of Russia's influence.

It is true that Russia never publicly opposed any Balkan state's joining of the European Union. However, it is clear that Russia would prefer Serbia and Montenegro to stay outside the EU. It is very likely that Serbia will have to accept Kosovo's independence in order to become a member of the EU, something that Russia will not like. To become a member of the EU, Serbia is very likely to be forced to accept Kosovo's independence, something that Russia would not like.

Russia's public stance on NATO enlargement is different. Russia has stressed opposition to any kind of NATO enlargement. Although NATO membership of the Western Balkan states annoys Russia to a lesser extent than NATO membership of Finland and Sweden would and NATO membership of the Baltic states and Poland did, Russia is still using all available diplomatic means to prevent or, at least, postpone NATO enlargement. However, all that Russia seems to be able to achieve is to keep Serbia out of NATO and even that may be temporary.

Serbia's political choice is still uncertain. Though the government which came to power after the 2008 election adopted a Western-oriented policy, the chauvinist and pro-Russian political wing remains powerful in Serbia. We cannot rule out a possibility that this wing, if swept to power, may change Serbia's political orientation to be more isolationist, making Serbia more dependent on Russia. In some sense, such development may be the only possible way for Russia to expand its political influence in the Balkans.

The future of Bosnia and Herzegovina remains unpredictable. The international community definitely desires to see Bosnia as one and indivisible state, but the Serbs and Croatians of Bosnia do not seem particularly interested in it. In this context, Russia would be an ally of Bosnian Serbs, though in this case the latter may easily become a puppet of the Russian government.

The future of Kosovo is uncertain as well. The re-unification of Kosovo and Serbia is definitely out of the question, but Kosovo may become a failed state where organized crime and corruption are rampant. It is difficult to assess how desirable such a development would be for Russia, but there is no doubt that a successful Kosovo would be emotionally painful for Russia. Whatever the case, the failure of Kosovo would lend credibility to Russia's arguments.

Another important area is Russia's economic policy. Since both South Stream and Nabucco pipelines directly concern the Balkans, it is expectable that Russia is actively trying to promote the first and



impede the second. South Stream raises the same questions as Nord Stream – whether the project to achieve control over certain states is of political or economic nature. Using the energy weapon, Russia will be able to influence effectively the Balkan states as well.

Economically, tourism is also important for Russia. Several Balkan resorts are favorite holiday destinations for Russians. Bulgaria, Greece and Montenegro must be separately noted in that regard. Among the aforementioned states, Russia today enjoys a visa-free travel arrangement only with Montenegro and even that will change should Montenegro become a member-state of the EU. However, it cannot be ruled out that Russia will achieve a visa-free travel agreement with the EU by that time. On the other hand, the necessity to obtain visas has not prevented the Russians from travelling to any noticeable extent. Since Russian tourism is economically important for Bulgaria and Montenegro, it provides Russia with certain leverage to influence political decision-making in these states.

Attention should be also drawn to a possible impact of the presidential elections in Russia on its relations with the Balkan states. Before the last presidential elections it could be expected that the election of Dmitry Medvedev would not change Russia's political orientation and the real power would stay in the hands of Vladimir Putin. In the 2012 election it is definitely not the case. The re-election of Dmitry Medvedev is likely to bring about warmer relations with the West, whereas the election of Vladimir Putin would mean an open departure from democratic values and a more aggressive foreign policy. In the Balkans, it would result in a greater pressure on Serbia, more forceful use of economic tentacles (energy, tourism) to influence the political decision-making of the Balkan states and a more active opposition to prevent an expansion of the EU and NATO.

On the whole, significant changes in the Russian-Balkan relations in 2011 are unlikely. The economic situation in Russia as

well as low energy prices do not allow Russia to conduct its policy in the Balkans more vigorously. Passivity will also continue in the relations between Russia and Serbia. At the same time, Russia is unlikely to change its attitude towards Kosovo's independence. A general effort on the part of Russia to improve relations with the EU seems to support a modest rather than a forceful conduct of policy.

# RUSSIA and MIDDLE EAST

Sven Mikser

Current Russian policies regarding the Near and Middle Eastern countries can be described as rather limited in scope and intensity, especially when compared to the Cold War era when the Soviet Union was engaged in tireless efforts to recruit clients and followers in the region.

In the aftermath of the Cold War, Russian economic and political clout was seriously diminished and its ability to provide economic, political and military support to its clients suffered accordingly. The repercussions of the resulting sense of betrayal by some Middle Eastern regimes can be felt even today.

## Diminished influence

The once-predominant leadership role of the so-called secular revolutionary regimes in the region, such as the Nasserist Egypt of the 1960s, has also declined. Mubarak's Egypt has become politically stagnant and is struggling to retain internal stability rather than spread its influence around. In Baghdad, Saddam Hussein was toppled by the American-led invasion in 2003. Instead of the pan-Arab socialist call for revolution, the resounding message in the region today seems to be that of political Islam. Although the official Russian ideology today is no longer aggressively atheist, it is difficult to foresee Moscow trying to build political alliances with Islamist

regimes, especially as the rise of radical Islam is perceived by the Kremlin as one of the main destabilising forces inside Russia. Rather, the suppression of Islamist militants in its secessionist regions, as well as the rise of anti-immigrant sentiment in Russia, may hurt Russian image in the global Muslim community.

Although the conflicts and potential crises in the wider Middle East are many, the plight of the Palestinians under the Israeli occupation continues to provide the most powerful rallying call for those in the region who are not satisfied with the current status quo. Since Israel – the predominant military power in the region – is linked by strong political and military ties as well as massive amount of economic aid to the United States, Russia has, in the UN and elsewhere, cautiously courted the pro-Palestinian camp. However, the massive influx into Israel of the Soviet Jews from the 1990s has resulted in a large Russian-speaking segment of the Israeli population and has given Moscow a new avenue of seeking political influence in Jerusalem. The last general elections in Israel clearly demonstrated the considerable political power of the immigrants from the former Soviet Union. The Yisrael Beiteinu party sailed into the government coalition. Its chairman, Chisinau-born Avigdor Lieberman was, according to an American diplomatic cable published by Wikileaks, greeted “like on of their own“ during his recent visit to Moscow.

Syria, another key player in the Arab-Israeli conflict, remains virtually the only Arab country where Russia still has some clout as a supplier of military equipment – a fact that was underscored by a recent announcement of the sales of anti-ship cruise missiles by Russia. But even in Damascus the regional allies such as Iran, as well as the former mandatory power, France, enjoy greater access and influence than Moscow.

## Threat perception

Over the last year, Moscow's position regarding some of the most serious security threats emanating from the Middle East and Central Asia has moved considerably closer to that of the Americans and Europeans. This can be said about the Iranian nuclear and missile programmes as well as the NATO-led operation in Afghanistan.

The recent Russian decision not to sell the air defence missiles to Iran and to support tougher sanctions against Tehran at the UN Security Council is indeed a remarkable shift, but it seems to reflect a shared threat perception rather than a shared set of values. It remains to be seen as to whether Moscow is really committed to the implementation of effective sanctions. Similarly, the exact manner of Russia's possible engagement with NATO's missile defence, which is primarily designed to counter the Iranian threat, is far from being conclusively decided.

The one enduring Russian interest in the Middle East is oil and gas. Russian ambition to emerge together with Bahrain, Algeria and Iran as a hegemonic group of suppliers of natural gas in the world has recently suffered a serious blow due to the upgrading of economically exploitable reserves, especially shale gas, in different corners of the world.

In the near term, the Middle East will remain a relatively marginal factor in Russian foreign policy. As a permanent member of the UN SC, Russia will continue to play a role in shaping the decisions of the international community with regard to the solution on issues such as the Arab-Israeli peace, the declaration of an independent Palestinian state, and bringing Iranian nuclear programme into accordance with the international regulations.

The Middle East will figure more prominently in Russian energy policy decisions, as the oil and gas output and access to international markets of the suppliers in the region will have a direct impact on the Russian state revenues.

# RUSSIA and KYRGYZSTAN

Klaus-Eduard Runnel

The year 2010 was full of dramatic events for Kyrgyzstan and stability appears to be out of short term reach.

In April 2010 the government of Kurmanbek Bakiyev was overthrown at the price of almost 90 human lives. A provisional government which initiated a change in the Constitution to replace the presidential political system with a parliamentary one came to power. The new Constitution was overwhelmingly approved on a referendum which was obviously influenced by a bloody conflict that broke out in the southern part of the country between the Kirghiz and the Uzbek and may have claimed thousands of lives. Who suffered the most in the conflict were the Uzbek people. After the end of the bloodshed, the Uzbek were almost exclusively brought to responsibility in courts, with few exceptions.

In the October parliamentary elections 5 parties out of 29 surpassed the electoral threshold. As of the beginning of December, the parties in the parliament have either not managed or wished to form a government. There is hope that a temporary agreement can be reached before the acting president Roza Otunbayeva is forced to dissolve the parliament.

Irrespectively of the parties that eventually will form a government, Kyrgyzstan's leadership continues to look for Russia's support and attention. It is a telling fact that the leaders of four out of five political parties represented in the parliament flew to Moscow the week following the elections, three of them on the same plane. Only

the representative of Ata-Meken, a Western-leaning political party that was the last to surpass the electoral threshold, was not present.

### Elite depend on Russia

Kyrgyzstan has high expectations of Russia. The country's elite depend economically on Russia, prefers to use Russian rather than the Kirghiz language and follows the news through the Russian media. The Russian media is a tool for the Russian leadership to influence public opinion in Kyrgyzstan. Even Bakiyev's rule was overthrown only after the opposition became emboldened by the attacks against Bakiyev's abuses that were widely publicised by the Russian media. In the run-up to the parliamentary elections it was Omurbek Tekebayev, the head of Ata-Meken, who participated in the April revolution, became the main author of the new Constitution and was targeted by the Russian media.

President Medvedev indicated his dissatisfaction about the introduction of a parliamentary political system in Kyrgyzstan. The Russian media will probably continue to antagonize the public opinion against the parliamentary political system and Russia will be more inclined to support those parties which are ready to return to a political system based on the strong leader. Russian leaders are not interested in the successful implementation of a political system in the Central Asia that they essentially disapprove. Russia prefers strong leaders whose actions are easier to predict and who are easier to control.

Steps may be expected to engage Kyrgyzstan in the Russia-Kazakhstan-Belarus customs union. The provisional government of Kyrgyzstan showed interest in joining the customs union already last summer. There are politicians in Kyrgyzstan who desire a much closer integration with Russia. In 2007, Felix Kulov, head of the Ar-Namys party, spoke in favour of a referendum on the confederation

with Russia. The customs union set itself an objective to create a common market by 2012; a more distant ambition is a single currency.

## Conflicting interests

Russia's interests in Kyrgyzstan collide with the interests of two great powers: the USA and China. The Chinese interests are largely economic. The US interests are mostly related to its campaign in Afghanistan and the air force base in Manas which supports this campaign.

In 2009 Russia applied some serious pressure to Kyrgyzstan in order to influence it to close the US air force base in Manas. As compensation, Kyrgyzstan was offered a write-off of debts worth USD 2 billion, loans on favourable terms and direct assistance. Mr. Bakiyev accepted the offer but then made a deal with the Americans who also raised their bets; a fact that enraged Moscow even more since Moscow knew that the Bakiyevs use the allocated funds for their personal enrichment.

The new Kyrgyzstan authorities will evidently try to profit as much as possible from the conflicting interests of the two great powers in the Manas issue (and in a broader context as well). Russia's interest in closing the Manas base is definitely not as great in 2011 as it was in the aftermath of the war against Georgia. Russia realises that the short-term American presence serves their common goals in Afghanistan. The USA accepts the primacy of the Russian interests in Kyrgyzstan and awarded a fuel supply contract of the Manas base to the joint venture of Gazprom and Kyrgyzstan.



## The Fergana Valley

Co-operation of Russia and Kyrgyzstan in the Collective Security Treaty Organisation (CSTO) is attempted to be filled with at least perfunctory content. Despite the call for help from Roza Otunbayeva, the CSTO and Russia refused to intervene in the ethnic violence last summer, thus sacrificing a chance to demonstrate the usefulness of the organisation. Kyrgyzstan has no reason to believe that the CSTO will intervene in the case of potential ethnic-fuelled violence which may reignite in 2011. The story will be different if the violence assumes the appearance of Islamic terrorism. A prospect of the countries sharing the Fergana Valley to become a stronghold of Islamic terrorism is all the more unpleasant for Russia because the region is an important source of migrant labour for Russia. High level of unemployment has improved the prospects for the radical Islam. In 2011 Russia will try to expand its military presence in Kyrgyzstan, most probably by deploying a CSTO military base in the region of Osh.

All political parties evidently attach great importance to hydroelectric power projects as a means to secure the future of Kyrgyzstan. Such projects are vehemently opposed by Uzbekistan and Kazakhstan. Kyrgyzstan will look to Russia for support in this issue. Russia will give it some hope in the next year but is unlikely to take any decisive steps. The *status quo* in this issue ensures a greater influence for Moscow over all the three states. At the same time, foreign experts have warned Kyrgyzstan that hydroelectric power is not necessarily a sustainable solution. Glaciers that feed Kyrgyzstan's rivers are predicted to melt away by the mid-century. Solar or geothermal energy is considered to be more viable and even cheaper. In order to preserve its influence, Russia will not sponsor or promote such solutions in the near future.

## Conclusions

In 2011 Kyrgyzstan will continue to seek Russia's help and support, but it will not automatically grant Russia's every wish. In its turn, Russia will not be particularly eager to provide generous help to Kyrgyzstan but it will be forced to deal actively with regional security problems. By inertia, Russia will interfere with Kyrgyzstan's domestic politics, but it will hesitate to pick any favourites as yet.

# RUSSIA and KAZAKHSTAN

Raivo Hool

Year 2010 in Russian-Kazakh relations was marked largely by the genesis and teething pains of the Russia-Belarus-Kazakhstan customs union. Media coverage of the union was optimistic, with dignitaries from participating countries touting the virtues of the said union which formally came into existence on 1 January 2010, but was not ratified until later and came into force in July 2010. In time, all customs borders between the three countries are to be removed and a single economic space is to be created.

## Customs Union

The story behind the scenes has not necessarily been so rosy and because of bureaucracy and several inconsistencies in participant countries' legislation, the union may not come to full fruition even by the initially set date, 1 July 2011. Just to give an example: to function, customs union relies on member states' legislation, but there are areas where these have not really been harmonised and even the common terms have not been defined. Therefore it is nonsense from the legal point of view and it is doubtful whether any participant country will even apply the rules.

Customs union is mostly beneficial to Russia, as it creates a huge market of 170 million people, which in turn makes Russia a more attractive destination for foreign investment and gives Russian

investors preferential access to Kazakhstan and Belarus. Russia also gains easier access to those relatively big markets. Besides, out of the three participants, Russia is pretty much the only one with something to sell other than natural resources or political leverage. In addition, the customs union provides for additional political influence over the “near abroad”, as a few more of the former Soviet Union republics have indicated a wish to join the union in the future.

That is why even during the drafting of this union Russia has been playing its familiar role, the older brother to the former Soviet republics; and that is why it has been torpedoing on-going negotiations whenever it feels it has negotiated away too many privileges in the union. For example, whenever Russia and Kazakhstan reached an agreement on some specific issue, Russia immediately changed its delegation staff only to restart the negotiation process from almost square one.

## Energy

Energy is in many ways another important aspect to Russia-Kazakhstan relations that is going to feature heavily in 2011. During his October 2010 visit to France, Nursultan Nazarbayev signed a most important agreement with Nicolas Sarkozy regarding cooperation in various spheres. One of the most interesting areas was cooperation in the field of nuclear energy, which is extremely unsettling for Russia, since it is quickly running out of its readily and cheaply obtainable uranium ore supplies.

The fact that Kazakhs are, on the face of it, willing to ditch Russia in order to secure a better deal in the West is most probably a tactical manoeuvre to obtain a lever in relations with Russia. So at least on some levels, Russia-Kazakhstan relations in 2011 are going to be played out in the triangle of Astana-Paris-Moscow. Paris needs

Kazakh uranium as much as Moscow does, since it is losing its grip on its sources in Africa, and Astana is willing to provide its natural resources to the highest bidders.

Competition for strategically important raw materials is intensifying; in order to stop Kazakhs from selling their uranium to France, leaving Russia empty-handed, Russia needs to offer Kazakhs something worth their while. Taking the customs union into account, it is obvious that Astana's rapprochement with Paris is at least partly motivated by a wish to blackmail Moscow into easing off on its drive to play number one in the customs union.

Both Russian and Kazakh economies are dependent on the fluctuating prices of hydrocarbons. Both countries export the bulk of their output to Europe and are eyeing growing potential Asian markets. Therefore some Kazakh experts already consider Russia and Kazakhstan as competitors in the energy market and it is imperative for Moscow and Astana to work out a strategy in 2011 to divide the present European and future Asian markets between each other so as to avoid stepping on each others' toes.

### Multi-vector foreign policy

Since Moscow considers the CIS to be in systemic crisis, it would prefer that all its CIS partners, including Kazakhstan, abandoned their multi-vector foreign policy approaches and aligned themselves completely to Russia in order to secure unwavering support to its policies. Kazakhstan, however, actively seeks avoiding involvement in any conflicts and, for example, has not recognised Abkhazia and South Ossetia as independent states which troubles Russia who awaited such recognition as a sign of acknowledgment of 'special relations' between the countries.

The Kazakhs prefer not to keep all their eggs in the same basket and are thus pursuing a multi-vector foreign policy by being a

member of CIS and CSTO and at the same time having special relations with NATO, the EU and the United States. This certainly does not please Russia, who considers Kazakhstan the key country in Central Asia and wants it to remain their closest ally in the post-Soviet space. Yet, there is not much Russia can do and often they do not even have a moral ground to say anything. For example, even if Kazakhstan has turned to France as a supplier of some advanced military equipment, Russia has been doing the same thing with the French Mistral carriers. Moreover, the core of Kazakhstan's arsenal will remain faithfully Russian. Astana has emphasised that all those 'extracurricular relations' will not be at the expense of relations with Russia.

Astana is also increasingly concerned about stability in southern Central Asia and in the growing Chinese influence in the region, which also drives Astana to bolster its ties with Moscow. Even if Astana is occasionally friendly with other players, in the foreseeable future geopolitics dictate a strong strategic partnership between Kazakhstan and Russia.

## Conclusions

The customs union, while looking good in the news, will not take off as of yet because of various reasons, bureaucratic and legal issues being at the forefront. While Russia is not happy about Kazakhstan's multi-vector foreign policy, it will keep quiet about it. Kazakh uranium will be too important for Russia in the long run and they are willing to renegotiate some key terms in the customs union to keep Kazakhs happy. Russia and Kazakhstan are also likely to work out an agreement on dividing oil and gas markets between them so as to avoid a conflict of interest. Meanwhile, there will be closer Russian-Kazakh co-operation in security issues, because both sides are interested in keeping China out and the southern Central Asia quiet.

# RUSSIA and AZERBAIJAN

Andres Herkel

In 2011, in the Russian-Azerbaijan relations all those trends that have been deepening since 2003, when Ilham Aliyev became president, will continue.

The most significant of these trends is the fact that Azerbaijan is gradually becoming the most important strategic partner of Russia in the Caucasus. Naturally, it creates uncertainty in Armenia, which has enjoyed Russia's support since the beginning of the 19th century, when a compact Armenian-populated territory was established in the South Caucasus under the Russo-Persian and Russo-Turkish peace treaties.

Firstly, Azerbaijan is rich in natural resources and a key state for the supply routes of oil and natural gas from the Caspian Sea states to Europe. Secondly, Azerbaijan is ruled by a regime which is not simply sympathetic to Russia but reproduces a model of the so called controlled democracy to an even greater perfection than Russia itself.

## Positive engagement

Russia continues with a positive engagement of Azerbaijan at all levels of bilateral relations, putting a special emphasis on departments related to internal security. Nevertheless, Azerbaijan has been quite self-assured in this relationship, trying not to slip from friendly

relations into dependency relations. Such self-confidence of Azerbaijan is supported by the participation of big Western companies in its oil sector as well as by manoeuvring – sometimes rather skilfully – between the EU and the USA.

Russia's trump is the fact that Azerbaijan considers as excessive and tiresome the issues of pluralist democracy and human rights that are included in Azerbaijan's cooperation packages with the West. It is more convenient to do business with Russia, because Russia does not make such demands. In 2011 the parties will realize that mutual support is a means to neutralize to a large extent the traditional criticism by the Western organisations.

An attempt will be made again to undermine the OSCE/ODIHR's detailed election observation system and replace it with biased positive assessments written in the public relations style. In this context, the Russian-Azerbaijani axis is challenging the Western value systems. Being competitors in the oil and natural gas sales market, both parties are ready to employ their energy resources to impose their own rules on organisations defending "soft" values.

## Insolubility of the Karabakh conflict

For Azerbaijan, there is one problem on the political map of the region which is, obviously, Nagorno-Karabakh. If once Armenia got everything in the Karabakh conflict and Azerbaijan got nothing, now the richness and military capability of Azerbaijan has been growing from year to year if compared to Armenia. This trend is continuing. Russia considers this development as inevitability which is beyond its power to change.

After the August war against Georgia, Russia has attempted to create a softer image for itself, posing as a peace broker. Although it has not brought about any visible success in the essential resolution of this problem, Russia is likely to continue along the same lines.



Nobody is giving Azerbaijan a green light to use its military capability, but in the psychological war the position of Azerbaijan is getting stronger. It is facilitated by the strengthening of the Russian-Turkish cooperation axis.

A re-start of the Karabakh war may be useful to Russia only as a means to weaken and isolate Georgia, which is dependent on its neighbours. All other considerations of Russia's interests speak against it at the moment. There are some hotheads in Azerbaijan who believe that if the non-intervention of Russia can be secured at the decisive moment, Karabakh may be retaken. On the other hand, it is obvious that such strengthening of Azerbaijan is contrary to Russia's interests and Russia will not allow it to happen easily.

The insolubility of the Karabakh issue is not going away, but in the next few years a growing pressure on Armenia to start a gradual withdrawal from the occupied territories bordering Nagorno-Karabakh may be expected.

### The Islamic factor

I do not consider the infamous Islamic factor especially threatening in case of Azerbaijan in the short term. The Azerbaijani are mostly Shiite and thus strongly connected to Iran. However, their experience in the Russian and later in the Soviet empire rendered Azerbaijani society rather secular.

The danger of fundamentalism is often used as a justificatory and frightening argument when there is a need to curb some freedoms or use excessive power against the opponents. In its rhetoric on the fight against terrorism and extremism, Azerbaijan is also very similar to Russia. At the same time, fundamentalism may start to attract young people if democracy does not work and the change of society by political means is believed to be impossible.

During the last decades, Baku ceased to be a city of many nationalities. The Armenians, Russians and Jews have left and the fresh inflow originates from South Azerbaijan, a region in Iran. This new stratum is clearly more religious and possesses a different sort of mentality.

The Azerbaijani-Turkish relations have not been quite as warm under the Aliyevs as they were at the beginning of the 1990s during the short rule of president Elchibey. Nevertheless, I would be rather surprised if the Turkish parliament ratifies rapprochement agreements with Armenia without demands for solutions of the Karabakh conflict advantageous to Azerbaijan. The Shia/Sunni distinction aside, the Azerbaijani and the Turks are essentially the same people.

Strengthening of the Turkish influence manifests itself in education. With the local education system being of poor quality and corrupt, Turkish schools established in Azerbaijan have been gaining popularity among the nation's elite. They also provide an alternative to the schools with the Russian language of instruction, which have been popular since the Soviet times due to a better quality of education.

## Conclusions

In 2011 Russia will continue its attempts at controlling events in Azerbaijan. Although the political system of Azerbaijan suits Russia nicely, Russia has not been equally successful in the pursuit of its economic interests here.

As Azerbaijan is an extremely centralised state, Russia will try to ensure control by maintaining very close ties with the top brass, including the Aliyevs' family. However, Azerbaijan will be also trying to show interest in the ties with Turkey, Iran, the USA and the European Union as a way to counterbalance the Russian influence.

## RUSSIA and AZERBAIJAN

The Russian trump in Azerbaijan is the connections between security services and the network of agents of influence, which has been in place since the Soviet times. However, these factors as such do not render Azerbaijan dependent on Russia and for the sake of economic or political gains the country is ready to compromise with the West as well.

Events or changes of dramatic importance in the Russian-Azerbaijani relations should not be expected in 2011.

# RUSSIA and BELARUS

Silver Meikar

Apart from an unexpected accord immediately before the presidential elections, dark clouds hanged over the Russia-Belarus relations during the whole year of 2010. However, under the surface of grand politics processes have started in different layers of society that soon threaten to go beyond the control of the authorities. Whether it results in the fall of Lukashenka's regime, especially in economic terms, may become clear already in 2011.

In the Eastern value system, power decides who is on top. According to a wide-spread opinion, Russia can do without Belarus, but Belarus cannot do without Russia. Thus, the scenario of the play is being written in Moscow and it is only the occasional stubbornness of Minsk that does not allow the performance to proceed smoothly.

The relations between the two states deteriorated after the 2006 presidential elections in Belarus. In exchange for the firm and unambiguous support from Moscow Lukashenka gave a number of promises that he chose to forget after the election day. Analysts have brought out the privatisation of natural gas transit and several large enterprises by Russian investors to be among the most important promises that were ignored, let alone a straightforward support of the Russian foreign policy.

## Vulnerable economy of Belarus

The Belarussian economy is linked to Russia by unbreakable chains. Factories powered by Gazprom's natural gas export most of their production to Russia. A higher gas price hurts the competitiveness of Belarus and results in higher utility bills. And the latter affects especially painfully the most trusted voters of President Lukashenka.

The failure of Belarus to choose sides during and in the aftermath of the Russian-Georgian war was punished by a gas conflict accompanied by a milk and propaganda war. A representative of a company that exports dairy products from Russia complained to me about arduous conditions; however, considering the different size of the markets, the losses of the Russian companies must be minimal compared to Belarus. The same result was produced by the propaganda war.

Russian general public was first introduced to the 'criminal and brute' Lukashenka in June 2010, when NTV aired the documentary *Godfather 1*. The documentary publicized evidence linking Lukashenka to kidnappings and political assassinations that has long been known to human rights organisations. The documentary's second and third series added the accusations of support provided to the 'tyrants' Mikheil Saakashvili and Kurmanbek Bakiyev as well as rampant corruption.

It was not the content of the accusations that was remarkable but the place of their broadcasting. Nothing is publicised in the Russian media without a specific order and this documentary was a part of a much broader agenda than just informing the general public about the developments in "the last dictatorship in Europe".

## Pre-election demonstration of friendship

All of this should be put in the context of the presidential elections scheduled for 19 December 2010. The demonstration of the improved Russia-Belarus relations which took place a week before the elections (an unexpected meeting between Presidents Lukashenka and Medvedev in Moscow on 9 December and the very reserved comments of the Russian prime-minister during the TV marathon on 16 December) should not be interpreted as the beginning of a new age.

The pre-election handshake only implies that Moscow recognizes the election results with applause. However, both Russian and Belarusian experts predict the continuation of the conflict after Lukashenka's re-election as the President of Belarus. The day before the election the question is not whether Lukashenka wins but how overwhelming his victory will be.

Yaroslav Romanshuk, one of the nine opposition candidates, is convinced that the truce will be short-lived. "The price of gas is only one of the scores of controversies between Russia and Belarus," says he. "No permanent truce has been achieved, the president was just given an opportunity to finish his campaign quietly." According to Mr. Romanshuk, the big question now is what Lukashenka has to give up to the Kremlin in exchange for the support.

The Kremlin's interests in Belarus have evolved over time. Allocation of generous subsidies to the little brother, as was the case during Boris Yeltsin's presidency was, in a political sense, caused by the nostalgia for the Soviet times and, in economic sense, filled the purses of the Russian oil oligarchs. Putin's approach was much more pragmatic – he expected absolute political loyalty and part of the transit infrastructure in exchange for cash injections. The conflict was caused by Lukashenka who was happy to accept subsidies but forgot to deliver on his part of the deal.

## Changes in the Belarussian society

Still, it seems that the conflict between the so called eternal allies has substantially affected the Belarussian society. According to Andrei Suzdaltsev, a deputy dean of the department of international relations in the Higher School of Economics, Lukashenka's success depends on the Belarussians' fear of change, but the deterioration of relations with Russia has split the society. According to Valery Karbalevish, a Belarussian political scientist, the society has been split in two – 40% of the population would prefer their country to adopt the Western orientation.

If the analysis of Mr. Karbalevish is right, the Kremlin must feel serious concern. In 2006 the people were not ready to support a coloured revolution, but now the attitude toward the West is changing. Actually, much depends on the economic situation in Belarus and the Kremlin is well aware of it. A greater loyalty will be definitely demanded in exchange for assistance, but skilful operator Lukashenka has good cards to play with. He will use them both on the Eastern and Western direction.

In terms of population, economy and military, Belarus is a small, but a very skilful, brother of Russia. The Russian taxpayers continue to pay for the better living standards in the neighbouring state, allowing Lukashenka's regime to enjoy the unlimited power. Fearing to lose the public support, Belarussian authorities still have to make concessions to preserve the *status quo*. The question is whether to concede to the West or to the Kremlin.

Stabilisation of the relations in 2011 is unlikely; they will continue to depend on the shifty political agenda. When situation in the domestic politics or economy deteriorates, both countries have a habit to blame the external enemy and the neighbouring state suits this purpose nicely.

# RUSSIA and UKRAINE

Vahur Soosaar

Ukraine is characterized by a split along the regional, language and cultural dimension – on the one hand, it appears to be the Western border of the Eastern Slavic cultural space and on the other, it seems to be the Eastern border of the Western cultural space. Zbigniew Brzezinski neatly summarized Ukraine's strategic importance for Russia – without Ukraine, Russia ceases to be an empire, but with Ukraine, Russia automatically becomes an empire. The imprint left on the Russian-Ukrainian relations by historical experiences and political ambitions is still visible – for Russia, Ukraine is a corner-stone of national security, because according to the Cold War logic, Russia's domination in Ukraine secures the Russian power as far as the Carpathians. Although in the relations with the neighbouring states Russia does not seek to restore the former empire as a whole, it does aim to achieve political and economic influence first and foremost in Ukraine, its biggest neighbour.

## The period of Yuschenko

The forecast of the Russian-Ukrainian relations for the year 2003 referred to a distant possibility that opposition politicians might win the 2004 presidential elections. Well, the miracle happened. The presidential elections held in Ukraine in autumn 2004 led to



peaceful protests (Orange Revolution) and, as a result, Viktor Yuschenko became the president.

That Yuschenko, who strongly supported Ukraine's European ambitions and NATO membership, emerged as a winner from the Orange Revolution was considered a threat in Russia. President Vladimir Putin quickly took various precautions to prevent the possible export of the Orange Revolution to Russia. These measures included the establishment of Nashi (Ours), a youth movement created to counter-balance possible antigovernment protests in Russia and to help the government control the public space.

Before the 2008 NATO summit in Bucharest Russia spoke very strongly against the NATO membership for Ukraine and Georgia. Russian deputy foreign minister Karassin declared directly that if Ukraine is given a MAP, Russia would be forced to employ strategic counter-measures. The Russian-Georgian war in August 2008 led to a further deterioration in the Russian-Ukrainian relations because of Kiev's support of Georgia and the Russian accusations that Ukraine is selling arms to Georgia. Already in August 2009 President Medvedev wrote an open letter to the President of Ukraine, accusing Ukraine of hampering operations of the Russian naval base in Sevastopol, entering into questionable natural gas contracts with the EU, expulsion of the Russian diplomats and in attempts to re-write the common history.

The gas crisis in January 2009 once again highlighted the complicated relations between Russia and Ukraine. The gas quarrel between Ukraine and Russia caused serious social and economic problems for several EU member-states and significantly tarnished Russia's reputation as a reliable supplier of natural gas. However, activities of Ukraine during the gas crisis were not completely transparent either.

## Active engagement

At the beginning of 2010 Viktor Yanukovich staged a comeback from the loss at the previous presidential elections and became the elected president of Ukraine. Afterwards, relations between Kiev and Moscow have become the most important factor influencing domestic and foreign policy choices of Ukraine. Integration with the EU has remained on the list of major foreign policy priorities of Ukraine, but membership in NATO has been dropped from the list.

After February 2010 Russian-Ukrainian relations have improved remarkably. It may be claimed that Russia has started an active engagement policy toward Ukraine. Instead of the policy of demarches that lasted for years, high-ranked officials from Moscow and Kiev meet almost weekly. Several high-level visits occurred within a relatively short span of time. President Medvedev went to Kiev on an official visit in May 2010, in the course of which a natural gas contract and agreements in several other economic areas were signed. During the visit of prime-minister Vladimir Putin to Kiev on 27 October 2010, seven (!) new co-operation agreements were signed.

President Yanukovich's pragmatic approach to foreign policy is demonstrated by the Kharkov agreement – a lease extension for the Sevastopol naval base until 2042 secured Ukraine a 30% discount on the natural gas price until 2019, which financially translates into the savings of USD 40 billion over the period. In addition, Russia undertook to invest into Sevastopol's infrastructure. The base in Sevastopol is important to Russia as a symbol and the lease extension will probably result in an even greater Russian influence in Ukraine.

## A pragmatic balance between Russia and Europe

Improvement of relations with Russia was not only logical but an urgently needed step, considering the level of integration of the Ukrainian and Russian economies, unstable relations between Kiev and Moscow over the last five years, and condition-laden help from the EU and IMF to ease the economic crisis. The incumbent government of Ukraine and a group of oligarchs who support it have more to win from balancing between Russia and the West than from betting on Russia only. Although Yanukovich has consciously eliminated the symbols and issues that caused discord in the relations with Russia (first of all, calling *Holodomor* an act of genocide and emphasizing Ukrainian nationalism) with a view to improve bilateral relations, Moscow sympathies of the new Ukrainian president should be taken with a grain of salt. Pro-Russian slogans are mostly intended to win support of the Eastern Ukraine where the president received his biggest share of the electoral votes. A telltale example – although Yanukovich has since 2006 promised to give the Russian language the status of the second official language in Ukraine, he has done nothing to deliver on this promise neither during his term as a prime-minister nor now as the president.

However, the Russian-Ukrainian relations are not entirely cloudless. Some damage was done by a strategy paper of the Russian Ministry of Foreign Affairs, leaked in spring 2010, which put forth a vision that Russia and Ukraine should jointly develop and manage the Ukrainian energy resources as well as the sales thereof. It shows that energy remains a single effective tool for Russia to shape its relations with neighbours.

Kiev's refusal to join the customs union of Russia, Belarus and Kazakhstan and to recognize the independence of Abkhazia and South Ossetia in defiance of the pressure from Moscow is an evidence of a policy based on the Ukrainian own interests. An unspoken hope of Ukraine that rapprochement with Russia will

weaken the Russian resolve to build the South Stream natural gas pipeline, which is damaging to Ukraine's interests, has been unfulfilled too. In addition, Ukraine is reviving contacts with gas suppliers from the Central Asia, Transneft is fighting Ukrtransnafta, and the integration of Gazprom and Naftogaz is not likely to happen in near future. The bilateral relations are also adversely affected by a border dispute in the Kerch Strait.

To sum up, in 2011 an intensive high-level political dialogue between Russia and Ukraine will continue and the bilateral relations will certainly be more stable than during the last five years. More active negotiations between Russia and Ukraine on the maritime border in the Kerch Strait are to be expected. The parties will be attempting to find a solution to natural gas-related issues (a joint venture of Gazprom and Naftogaz may be created). At the level of foreign and security policy, Russian-Ukrainian relations may significantly be affected by the Ukrainian stance on the Russian proposal to sign a new security treaty for Europe.

# RUSSIA and LATVIA

Andis Kudors

The expressed in 2009 forecast made for 2009 on predicting an eventual increase of Russia's influence in Latvia caused by the US-Russia 'reset' policy has not materialized. Similarly the expected joining of the Government by the party Harmony Centre representatives and the changing of Latvia's foreign policy course in favour of Russia have not come true either.

So far Latvia-Russia relations have had a pronounced cyclic character. Mutually antagonistic rhetoric has been occasionally replaced by expectations of substantial improvement of the ties. The hopes did not materialize either after the Latvia's accession to NATO or following the ratification of the Latvia-Russia border agreement in 2007.

## Bilateral agenda

This year (2010) the expectations of changes in Russia's position were related to the outcome of the parliamentary (Saeima) elections. Russia had indirectly signalled that, in case the political party Harmony Centre was allowed to join the coalition, Moscow's attitude will change. Although the Harmony Centre was considered as a potential winner and gainer of governmental seats, the majority of votes was, however, collected by the party bloc 'Unity' under the leadership of Premier Valdis Dombrovskis; thereby Harmony

Centre, the political party extensively popularized by the First Baltic television channel, was left outside the coalition.

Although Harmony Centre had promised that if its members are included in the Government, a rapid improvement of Latvia's economic situation would be achieved with the assistance on Russia's part; however, it can be ascertained that economic ties with Russia have, even without that, experienced satisfactory or medium-positive development. According to the statistics concerning Latvia's commercial contacts with Russia in the first half of 2010, Russia is on the third place (following Lithuania and Estonia) in the field of exports, and in the field of imports it is keeping the second place.

Even in this spring, talks were initiated on eventual visit of President Valdis Zatlers to Moscow in late 2010. Latvian-Russian Inter-Governmental Commission has ensured coordination of a number of economic agreements to be signed during the meeting between Valdis Zatlers and Dmitry Medvedev. So far the signing of the investment protection agreement has been delayed because Russia wishes to include in it the provision that Russia has the right to request full information on Russian investors from Latvia's side. In reality it would mean that the Kremlin strengthens its control over its own entrepreneurs. Since a considerable part of Russian funds constantly flows out of Russia seeking more secure places in the foreign countries, Russia is looking for ways how, if not to stop the process, then to at least be better informed about the ongoing processes.

## International framework

In spring 2010, prior to the EU-Russian summit, information leaked into the media on Russia's new foreign policy doctrine stipulating that a more pragmatic Russia's foreign economic policy should be implemented, which indicated that Russia was going to consider

purchasing energy, IT, logistics and transportation infrastructure objects in Latvia.

Construction of a liquefied gas terminal in Mangalsala, Riga, may become one of the examples of the plan's implementation. A Gazprom daughter company, Itera Latvija, demonstrates its interest in the possibility to construct the terminal. Presently the price of liquefied gas in the world market is approximately one half of the price of gas transported through pipelines. In case the owners of the new terminal are connected with Gazprom, the gas consumers' situation in Latvia would not improve, for Gazprom would not allow provision of inexpensive gas to consumers through its network. Transfer of ownership of the gas network and reservoirs to the hands of the state of Latvia may be the only chance for the consumers to achieve the lowest possible price in long term. The issue of who will be the terminal constructor is still open therefore it may become timely in 2011.

Vague expectations still exist related to the US-Russia *reset* policy and Medvedev's plans on Russia modernizing. Although, it should be reminded that in a similar situation, when the US-Russia relationship improved right after September 11, 2001 terrorist attack, the Latvia-Russia ties did not gain any impulse for changes. Also Medvedev's wish to involve European Union in the implementation of Russian modernization plans through investments and selling of technologies would hardly influence the relations between Latvia and Russia. The cause is quite simple – at the moment Latvia cannot be either a significant investor in Russia or supplier of advanced technologies.

## Problems

Russia's policy towards its compatriots residing abroad will not be too active in the direction of Latvia in 2011. In fact, in spring 2010, the amendments to the Law on Compatriots Policy submitted to Russian State Duma marked a new turn in this field. So far the position, cultivated by Russian nationalist forces, that all the so called Russian speakers in the neighbouring countries are Russian compatriots has currently been changed. Further on, a wish to gain the status of Russian compatriot residing abroad will have to be supported by intensive Russian culture, language maintaining and popularizing activities.

The ideological opposition regarding differences in the two countries' interpretation of history will decrease in 2011. The 65th Victory Day celebration is now a past event, and Russia has failed in the red partisan Kononov's case in the European Human Rights Court. Also the commission established by D. Medvedev for fight against falsifying of history is not too active. Criticism against Latvia as the 'rewriter of the outcome of the World War II' will, however, not be fully withdrawn from the agenda. The year of 2011 is the year of election to Russian State Duma. As usual, nationalist forces' representatives will express their negative assessment on Latvian politicians' activities. Furthermore, the election may cause delay also in the ratification of the aforementioned inter-governmental agreement.

Russia's position will be influenced by Latvia's domestic policy developments. The Russian speaking electors' representative – Harmony Centre – still has a theoretical chance of being invited in the Government in case the presently governing party coalition splits. In such case Russia will conduct changes in the media environment making the presentation of Latvia's image more positive, as well as it will carry out some symbolic undertakings for the expansion of interstate commerce, tourism activities and cultural cooperation. If, with



the State Duma elections approaching in Russia, the chance of changes in the Latvian Government membership becomes less promising, Russian politicians' negative rhetoric against Latvia will intensify.

### Conclusions

The visit of Valdis Zatlers to Moscow and Saint-Petersburg from 19 to 21 December 2010 will improve the bilateral relationship's information background in Russian media in 2011. The meeting of the two countries' higher-ranking officials will serve as a signal to those Russian entrepreneurs who, while implementing their business projects, are concerned about the possible reaction on the Kremlin's part. Although gains from the economic cooperation will not be considerable, Latvia will still be aware of the possibility of increase in Russia's political influence in Latvia through economic presence in Latvia's energy, logistics and transportation spheres.

# RUSSIA and LITHUANIA

Arūnas Gražulis

In the year 2010 Lithuanian-Russian relations have steadily developed on the level between bad and neglected. In the first half of the year some Lithuanian politicians admitted that the country has become a hostage of American-Russian relations. What was meant by it is that Obama's *reset* of Russian policies has left aside some of the countries that during the era of Bush's administration based their strict stance towards Russia on the consideration of being strategic US allies. Nevertheless, this recognition has only had insignificant influence to the general direction of bilateral relations – Lithuanian president has called national political elite to be “more pragmatic” towards Russia and made efforts to invite Russian leadership for a visit, while the Russian side, at least on the top level, remained rather reluctant, aiming directly to EU- and NATO- level cooperation.

The end of 2010 proved to be very fertile in the area of the energy politics. After the final closure of Ignalina Nuclear power plant in 2009, Lithuania became totally reliant on imported fossil fuel (if not to count the relatively insignificant share of approx. 5%, produced from renewable sources). The project of Visaginas NPP (to be built near the already defunct Ignalina NPP and to solve energy problems) has faced some major drawbacks both in regard of the agreement of the shareholders for the power plant (Baltic States + Poland) as well as the technicalities of its construction (with some

politicians claiming that it was Moscow's influence that fostered the withdrawal of French and Korean investors from the tender, especially after respective visits of the Russian leadership).

## Energy

The above mentioned asymmetric intentions to improve the overall quality of bilateral relations as well as the energy issues are likely to dominate the bilateral agenda in 2011, not to count several smaller issues that are to be discussed further.

This statement was immediately confirmed at the time of writing of this paper, when in the end of November 2010 Mr. Putin, while speaking with German business leaders, openly accused Lithuania of "robbery". Currently *Gazprom* and *Ruhrgas* each owns around one third of Lithuanian gas distributor *Lietuvos dujos*. Both companies fiercely oppose current initiatives of Lithuanian government to de-monopolise gas supply market in order to allow access for other suppliers and, in fact, to implement the Third Energy Market Package. The German party also claims that proposed gas market initiatives are violating the bilateral treaty on mutual protection of investments. Therefore the reform is likely to generate high tension both in the relations with Russia and Germany and in this case the German government might be on the Russian side, even despite the fact that Lithuania basis its arguments on the EU regulations and even has no other option if it wants to avoid sanctions from Brussels for the current gas market monopoly. Lithuanian government has little space for manoeuvring at home as well – the consequences of the economic crisis as well as the popular dissatisfaction with the fact that the price of imported Russian gas is already among the highest in the EU, way higher than the one in Germany, put heavy pressure on the Lithuanian government.

This issue is also likely to be further aggravated by the ongoing plans of the present Lithuanian government to build their own gas terminal, which could hamper current gas monopoly and further upset *Gazprom*. It is also noteworthy that the idea to build such a gas terminal originates from the successful plans of early 1990's to have own oil terminal, which would allow to avoid the energy shortages caused by Soviet energy blockade which took place just after the declaration of independence in 1991.

## Politics

On the higher political level, the intensification of Russian-NATO debate in the end of 2010, the pile of proposals Mr. Putin has thrown towards his Western European counterparts, although mostly repeating the earlier ideas (common anti-missile defence system, visa-free communication, common market from Lisbon to Vladivostok – just to mention a few) and cautious yet interested reaction of the bigger EU member states, clearly indicate that Lithuania retains little chances to state its case and promote the already traditional issues raised towards Russia (compensation claims for Soviet occupation, claims on the usage of energy supply as a political instrument, etc.). It also seems that the current government shares this understanding and is focusing more on the above-discussed energy-related issues. However this does not mean that the issue of a different interpretation of the history will not appear on the bilateral agenda or in each other's presentations at the EU or NATO level, especially as 2011 will provide multiple opportunities for that – be it a 70th anniversary of the mass deportation of the Baltic citizens (14th June 1941), Nazi invasion into Soviet Union, June Uprising in Lithuania (24–25 June 1941) and other events.

With regard to the political questions, the end of 2010 has shown an interesting and new tendency which has a potential to develop into a major issue in bilateral relations. For the last several years a minor yet constantly renewing issue of Lithuanian-Polish relations has been the question of the so called rights of Polish minority in Lithuania. The leaders of Lithuanian Poles, composing about 6 percent of Lithuanian population (concentrated merely in Eastern part of the country and around Vilnius) claim multiple violations of their rights, as examples indicating the prohibition to write Polish surnames in the original form (that requires letters, not existing in Lithuanian alphabet), schooling issues (despite the fact that Lithuania is the only country in the world except for Poland itself where a person can get all education in Polish, from elementary school to university) and so on. In the end of 2010 this set of claims was also supported by some leaders of Russian community (consisting of slightly less than 6 percent of the total population). This fact is even more interesting taking into consideration the general stance of Lithuanian Russians, who were considered to be well integrated and showing almost no signs of dissatisfaction with Lithuanian ethnic minorities' policies (the few pretensions put into open were related to the closure of several Russian secondary schools due to the lack of pupils several years ago). This tendency has continued in November with the emergence of the movement "Lithuania without Nazism", led by some Russian community leaders and several Lithuanian politicians not hiding their nostalgia for the Soviet era.

### Minorities and Histroy

Up until this day such movements were common only to Estonia and Latvia, as these countries have larger Russian and Russian-speaking populations, as well as claimed by Russia to be violators of

human rights and supporters of Nazism. The question if the appearance of such movement in Lithuania is likely to have significant implications anyhow remains still open, although hints can be seen in expected opening of the Moscow House (Moscow city cultural centre) in Vilnius in the end of 2011.

Nevertheless, on the lower level, the 2010 showed that the rather new description of Russian foreign policy – Russian business is business – appears to be true. The year showed steady progress in the decision making on some cross-border projects (e.g. new bridge over the Nemunas river, etc.). The existing goodwill potential can also be clearly seen in the rapid solution of the issue with the attempt to transfer the Lutheran church-museum of Lithuanian classic K. Donelaitis in Chistyje prudy (lith. Tolminkiemis) to the Orthodox Church. The letter, confirming that this church is taken out of the list of objects to be transferred to the Orthodox Church came from Russian State Duma just several days before the same institution admitted the guilt of Soviet Union for the massacre of Polish officers in Katyn'. However, except for calming down the issue this step produced no further reaction of Lithuanian political elite, thus showing that it was insufficient to serve as an impetus for any public step towards the improvement of relations on higher level.

Therefore, to sum it up, it can be said that there are little chances for any major improvement of Lithuanian-Russian relations in 2011. The bilateral agenda of this year will be dominated by the energy issues; there is high possibility of new tensions related to different interpretations of the common history, however, such issues are rather unlikely to affect the lower level issues of common interest for both sides.

# RUSSIA and ESTONIA

Karmo Tüür

The previous forecast of the Russian-Estonian relations (for the year of 2007) proved surprisingly correct. A visible part of the relations was indeed focused on the issue of history, first of all, the so called Bronze Soldier. However, the forecast fell short of predicting such a dramatic development as street riots. The politics of spheres of influence also continued as predicted.

The situation has changed over the last couple of years. A forceful opposition at the level of, so to say, big politics (a never-ending stream of reproaches against Estonia at international forums) has been exchanged by Russia for a warmer – if not less intrusive – attitude (demonstration of readiness to co-operate at lower levels such as co-operation projects and visits). At the same time, the change is tactical, because the Russian strategic objective of preserving its influence over Estonian affairs has not gone away.

## Border treaty

The means to this end are several. The border treaty is definitely, if not the most important, then at least high on the list. During the recent years Moscow has been trying to put its border issues in good order. The last examples include the maritime border treaty with Norway (Sep 2010), even if in the latter case Moscow is probably

motivated by a desire to consolidate its positions before the break-out of bigger scrambles over the new division of the Arctic.

The border treaty with Estonia has been in the air since the collapse of the USSR. Afterwards both parties tried to raise this issue on several occasions, the last time in 2005, when the Estonian parliament got as far as the ratification of the treaty. Unfortunately, Russia interpreted an indirect reference to the earlier (Tartu) border treaty, made by Estonia in the respective treaty ratification act, as a potential source of danger and revoked its signature on the ratification agreement (a step the legality of which is still being questioned). After that Estonia's stance has been pointedly indifferent. Estonia referred to, for example, the aforesaid Norwegian case where there was no border treaty for decades without any significant consequences.

However, staff and tactical changes over the last couple of years in the European section of the Russian foreign policy team brought about a remarkable shift to a more flexible behaviour. Former problems have been often reconsidered as opportunities. Wrapping old problems in the new verbal package, Russia is posing as a more constructive partner. There are signs of the possible readiness of Russia to re-open the abandoned issue of the border treaty and at least discuss it again as early as in 2011.

## Minorities

Minorities are another issue which is certain to be high on the agenda in the coming year. The word 'minorities' here is not accidental, because Russia is showing a tactical flexibility in this issue as well. Alongside (not to say instead of) the habitual topic of the Russian minority residing in Estonia, other categories are increasingly gaining in importance: compatriots and even Setos.



The earlier vague self-regulation of compatriots has been replaced with a strictly centralised hierarchical structure which functions on the basis of a universal model – a local organisation of compatriots which is subordinated to the regional organisation which, in its turn, is subordinated to the world council of compatriots. The management and financing of this structure is not totally transparent but it still looks more civilised than the local dogfight for available resources which was often the case before. Spreading centres such as *Russkiy mir* (the Russian World) puts an even brighter gloss on the whole policy, because a conscious allusion to respective cultural institutions of big nations makes this model almost perfect.

The issue of Setos is an especially elegant example of transforming a problem into the opportunity. Russia earlier treated the whole set of Fenno-Ugric issues with a scarcely disguised caution. In June 2010, however, Setos were officially declared a small indigenous people in the Russian Federation. The fact that the overwhelming majority of Setos lives on the Estonian side of the border does not in the least diminish the value of this step – Russia allocates funds and gives attention to the promotion of the Seto issue.

Surely, there are some problems. The 2008 war against Georgia rendered the rest of the world and, especially Estonia rather allergic to Russia's policy toward compatriots. At the same time, apart from warnings, Estonia is unlikely to counteract this policy in any other way.

### Positive engagement

In general, the change of direction in the Russian policy may be considered successful. After all, nobody can say anything against friendship. By means of a relatively small investment Russia has launched something that may be conditionally called positive

engagement. There is a growing number of youth events where the flags of Estonia and other Baltic states are cheerfully waving in the breeze next to the flags of the CIS member-states (to give an example, let us remember the *KVN* (a funny and extremely popular student show) in December 2010 – representatives of the Baltic states (or *pribalty* in Russian) were declared winners with an added direct political message: “it is an award for coming back to us”).

The warming of Russian-Estonian relations has to be looked at from the point of view of a bigger framework. Naturally, good or at least functioning relations with Estonia are not goal as such for Russia. It is a part of a broader policy aimed at the constructive co-operation with the West. So far as the Baltic States, Poland and Ukraine were perceived as an impediment to this co-operation, they needed to be neutralised using various means.

Surely, such change of direction cannot proceed exceedingly smoothly. People behind the previous and more aggressive policy feel that their ideals have been betrayed. In the run-up to the elections (mostly the elections to the State Duma in 2011, and, to the lesser extent the presidential elections in 2012) the boiling kettle of political tensions may splash out some negative rhetoric.

Since Estonia will also hold parliamentary elections in 2011, this renewed friendship with the Eastern neighbour will draw some attention here as well. True, there is only one political force in Estonia which dares to play the Russian card in the positive key, but even this force (*Keskerakond*, The Centre Party) is facing at least two problems in that regard: in Estonia, an inability to form coalitions at the national level and, thus, an inability to transform its vision into policy; in Russia, a possibility that United Russia, a contractual partner of the Estonian Centre Party in Russia, will fall from grace.

All in all, we may expect a continuation of the warming in the Russian-Estonian relations on the part of Russia in 2011. However, Estonia is extremely unlikely to meet such friendly overtures half-way.

# RUSSIA'S ROLES IN THE FROZEN CONFLICTS IN THE NEAR-ABROAD

Eiki Berg

This predictive vision is premised upon Russia's attempts to play strategic and power games in a broader European region as big states do; the various roles of Russia (negotiator, mediator and assistant) in the frozen conflicts of its "near-abroad"; and domestic and foreign policy developments in Transcaucasia and Moldova. Domestic developments in Russia are largely irrelevant to this issue because for the last 20 years the Kremlin has undisguisedly persisted in preserving the *status quo* irrespectively of the moment or who was in charge. At the same time, the negative background of the Russian-Georgian war has created favorable conditions for Russia to show itself as a serious power that is able and wants to participate in the regulation of the frozen conflicts, some "accidents" notwithstanding. Unfortunately, the first impression may be misleading.

Russia's relations with the *de facto* states in its "near-abroad" should be placed in President Medvedev's conceptual framework of the European security architecture (5 June 2008, Berlin) with the USA and NATO playing only secondary role to the big European powers, first of all Russia and then Germany and France (on behalf of the EU), negotiating between themselves the extent of their spheres of influence. The Deauville Declaration (19 October 2010) is also concerned with co-operation in the European security architecture. It provides for possible joint actions of the EU and

Russia that could allay European security problems. Thus, Russia can secure an opportunity to orchestrate the new Concert of Europe, which will not only involve Russia in the European security mechanisms but also provides it with a much wider leeway in pursuing its interests in the “near-abroad”.

## Transnistria

As a skillful negotiator, in 2011 Russia will support the territorial integrity of Moldova in name only, but in deed it will again try to ensure the security of Transnistria to the maximum possible extent. Moldova’s non-alignment neutrality is very likely to consolidate and attempts to find a solution to the conflict with the Kremlin will intensify. Irrespectively of the shifts in the political power structure in Moldova after the elections (28 November 2010) and the political backing of the parliament-elected president, Moldova’s integration with the European Union and NATO will stall. However, it is likely to result in preconditions for the re-unification of Transnistria with Moldova on a confederal basis. Nevertheless, the final solution seems to be developing towards a division similar to that of Serbia – Montenegro and Sudan – Southern Sudan. Russia will continue to support Transnistria by way of uncollectible loans, direct subsidies, investments and cheap natural gas. There is no reason to believe that the Russian military force stationed in Transnistria will start moving out before the status negotiations have resulted in a solution which satisfies all conflicting parties. And Tiraspol enjoys as much veto power over the latter as Chisinau. More importantly, “Together with Russia“, an electoral bloc (*Proryv, Obnovlenie* and *Spravedlivaya Respublika*) organised just before the parliamentary elections (12 December 2010), is increasingly dominating Transnistria’s domestic politics. Bringing Transnistria constitutionally

closer to Russia and legally accomplished secession would hardly contradict Russia's interests in the "near-abroad".

### Nagorno-Karabakh

Oil-rich Azerbaijan, supported by Turkey, who is disillusioned in European integration, is in a completely different weight category than Moldova. Moreover, Nagorno-Karabakh is not a "Russian enclave" lost to Armenia but a convenient means to explain the presence of a Russian military force in Armenia's areas bordering Turkey (i.e. NATO). What the conflicting parties expect from Russia is mediation: peace in exchange for military bases (Armenia) and a friendly energy policy (Azerbaijan). Surely, "peace" means altogether different things to Armenia and Azerbaijan, and Nagorno-Karabakh's opinion is not even asked. A noticeable rise in Russia's activity in the regulation of Karabakh conflict (e.g. Astrakhan meeting on 27 October 2010) indicates a continuing interest to keep the conflicting parties within Russia's sphere of influence. Thus, in 2011 just like in the past years nobody except the Minsk Group (co-chaired by Russia, France and the USA) may influence this battleground. The extent of Russia's influence is directly dependent on its mediatory role – its abrupt discontinuation simultaneously with a change in the *status quo* may result in a complete disenchantment of Azerbaijan with Russia or in an increased impact of Nagorno-Karabakh on Armenia's domestic politics. A greater Western orientation of Armenia is unlikely.

### Abkhazia

After the August war of 2008, Russian-Georgian relations have been non-existent. Due to its involvement in the conflict, Russia distances

itself from the role of a peace broker and from status negotiations between Georgia and Abkhazia. With the exception of the multi-lateral meetings in Geneva, no negotiations actually occur. Russia decided to facilitate the creation of the Abkhazian statehood by establishing diplomatic relations with Sukhumi and accepting the responsibility to provide borderguards and state defence of Abkhazia for the years to come. Russia is assisting with the modernisation of Abkhazia within available means, which means plugging holes in the local budget, investments in infrastructure and control of financial institutions. Irrespectively of domestic and foreign policy developments in Georgia, that is, whether Saakashvili will be removed from office or Georgia will become pro-Russian or not, the lost territories will not be returned to Georgia. However, discussion of the new security architecture enables the creation of a “window of opportunity” for Russia to conduct its *divide et impera* policy. For example, by ignoring the call of the NATO summit in Lisbon to stop occupation of South Ossetia on the one hand and, on the other hand, emphasizing new prospects for the solution of Transnistria conflict to be implemented under the Russian directions.

## Conclusions

In 2011, Russia may start looking more actively for solutions to the frozen conflicts in its “near-abroad”. The principal reason for this increased activity is a greater involvement of Russia in the European security architecture. At the same time, there is no reason to believe in a change of Russia’s interests and roles in its “near-abroad“. The coming year will rather bring to Russia more opportunities to steer developments in the direction favorable to Russia.

# FOREIGN ECONOMIC POLICY IN THE RUSSIAN NEAR-ABROAD

Mihkel Uus

As the global economic recession caused by the recent financial crisis has eased, Russian economy has started to recover, although the process is not trouble-free. The peak of the crisis was reached in 2009 with the GDP falling by 7.9% and the inflation rate at 11.7% (IMF). The predicted figures for 2011 are 4.3% and 7.4% respectively. The return to growth was helped by the recovery in the economies of the Russian export destinations, in particular by the rising prices of oil products and consumer goods. In Russian foreign trade ca 69% belongs to natural resources and 21% to industrial goods. The main trade partners are the European Union (27 member-states) with 45.9% and China with 5.6% of the total export. The respective figures for import are 45.2 and 14.2 percent.

The pre-crisis GDP growth rate of 5–8 percent and good results in the previous years have provided Russia with an opportunity to revive its ambitions of a global superpower.

It is reasonable to begin with the underlying motives of foreign economic policy – I believe that, owing to the structure of Russian foreign trade, trade in natural resources will dominate Russian economic policy. Another leading motive is to create a more business-friendly legal environment in Russia as a way to diversify the structure of economy (first of all, to attract foreign investments). This environment has been inflexible and non-transparent until

now. The main interest of Russia lies in trade relations with the EU and China and in possibilities to steer these relations in a desired direction. Real opportunities to develop Russian economy depend on co-operation with these two economic regions.

***Russia's ambitions:***

- To move up the value chain by processing natural resources, not just limiting itself to the sale of natural resources (e.g. RosNano and added value in oil chemistry)
- Investments in exchange for natural resources (e.g. Sino-Russian oil trade)
- Knowledge in exchange for natural resources (investments by EU companies largely depend on improvements in the legal environment)
- To purchase companies in the value chain located in other countries (partly failed attempts to buy companies in the EU, but in other regions as well)
- To control the whole value chain (e.g. sale of nuclear competence packaged with the construction of facilities)

## Predictions for 2011

1. **EU-Russia visa-free travel.** In June 2007 the EU-Russia visa agreement came into force which simplified the issue of visas. A more distant objective is to abolish travel visas altogether. The EU is essentially ready to go ahead and obstacles lie only in the performance of obligations by the partner. The major impediment is Russia's inability to implement Article 10 of the agreement, which provides for a change in the procedure of registration of foreign nationals as an important precondition. President Dmitri Medvedev gives a priority to the modernisation of economy and the economic interests of Germany, the biggest



partner of Russia in the EU, which also demands further simplification of cross-border travel. The “modernisation agreement” signed by Russia and Germany in 2008, Russia’s interest in German technology and know-how, and the desire to secure natural gas contracts are related to diminishing human resources. The “partnership for modernisation” agreement signed in Rostov-on-Don between Russia and the EU is based on the same interests. An introduction of visa-free travel is very desirable for the incumbent Russian president both politically and economically as an important measure to ensure access for Russia to the market and investments related to know-how and technology in exchange for natural resources.

2. **Simplification of investments in Russia.** Direct foreign investments are critically important for the diversification of Russian economy – the current structural limitations of economy do not allow a decrease of the worrisome budget deficit with sufficient speed. The major economic risks in Russia are the excessive dependency on oil and natural gas exports, foreign investors’ low confidence in Russian economic policy and a weak banking system. Income tax on long-term direct investments is likely to be lowered in 2011, because it directly serves the modernisation objective of President Medvedev. A real opportunity to attract investors and decrease the budget deficit is to facilitate some privatisations, e.g. of state-controlled banks, such as Moskva Bank, SberBank, VTB, oil companies, etc. Still, actual IPOs are more likely to happen in 2012. In 2011, IPOs of RosGidro, or some agricultural companies may be expected.
3. **Natural gas.** Domestic gas prices will rise in Russia (depending on the change in reduction coefficients) up to 50% of the European average. Export prices will become more uniform (for 1000 cubic meters – to Belarus USD 220, to Ukraine USD 250, to Europe ca USD 308). The Russian gas export price for China will be lower than for the EU owing to a new gas pipeline, which

is nearing completion; the price for China is likely to be close to the domestic price in Russia.

Rising gas prices in the domestic market will speed up inflation. In the light of the forthcoming presidential elections, it would not be a surprise if Vladimir Putin points a finger at the Finance Minister, Alexei Kudrin, who will repay his economic and political “offences” against the state finances by resigning from the ministerial position.

4. **Reforms and opening.** In the negotiations for the Russia-EU partnership agreement no significant breakthrough is expected in 2011 (neither in specific areas nor concerning the creation of a common economic area). Russia has linked the progress of negotiations for this agreement with the progress of the European Security Pact. The signing of the Energy Charter Treaty is also unrealistic because the EU refuses to grant special treatment.

About 80 percent of direct foreign investments come from EU member-states and, regardless of the modernisation agreement, they are unlikely to rise in 2011, because in the heat of the election campaign some critical aspects of the legal environment will be neglected, such as the adoption and implementation of anti-corruption regulations, re-writing of public procurement regulations, real implementation of intellectual property regulations, a more uniform treatment of investments in the aspect of tax exemptions, raising the transparency of state law enforcement bodies and administrative apparatus at the level which is important for companies.

Nevertheless, development of information systems will improve information exchange and customs formalities, which present practical problems for small enterprises. Mr Medvedev’s resolve to continue with the development of the Russian “Silicon Valley” in Skolkovo will probably have a symbolic significance.

5. **Russia and China.** Russia supports China as a negotiator on the Korean peninsula and China’s ambitions in the SCO and as a

regional great power. The completion of the Taishet Daqing pipeline cements Russia's position as a main oil supplier for China alongside the Middle East. The Chinese capital investments into Russian economy are growing. Russia does not complain about China's activities in international politics; it supports China in the North Korea issue and financial policy. Nationality-related issues are not given a lot of attention, being outshined by economic co-operation and "pragmatic policy based on interests". However, Russia will fail to secure an energy monopoly due to the Turkmenistan-Uzbekistan-Kazakhstan-China pipeline, which is being completed in stages. Russia is forced to develop regional co-operation. Customs duties for Chinese imports and oil exports to China are likely to be reduced, largely because of Russia's joining the WTO.

6. **Relations with other regions:** Azerbaijan, where Russian influence is the greatest, appears to be the most important partner of Russia in the Caucasus because of the danger to the Russian southern oil transit corridor posed by the Baku-Tbilisi-Ceyhan pipeline. Russia is not going to cancel its free trade agreement with Azerbaijan (as part of the CIS customs union) irrespectively of its desire to join the WTO. As a result of the Russian political negotiations (border issues, free trade, investments, the Nagorno-Karabakh conflict and arms supplies to Armenia), Gazprom will provide additional investments into the Shah Deniz gas field to increase extraction capacity and to secure control over the resource which is to be delivered to Europe via the BTU pipeline currently under construction.

Since Kazakhstan's location and natural resources make it possible for it to co-operate with China as well as with Russia, Russia will continue to deepen the Russia-Belarus-Kazakhstan customs union, attempting to transform it into a single economic area. The most important objectives will be to control Kazakhstan's electricity distribution network and the gas

distribution network in Central Asia. Russia is unlikely to secure control over power transmission networks in 2011.

## Conclusions

Russian foreign economic policy will be characterized by problems typical of an economic system based on natural resources – unstable prices, competition and need for foreign investments. The keywords to describe relations with the neighbouring states in terms of economic policy in 2011 are the natural gas price, market barriers for natural resources (the WTO accession negotiations and bilateral negotiations), human resources, change of economic structure; also, a partial shift of economic relations from the European to the Chinese direction. Remarkable legal reforms have been started to ensure a more reliable business environment, which is important for modernisation and attraction of foreign investments.

# MISCELLANEOUS



# ECONOMIC DEVELOPMENTS

Raivo Vare

Comparing the present situation with the previous forecast, we may see that the forecast was essentially correct. The trend of consolidation of big companies in the hands of business groups favoured by the Kremlin has continued in such areas as production of raw materials, transit and logistics, agricultural and food industries and some other sectors.

Export of raw materials has been a crucial foundation of Russia's economic success. At the same time, such dependence on raw materials gives Russia a certain advantage at the economic recovery stage because global demand for raw materials is recovering first and more evenly.

The lesson of Yukos was well learnt causing a predicted decline of interest in long-term investments, even in the sector of raw materials. Predicted investments into pipelines and other infrastructure were growing, especially in relation to Nord Stream and Far East pipelines. 'Friendly' and 'friendly priced' privatisation has also started. The development of Ust-Luga port continued but at a slower pace than predicted.

A 'softening' in the foreign policy and foreign economic policy of Russia towards the Baltic states contradicted the forecast. It was caused by Russia's need of modernisation.

1. Analyzing developments in the Russian economy in 2011, one should start from the global trends in raw materials, because the state of the Russian economy as a whole and, particularly, the

well-being of the state budget, are directly dependent on the developments in the global raw materials market. Due to the recovery in the world economy and the continuously high growth rate of the leading Asian economies, a temporary decline in the raw materials market has been overcome and the demand is growing. Crude oil prices are mostly forecast at the level of 80–85 USD/barrel. However, the Russian budget was approved with the expected price level of 75 USD/barrel. Thus, there should be a surplus in the state budget on the one hand and, on the other hand, a relatively large amount of money is likely to reach domestic consumption via companies in the raw materials sector and through the growth in social expenditures which may be expected in the period preceding the parliamentary (2011) and presidential (2012) elections in Russia. As a result, inflation will stay high at 8%. All this increases the probability that the Russian Central Bank will raise the base rate which, in its turn, will squeeze credit markets and the development of real economy.

2. By the end of 2011 the winner of the 2012 presidential elections should be agreed upon (apparently, the incumbent prime-minister). It is also obvious that before the 2011 elections to the State Duma and before the next presidential elections large amounts will be spent on pensions, salaries, welfare benefits and selected investments in order to please the electorate and generate available funds for campaigning. Thus, we may predict a considerable drop in the amount of the state reserves to the level of USD 150 billion, i.e. the termination of the Reserve Fund in 2011 and the depletion of the Fund for the National Well-Being. It will be attempted to replace these funds with proceeds from privatisation and an increase in sovereign debt. Since it will be mostly happening in the domestic market, it will negatively affect the economic development by an extra squeeze



of available credit badly needed for the development of real economy and by raising the price of credit funds.

3. The first projects under the 3-year privatisation programme already declared in 2010 will be implemented in the amount of USD 3–4 billion. Shareholdings of seemingly different sizes in banks and transport infrastructure operators (a subsidiary of RZhD, Sovkomflot, Sibir airline, Port of Murmansk, Port of Novorossiysk, Vostochny Port, Sakhalin Shipping Company, an airport, banks VTB and Sberbank), several industrial companies (e.g. UAZ, Apatity), some companies in agricultural sector, Transneft and may be even Rosneft and several other companies will be privatized. It is significant that in the majority of cases new owners will receive relatively decisive voting rights in the management of the privatized companies and the right to select managers for the management bodies. Such new owners will be certain organisations connected to selected persons that are close to Vladimir Putin who is aiming to become re-elected as the president or some reliable project managers (e.g. the Rotenberg brothers, Gunvor group and its partners, banks Rossiya and Gazprombank, Messrs Deripaska and Abramovich and others). Also, a number of media assets, regional infrastructure operators and production companies will change owners to the benefit of persons ‘friendly’ to the administration, including several large Western European companies in the field of infrastructure and utilities which are favoured by the Kremlin. Some big businessmen who managed to retain their investment capability during the crisis (e.g. Mikhail Prokhorov) will also receive their share. Big state-owned banks which alone were able to expand aggressively their asset portfolio owing to the state support will continue to take over assets from their debtors and buy up assets in the market.
4. The uncertainty about the future felt by large and even medium-sized Russian companies and their owners and the fear

to lose money and property in 2012 in the aftermath of the presidential elections will result in an increasing capital outflow from Russia, also bound for the neighbouring states, and the growth of round-tripping. Hesitant recovery in the Russian economy and security market will result in an increase of IPOs and issues of securities in international stock exchanges by big Russian companies from different sectors of economy seeking a greater independence from the government by attracting foreign owners. Several companies will also try to do that in order to clear the uncertainty which has been surrounding their property and legalise it on the terms acceptable to markets. The examples are IPOs of Deripaska's Rusal in Asia, the recent emission of O'KEY, a supermarket chain, in London, and the takeover of Wimm-Bill-Dann, the biggest privately owned food products company in Russia, by PepsiCo.

5. The GDP will grow by approximately 4%, mostly driven by the export of raw materials. Domestic consumption will remain relatively weak due to scarce credit opportunities and growing imports but will nevertheless register a modest increase (3–4%) owing to the reasons explained in subsections 2 and 3. The growth rate of import will accelerate, resulting in the change of Russia's trade balance from surplus to deficit. A major chunk of investment-driven growth will be provided by the state-owned infrastructure operation monopolies and big natural resources companies (first of all, Gazprom which already notified of the cuts in its investment program for 2011), then Transneft, RZhd, oil companies, engineering, metallurgic and ore mining companies. During this year, construction parameters and conditions of South Stream will be also decided upon. It has already been announced that its construction costs will be almost double the original estimate. The construction will start within two years. The construction of the first Nord Stream pipeline will be finished as well as the preparations for the

construction of the second pipeline. The construction of oil and natural gas pipelines in the Far East and the natural gas pipeline in the Caspian Sea region will continue.

6. Although a drastic increase of the social tax rate paid by the companies was postponed for a while at the request of president Medvedev, it will rise to 34% next year (excluding small enterprises in the areas of production and welfare, for which the new rate will become effective after two years). It may be expected that a majority of small and a certain part of medium enterprises will return into the 'grey' area, leading to a strong increase in cash-based transactions in the Russian economy and, probably, a decline in tax revenues.
7. Russia will complete the WTO accession negotiations which have lasted for 16 years, but without haste and procrastinating promised abolishment of protective measures (e.g. the difference in rates for carriage by railroad to the Russian ports and foreign ports), simultaneously making a greater use of non-tariff measures (e.g. food quality norms etc.). Confusion and problems with the implementation of the Customs Union will continue, only aggravated by the rules of the preferred WTO.
8. Efforts to modernise the economy will be confined to half-measures because the expected result of the presidential elections, which will become known by the end of 2011, will greatly reduce the interest to invest into modernisation projects, including Skolkovo. However, membership in the WTO will not facilitate modernisation either and will more likely consolidate the position of Russia as an exporter of raw materials.
9. In 2011, the natural gas OPEC will be finally established under the direction of Russia and its price decisions will start affecting the world market similar to the oil OPEC. It is especially significant for the EU, because Russia and Algeria as members of the natural gas cartel and Qatar as a leading natural gas

producer in the Middle East are the key players in the supply of natural gas to Europe.

10. The fuel oil terminal in the Port of Ust-Luga will finally become operational. It will result in an initial annual decrease of fuel oil shipments by the Estonian Railway by a couple of million tons. However, it will not affect significantly the volume of cargo traffic in the Port of Tallinn because the major part of fuel oil which was previously shipped by rail will anyway be transported by sea to Muuga for transshipment to bigger vessels bound for distant markets in the South-East Asia. On the whole, however, volumes of other cargo shipped by the Estonian Railway will increase; the processed cargo tonnage in the Estonian ports will increase by 12–15%.
11. Long waiting time for trucks at border crossing points between the EU and Russia will not lessen in 2011, including the crossing points at the Estonian-Russian border, because Russia is initially able and willing to speed up border crossing only for people and passenger cars. On the contrary, it is possible that the plans of the Russian government to relocate all of the customs clearance procedures to the border (naturally, to be managed by a certain company) will be carried out and these will create obstacles for railroad shipments (especially for unscheduled trains and for general and container shipments) which have enjoyed a technologically fast border crossing procedure until now.

## Conclusions

On the whole, Russia's economic policy aimed at supporting the preferential development of large commercial enterprises favoured by the government and their expansion into new areas of activity will continue in 2011. Wide-spread corruption at all levels of govern-

## ECONOMIC DEVELOPMENTS

ment will continue to tie up business environment. An increase in the taxation of small enterprises and inflation boosted by export revenues will have negative impact as well. At the same time, internationalisation of Russian companies will continue and some relatively big privatisation transactions or direct investments are certain to come. In any case, the gap between Russia and its BRIC partners will have deepened precisely in the area of technology and exports, increasingly making Russia's membership in BRIC purely political and making Russia a supplier of raw materials to the other BRIC countries (especially China).

# ENERGY INDUSTRY

Andres Mäe

Writing a forecast of the developments in the energy industry of the Russian economy, I focused on the impact of the third energy package of the European Commission on natural gas exports, changes in the natural gas sector and relations with Ukraine and the Caspian Sea states in the aspect of natural gas.

## 1. Impact of the EU on natural gas exports

Russia's exports of natural gas will be influenced in the next few years by the third energy package of the EU which, among other things, provides for the following: establishment of the internal market in natural gas, creation of additional cross-border gas interconnection capacity and separation of production and supply from transmission networks (so called unbundling). Although the energy package will fully come into force only in 2013, the activities of Gazprom in the member-states of the EU will be subjected to the community rules already now.

The European Commission is serious about enforcing the common rules. It was shown by its intervention in the negotiations on the Russian-Polish and Russian-Bulgarian gas contracts. The Commission demanded precise provisions in these contracts ensuring free access to the existing or future pipelines for third market participants.

However, the Russian-Polish gas contract showed that the ownership of energy transport infrastructure (the Yamal-Europe gas pipeline) may be left to producers/suppliers (Europolgaz, a joint venture of Gazprom and PGNiG) if the management of a pipeline is conceded to an independent operator (Gaz-System). Contracts in the EU member-states and accession states related to other new pipelines (South Stream, Nord Stream) are likely to be amended along the lines of the Russian-Polish contract.

Moscow's attempts to frustrate Brussels' resolve to enforce the third energy package by the united front of natural gas exporters have been fruitless. At the Doha forum of natural gas exporting countries on 02.12.2010, only tepid support was given to Russia's declaration that the European Union should be more accommodating to the interests of gas producers.

## 2. Reorganisations in the natural gas sector

The General Scheme of the Russian Gas Industry Development until 2030 (made public in Novy Urengoy on 11.10.2010) provides for the decrease of Gazprom's share in the production and sales of natural gas both in Russia and abroad. Gazprom will preserve its position of the biggest gas producer, supplier and exporter, but the share of private gas producers will grow, particularly in the application of technologies that are new to Russia – liquefied natural gas (LNG), coalbed methane and shale gas projects.

The principal reason of this shift is the decline in Gazprom's revenues due to the falling exports of natural gas which substantially limits the company's ability to invest into new projects. Gazprom is experiencing difficulties even with the continuation of already started projects: investments in 2011 are approximately 10% below the plan, i.e. only USD 26 billion.

Among the independent gas producers, Novatek, an energy company, is rising rapidly. It was entrusted with LNG production in the South Tambei gas field on the Yamal peninsula. The Russian government supported the project with a 5-year tax-free period and is considering changes in legislation to make the project more attractive for foreign companies with necessary know-how and technology.

The rise of Novatek has not been accidental: the biggest owner of the company is Gennady Timchenko who is known to be close to the prime-minister Vladimir Putin; moreover, Novatek is supported by Igor Sechin, deputy prime-minister. It was Novatek to which Gazprom conceded a share of the domestic market in 2010, when Inter RAO, the electricity export monopoly, decided to prefer Novatek instead of Gazprom as a natural gas supplier for Inter RAO's thermal power plants. Gazprom even decided to waive its compensation claims from Inter RAO for the termination of supply contracts. President of the supervisory board of Inter RAO is Igor Sechin.

### 3. Gas relations with Ukraine

The outcome of the Ukrainian presidential elections in January 2010 dramatically changed the Russian-Ukrainian relations, lowering the probability of interruptions in natural gas supply. It is confirmed by the new natural gas transit contract signed for the 5-year term on 03.12.2010.

In spite of the warmer interstate relations, the role of Ukraine as a natural gas transit state in the export plans of Gazprom remains unclear. Although the Ukrainian government came forward with proposals, Russia has declined to give any binding promises. The European Commission, which is seen in Kiev as a desirable third party in an agreement on the future of Ukraine's gas transportation



system (GTS), did likewise. Moscow prefers to construct new pipelines (Nord Stream, South Stream). Brussels does not wish to participate financially in the overhaul of the Ukrainian GTS until it has become clear whether and on what scale Gazprom will supply the European states with natural gas via this pipeline in the future. Moscow and Brussels are likely to keep this cautious attitude towards Ukraine in 2011 too.

#### 4. Relations with the Caspian Sea states

Russia's aspiration to prevent natural gas exporters in the Caspian Sea region from competing with Gazprom in Europe may be deemed failed as of the end of 2010. Alongside Azerbaijan, Turkmenistan announced the readiness to take part in the planned Nabucco pipeline project.

The launch of Nabucco has been impeded by the absence of a submarine pipeline across the Caspian Sea connecting Turkmenistan and Azerbaijan. In its turn, the impediment to this submarine pipeline has been the inability of the Caspian Sea littoral states to agree upon the division of maritime territories. With the support from the European Commission, Turkmenistan and Azerbaijan managed to come to an agreement upon the division of the disputed territories and Ashgabad announced that the construction of a pipeline connecting the two states would be started as soon as possible, because it is not supposed to harm the interests of the other littoral states.

Russia threatened with diplomatic counter-measures at the highest level (the declaration of President Medvedev at the summit of the Caspian Sea states in Baku, 16.11.2010), but Moscow is unlikely to prevent the construction of the so called Trans-Caspian pipeline. This possibility is even slimmer, considering that all the five littoral states have preliminarily agreed upon the width of the

maritime border (24–25 nautical miles) and want to sign an agreement on the division of the Caspian maritime territories at the summit of the Caspian Sea states to be held in Russia in the coming year.

## Conclusions

Gas sector reform in Russia will continue in 2011 (though officially no reform is occurring). The greatest impact on this reform will be exerted by the European Union's rules to promote competition. Therefore, it would be interesting to observe whether Europeanization – which is already influencing other sectors of the Russian economy – will be able to leave its mark on the gas sector as well.

# RUSSIA'S POLICY TOWARD COMPATRIOTS

Tatyana Kiilo & Yelena Vladimirova

The term 'compatriots' in this forecast refers to the object/subject of the respective Russian policy, although it defines a politically constructed and, to a certain extent, institutionalized (compatriot organisations) diaspora community. The compatriots today are characterized by a relatively large level of heterogeneity. Diaspora is an ethno-sociological concept describing an ethnic group with certain properties. Thus, 'the Russian diaspora' is a broader concept than 'compatriots'. The definition of the Russian diaspora is close in meaning to the wide-spread concept 'Russkiy Mir' (the Russian world) which is also Russia's (still developing) ideological construct referring to the communities abroad that share the Russian ethnic identity. *Russkiy Mir* is strongly linked to the Russian culture and language rather than to Russia as such (otherwise it would be called *rossiyskiy* in Russian). V. A. Nikonov, an advocate of this concept, claims that *Russkiy Mir* would sound nationalistic in the domestic context, because Russia is home to many nationalities, but the term is suitable to define the Russian diaspora abroad.

Glancing back to the previous forecasts, we have to point out that directions of Russia's policy toward compatriots have remained the same in terms of keywords: repatriation policy, to define ("conjure up") a diaspora community of Russia's compatriots and support its identity, to strengthen the status of the members of the community

in their home countries etc. The topic of “falsification of contemporary history” which offers ideological explanations for many activities is indirectly related to this area of policy. In the previous forecast (2007) I wrote about the increasing institutionalisation in the conduct of the policy toward compatriots and the co-ordination of actions taken by different parties (the federal government, local governments, foundations established by the central government and federal subjects etc.) In the course of the last two years, administrative practices and policy measures have been developed (e.g. project competitions, grand events for compatriots, congresses, special programs and so forth) that are more transparent and formalised compared to the beginning of the century, including outbound cash flows to support the compatriots. However, the repatriation policy has not been particularly successful: in 2006–2007 only 890 persons made use of the opportunities offered by the program, in 2008 – 8300 persons, during nine months of 2009 – 6100 persons; the total number of beneficiaries has not thus exceeded 20,000.

‘Russkiy Mir’, a foundation financed from the federal budget, has become one of the biggest foundations financing the policy toward compatriots (the annual budget is approximately 500 million roubles). The budget of the compatriots’ program appropriated by the city government of Moscow will amount to approximately 800 million roubles in 2009–2011; almost half of these funds will be allocated to promote the use of and education in the Russian language abroad. 180 million roubles will be allocated by Moscow city to finance the organisations of compatriots. A similar compatriots’ program will be also launched by St. Petersburg in 2011. The three-year budget of the program is 224 million roubles. Another 400 million roubles will be annually channelled through the Ministry of Foreign Affairs (mostly via embassies).

## COMPATRIOTS

### ***Key changes in the policy toward compatriots in 2011:***

- The definition of compatriots has changed in 2010: being a compatriot depends not only on one's identity, but must be also certified by a respective civil society organisation or by the person's activities to promote and preserve the Russian language and culture, or by other evidence which testifies to the person's spiritual and cultural connection to Russia. This addition will result in clearer priorities of Russia's actions, because only those persons and organisations will be given support which are **actively promoting** the Russian language and culture, i.e. facilitating the conduct of Russia's policy toward compatriots. Compatriots have become subjects of the policy.
- A direct and *ad hoc* participation of compatriots in the shaping of the policy toward compatriots and their involvement in the decision-making process have declined. The World Congress of Compatriots (to be convened at least once in three years) was declared the highest representative body at the legislative level. In-between the congresses, the interests of compatriots are represented at the Russian government by the Worldwide Coordination Council of Russian Compatriots. Also, co-ordination councils of compatriots' civil society organisations in their home countries and consultation councils to advise the government bodies are being established. Russia's policy mostly attempts to institutionalize and organize compatriots abroad by, for example, supporting the operations of civic organisations and finding a suitable output for them. Foreign organisations of compatriots have been given the right to register compatriots and issue documents certifying their membership. It signified the renunciation of the so called universal "compatriot card"; first compatriot IDs (about 200 altogether) have already been issued in Estonia by the Union of Russian Citizens, led by Mr. Mishin.
- At the legislative level Russia recognizes the role of religious organisations (mostly connected with the Russian Orthodox

Church) in consolidation of compatriots and supports respective initiatives of the religious organisations. Thus, religion has been clearly given a place alongside the Russian language and culture as a foundation of 'Russkiy Mir'.

*Forecast for 2011:*

- The foreign policy dimension of the policy toward compatriots will be focusing on the active promotion of Russian language and culture, particularly in co-operation with respective institutions in compatriots' home countries. Since relations at the level of central governments remain strained, co-operation occurs at as low level as possible. Examples are the establishment of *Russkiy Mir's* centres at universities, the support of Russian language education in a direct dialogue with the owner of a school (in Estonia and Latvia, schools are owned by local governments) etc.
- The domestic (intra-Russian) dimension of the policy toward compatriots will be focusing on the support to repatriation which has been an important priority because of the ageing and declining population in Russia. State-funded places in universities (for full-time study) allocated in Russia for compatriot students must be also viewed as a tool of the repatriation policy. It is possible that such measure will prove to be more effective than direct efforts aimed at the repatriation of compatriots. Efforts are also being made to improve the domestic co-ordination of the policy toward compatriots between various actors in Russia. It is possible that border regions will become more involved (at the moment a major obstacle to their participation is deficit in the local budgets subsidised by the central government.)
- The Baltic states, Kazakhstan and Ukraine will keep their strategic importance among the compatriots' home countries. The set of issues with these states will not change: education with Russian as the language of instruction, the status of the Russian

## COMPATRIOTS

language, social problems, discrimination and human rights, organising compatriots and expanding their influence in the society of the home country.

- At the higher level, cultural diplomacy will be attempted (also aimed at the so called new diaspora) in the EU member-states, the USA and China.
- Debates on the nature and background of the policy toward compatriots will continue on subjects such as the cultural and intellectual influence of Russia in the home countries. It will provide a more global and ambitious dimension to the policy toward compatriots. For example, by defending education with the Russian language of instruction and distributing learning aids in schools with the Russian language of instruction, Russia is actually defending its pedagogical tradition and philosophy of upbringing. Ideologically, some new phenomena may emerge in the policy toward compatriots, for example, de-Stalinification (the issue was raised in 2010, particularly in the context of the Russian-Polish relations.)

## Conclusions

The policy toward compatriots has become a full-fledged and operational direction of policy that serves various (and, sometimes, conflicting) interests and goals of Russia with considerable success both in foreign and domestic policy. Similarly to the preceding years, in 2011 its major target will be the expansion of Russia's cultural and intellectual (and spiritual) influence in the target states of the policy and the diaspora communities residing there. The focus in 2011 and the next few years will be on the language- and education-related measures in conjunction with the increasing consolidation and institutionalisation of compatriots' organisations.

# THE POLITICS OF MEMORY IN THE RUSSIAN FOREIGN POLICY

Heiko Pääbo

A politics of memory usually does not exist independently, but is firmly embedded in other policies as the political memory influences, consciously or subconsciously, all decision-makers. In 2010, the politics of memory played a substantial role in the Russian foreign policy, defining some remarkable changes in policies. Therefore, it is important to forecast and monitor the events in 2011 in order to evaluate whether the contradictory changes in the policies in 2010 will stay as they are or will they be further developed.

Two keynote terms for the year 2010 would be Ukraine and Poland. In the case of Ukraine, Russia managed to influence the Ukrainian government toward the acceptance of the Russian approach to history, and in the case of Poland Russia made a U-turn which was rather surprising in the context of the previous Russian politics of memory.

Russia has firmly opposed a sweeping condemnation of crimes committed by the Soviet regime. After the rise to power of Vladimir Putin, efforts were made to rehabilitate the Soviet regime by shifting the emphasis from terror to development work and victories.



## Ukraine yielded to Russia by itself

Viktor Yuschenko strongly tied Ukraine with a political bloc which emerged in the Central and Eastern Europe with the goal to condemn the crimes of the Soviet regime, equating them with those of the Nazis. Ukraine re-assessed the activities of the Ukrainian Liberation Army and an important goal of Yuschenko's administration was to define the Holodomor, a man-made famine that occurred in Ukraine in 1932–1933, as an act of genocide committed by the Soviet regime against the Ukrainian people.

The Kremlin's policy was to deny that firmly and emphasize that the famine struck not only Ukraine, but also several other regions in Russia and Kazakhstan. This issue created a deadlock between the Russian and Ukrainian politicians, because neither party was ready to compromise.

The presidential elections at the beginning of 2010 brought about an important change. As much as Yuschenko persisted defining the Holodomor as genocide, Viktor Yanukovich has been focused on undoing the results of the previous president's activities:

1. in February, a page dedicated to the Holodomor on the president's website was closed;
2. in April, Yanukovich appealed to the Parliamentary Assembly of the Council of Europe, urging it not to define the Holodomor as genocide;
3. in October, Yanukovich refused to take part in the commemoration of the Holodomor with the prime-minister of Canada and removed the reference to the Holodomor-related research from the Shevchenko National Prize Regulations.

The Kremlin thus scored an important victory in its politics of memory. It may be expected that Yanukovich's firm stance will not change within the next four years and the Russian understanding of

history will be further inculcated in Ukraine and, on behalf of the Ukrainian state, at the international level.

### In the relations with Poland, Russia yielded

A contrary development occurred in the politics of memory in the relations between Poland and Russia. Poland has portrayed itself as a victim of the Nazi Germany and the Soviet Union in the Second World War. A major symbol in this narrative has been the Katyn massacre.

As late as September 2009 Putin made a provocative speech pointing out that the Molotov-Ribbentrop Pact was just a part of the broader politics of pacts in Europe and each state did their best to survive against the Nazi Germany. In his speech, Putin referred to the German-Polish non-aggression pact as one the first milestones in the European politics of pacts with Germany. He thus promoted a view that the Polish government itself played an important part in what happened later to the Polish people.

In April 2010 the Polish president and many representatives of Poland's political elite who were flying to the commemoration ceremony of the Katyn massacre were killed in the air crash near Smolensk. This event triggered a conciliatory politics between Russia and Poland which has, among other things, resulted in improved political relations. In August the bureau of the Russian president announced that Andrzej Wajda (the director of the Polish film *Katyn*) would be decorated with the Order of Friendship and Wajda's film was aired on the Russian TV.

In November, the State Duma passed a declaration which confirmed that the Katyn massacre was approved by Stalin and unambiguously condemned these activities. In December, President Medvedev came to a state visit to Poland. All these events hint at the Kremlin's desire to remove historical obstacles in the bilateral

relations. Naturally, it is too early to say how far Russia would go with the re-assessment of historical events, but an important step has been made nevertheless.

We may speculate that the Smolensk air crash provided the Kremlin with an opportunity to overstep this historical dispute with Poland without losing its face and even score an important moral victory.

### Changing narratives

Thus, contrary to Ukraine where Russia managed to enforce its own narrative, in the relations with Poland it was decided to do the opposite. At the same time, both developments silenced two vocal voices that called for the condemnation of Soviet crimes; in a long-term perspective, a stable development in this direction might create domestic preconditions in Russia to criminalize these crimes in future.

As a rule, changes in a politics of memory take a long time and, therefore, they are difficult to predict in a one-year forecast. At the same time, it is not impossible that a certain change may also enter into the agenda of Russia's relations with the Baltic states.

One of the greatest obstacles in contemporary Russian-Estonian relations is the border treaty and the interpretation of the Tartu Peace Treaty. At the moment, both parties have deeply entrenched themselves in this issue and a compromise is difficult to imagine. However, Russia hinted through its ambassador in Estonia that there is a wish to resolve the aforementioned issue in 2011. Therefore, it may be predicted that, should Estonia meet Russia halfway and be ready to re-negotiate the treaty, the problem of the reference to the Tartu Peace Treaty might be discussed and Russia might have an opportunity to solve this issue without losing its face.

## Conclusions

To sum up, a degree of readiness is noticeable in Russia to change direction in the politics of memory, but it is important for the Russian political elite to have an opportunity to save face when doing so. No substantial breakthroughs can be predicted for the next year, unless some unexpected events occur similar to the Smolensk accident. At the same time, such contradictory policy may simply imply a dismantling of the united front as well as a demonstration to the Western Europe that crimes of totalitarian regimes are condemned in Russia too.

# FOREIGN POLICY IDENTITY

Toomas Riim

The goal in the construction of Russia's foreign policy identity – as is the case with any other foreign policy identity – has been to strengthen the uniqueness of “we” on the one hand and, on the other, to position itself in interactions with the external environment.

Looking back at the previous (2007) forecast, we may see that all the predictions made at that time have essentially come true: we predicted a forceful foreign policy on the part of Russia toward the CIS states, attempts by Russia to prevent Georgia and Ukraine from joining NATO, and strengthening of the Russian position in Western Europe due to an increasing dependency of the latter on the Russian energy resources. A prediction of a minimal probability of intervention of the Western states in case of an escalated conflict with Georgia due to an increasingly irreplaceable role of Russia in solving global problems (Iran, North Korea, etc.) also came true.

A more self-assured and forceful Russian foreign policy during the last 7–8 years supported by a rise in prices of several strategic raw materials and energy resources has indeed strengthened the “we” component of the Russian foreign policy identity, which is especially evident in a more energetic near-abroad policy. It might be possible for Russia, in terms of the uniqueness of identity, to withdraw into oneself and develop the so called sovereign democracy without having to worry about the critics from the West. However, in the rhetoric and practice of Russian foreign policy we

may notice increasingly active attempts to become closer to the Western states and conform to the Western norms. It implies a growing readiness to make concessions to the West and accept Western criticism.

According to Alexander Dugin, the situation in the public discourse is still rather confused, because the elite is split into the representatives of the liberal-reformist camp, to which President Medvedev has been gravitating, and into the conservative camp, which supports Prime Minister Putin.

### Co-operation with NATO as a litmus test

Although NATO and the expansion of its so called “infrastructure” closer to the Russian borders are called the greatest external threat in the new Russian military doctrine, after the “reset” in the Russian-American relations in spring 2009 very active contacts between Russia and the Western states have been restored and the NATO-Russia Council has been revived. Thus, a low point in the relations after the Russian-Georgian war has been overcome.

The rhetoric of NATO leadership (Rasmussen and others) demonstrates the Western states’ readiness to engage Russia in NATO’s operations in zones of military conflicts (e.g. a recent joint Russian-American antidrug raid in Afghanistan and the US consent to buy Russian transport helicopters for Afghanistan’s military). On its part, Russia promised to train officials of Afghanistan’s antidrug services and at the NATO Lisbon summit an agreement was reached for a road transit of NATO military cargo (including armoured vehicles) to Afghanistan and back through the Russian territory. France, a NATO member-state, is interested in selling NATO technology to Russia (the amphibious assault ship Mistral).

NATO Secretary General Rasmussen has already proposed to conduct joint military exercises and exchange satellite images with

Russia. At the Lisbon summit on November 20, NATO approved a package of co-operation agreements with Russia on Afghanistan. One of the major issues at the summit was a possible NATO-Russia missile defence partnership. The Western states want to create a missile defence shield against such states as Iran, whereas Russia deems it a danger to its nuclear weapons capability, especially the earlier US plans. Although Russia's president Dmitri Medvedev proposed his own version of the European missile defence shield at the summit, it did not lead to any practical promises to engage Russia in the development of the missile defence.

### Construction of collective identity

In the context of mutual approach between Russia and the Western states, the whole process may be called a construction of a collective identity. A shared component of the collective identity is a similar range of dangers (uncontrolled nuclear weapons and ballistic missiles, drug crime- and terrorism-related threats).

In practice it has meant mutual concessions in the areas of foreign, domestic and economic policy. For example, the USA abandoned the installation of the missile shield components in the Czech Republic and Poland, and signed a new strategic arms reduction treaty with Russia, which, unfortunately, does nothing to reduce the number of Russia's tactical nuclear weapons. In its turn, this summer Russia supported the UN resolution putting an embargo on arms sales to Iran.

Several leading analysts in Russia (INSOR's analyst Igor Yurgens and others) even came out with a suggestion for Russia to join NATO or, at least, to secure some kind of strategic partnership with the organisation.

In the area of economic policy, Russia is negotiating the membership in the WTO more successfully than ever before (on

November 5, President Medvedev signed a law that provides for Russia's joining the International Convention on Simplification and Harmonization of Customs Procedures). It will oblige Russia to liberalize its trade policy in any case, once again dealing a serious blow to the advocates of the sovereign democracy concept. Furthermore, Russia is negotiating with the EU a visa-free travel and a new Russia-EU framework agreement.

### Expected developments

Predicting developments in 2011, we may expect further consultations over Russia's possible participation in the European missile defence system, but any mutually satisfactory role for Russia in this system is unlikely to be found as early as in 2011.

Most probably, Russia-NATO co-operation in Afghanistan both in antidrug fight and supply of arms and equipment will intensify. After the US Senate has ratified the so called START-3 treaty, the Russian-American relations should improve even more. Sensitive diplomatic materials recently made public by WikiLeaks, which cast shadow on the Russia-USA relations, are unlikely to do a serious damage to the spirit of co-operation.

A breakthrough may be expected in the Russia-EU negotiations on a visa-free travel, although a complete abolishment of visas is doubtful. Russia is expected to join the WTO already in the first half of 2011. To sum up, in 2011 Russia will continue to bring its foreign policy closer to the West as it has been the case during the last two years, provided the situation in possible conflict zones remains stable. Most likely, other forms of political co-operation will be found in addition to the antidrug fight in Afghanistan and possible participation in the European missile defence shield.



# RUSSIAN FEDERATION AND DISARMAMENT

Matthieu Chillaud, Renata Hessman Dalaqua

As it was the case in the last prognosis, Russia's relations with the United States are still central to the establishment of arms control verification measures and progress towards disarmament. Moscow's pursuit of equitable terms in its negotiations with the West has only got stronger since 2007 and there have been several indications that the Kremlin leaders are willing to challenge U.S. prominence in world affairs. Nonetheless, growing political support towards disarmament, especially that related to weapons of mass destruction, has been part of both Russian and American official statements.

Despite the fact that Russia and the U.S. have recently agreed on some arms control measures, modernization of the military arsenal and even projects towards rearmament have not disappeared from the Russian agenda. Moscow's objective is to play a more assertive role in world politics and strengthening its military power is seen as one necessary step in that direction. In this context, Russian President Dmitry Medvedev announced in 2009 plans to increase military expenditure and also to start a 'comprehensive rearmament' from 2011 onwards. Moreover, the Russian military industry has demonstrated recently that new weapons, new systems and new delivery vehicles that have been under development for the last decade are now ready, or almost ready, to be incorporated to the Armed Forces. Old intercontinental ballistic missiles (ICBM) have

been gradually replaced over the past five years, as new models are now being deployed, invigorating the Russian strategic rocket forces. A new series of nuclear-powered submarines, designed to carry several ballistic missiles and torpedoes, is expected to be ready by 2015.

It is important to highlight that Russia is not violating any disarmament commitment when carrying out the modernization of its nuclear arsenal and delivery systems. As the legal successor of the Soviet Union, the Russian Federation is a Nuclear Weapon State, as it was established in the 1968 Nuclear Non-Proliferation Treaty. The country possesses the biggest nuclear stockpile in the world and, according to calculations of the Federation of American Scientists, there were roughly 2,600 launch-ready strategic nuclear warheads within the Russian territory in late 2009. Under the 2002 Strategic Offensive Reductions Treaty (SORT), better known as the Moscow Treaty, Russia and the United States are required to reduce their deployed forces to no more than 2,200 strategic nuclear warheads each by the end of 2012. Even though the Moscow Treaty does not establish any verification measure, Russia is likely to be moving towards that goal, given that reducing the number of strategic warheads and, at the same, modernizing the nuclear forces has been the pattern of the latest developments in the country.

Since December 2009, when the 1991 Strategic Arms Reduction *Treaty* (START) expired, no bilateral arms control verification regime between Russia and the United States has been in force. Even though President Obama and President Medvedev signed the New START Treaty in April 2010, both the Russian Duma and the American Senate need to ratify the agreement in order to bring the treaty into force. The New START, which would supersede the Moscow Treaty, cuts the number of deployed strategic nuclear warheads permitted to a maximum of 1,550 in each of the two countries. Additionally, no more than 700 deployed nuclear delivery vehicles per country are permitted. The verification regime set by

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the new treaty would be similar to the one that expired: up to eighteen on-site inspections would be permitted in each country every year; data swap and notifications would also be mandatory and exchange of missile telemetric information would be allowed up to five times a year. It is imperative that Russia and the United States restore the bilateral verification measures, increasing the degree of openness and transparency in nuclear matters. Nevertheless, the New START has been a contentious topic of political debate, mainly within the American Senate. So far, no dates have been set in Russia or in the U.S. for the treaty to be put to a vote.

Another subject of future joint military cooperation could be missile defence, as the Obama administration has revised the Bush plan and now intends to field land and sea-based versions of the Standard Missile 3 system around Europe, in partnership with the North Atlantic Treaty Organization (NATO). The Kremlin leaders, who were strongly against the initial Bush plan, have now accepted NATO's invitation to discuss a collaborative missile defence initiative. President Medvedev attended the NATO summit in November 2010, where the member countries approved the proposal to establish an integrated shield against missile threats. The plan is supposed to be carried out in phases, from 2011 to 2020, and although cooperation with Russia is expected, the specific terms through which Russian involvement will occur are still not clear. President Medvedev affirmed that Russian participation is, as usual, dependent on whether or not Moscow is granted equal standing in the partnership with the U.S. and the other NATO members.

Despite ratifying the Biological Weapons Convention (BWC), the Soviet Union maintained an extensive offensive germ weapons program, including research into tularemia, epidemic typhus, smallpox, plague, anthrax, brucellosis, Marburg, Ebola, and yellow fever. The regime established around the BWC lacks strong verification mechanisms and, in an August 2005 report, the U.S. Department of State asserted that "the United States is concerned

that Russia maintains a mature offensive [biological weapons] program". In its 2010 compliance report, the State Department said that it had no indications that Russian activities "were conducted for purposes inconsistent with the BWC". However, it also stated that it could not confirm that Russia had fulfilled its obligations under the BWC. At the moment, Russia affirms that its biological weapons programme has been terminated and there has been no evidence of biological proliferation in the country.

Russia is behind schedule and working with extended deadlines regarding its commitments to chemical disarmament; Moscow now expects to eliminate its chemical weapons stockpile by 2015. As of September 2010, Russia had destroyed 19,300 tons of its chemical weapons stockpiles, which accounted roughly for 48 percent of its former chemical arsenal.

Last but not least, conventional disarmament is currently facing a deadlock. The regional European arms control regime for conventional weapons has only deteriorated since Russia unilaterally suspended its participation in the Conventional Forces in Europe (CFE) Treaty in 2007. There has been no progress in renegotiating this treaty and the war between Russia and Georgia did not contribute to a resolution of the frozen conflicts. When the Agreement on Adaptation was signed in Istanbul in November 1999, the NATO states stressed that its implementation could only "be envisaged in the context of compliance by all states parties with the treaty's limitations". Despite a significant number of propositions from Western countries, Russia has not been willing to come back to its decision.

Russian diplomacy has been active in the field of disarmament and that ought to continue in the near future. Despite the fact that Russia possesses the largest nuclear arsenal in the world, the trend has been to reduce the number of strategic warheads while modernizing it, and the signing of the New START with the United States confirmed it. Nonetheless, the Russian Duma must approve

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the treaty to bring those reductions into effect and reestablish the bilateral arms control mechanisms. It is important to notice that progress related to cuts in the number of strategic nuclear weapons has not been accompanied by efforts to take its strategic weapons off high alert. Additionally, Russia and the U.S. should consider future reductions in their tactical nuclear arsenal too. The destruction of the chemical stockpile will continue and efforts to prevent biological proliferation should also be carried out. Regarding conventional forces, the CFE Treaty deadlock is most likely to persist.

As it is expected, in 2011 Russia will begin its comprehensive rearmament programme, which includes not only investment in defense research and development, but also expenditure on new weapons and technology from other countries (e.g. French Mistral warships and Israeli unmanned aerial vehicles). Modernization of its nuclear arsenal and delivery systems is also very likely to continue, the question being whether or not it will be accompanied by a bilateral arms control regime with the United States.

# CONCLUSION

Karmo Tüür

Dear reader, opinions of over 40 authors on various developments in the Russian Federation in 2011 are brought to your attention. I would advise you to read them all and then draw your own conclusions. However, I would like to add some words as the editor. It should be noted that my generalisations unavoidably come from a somewhat broader context than just this symposium, since I have been doing this kind of work for ten years.

The first and most general conclusion that I drew after perusing these forecasts is that Russia is increasingly willing to play its own role in the world, be it the role of a partner in a global game or a regional power centre. However, Russia's capacity to play this role successfully is diminishing. It cannot be done with energy resources alone; Russia has limited military capability and insufficient financial weight, let alone human resources, or attractiveness of the political model.

But here it is more important to sum up assertions from different texts than to convey a general impression. I will try to do that following the same basic structure as in the table of contents: domestic politics, foreign policy and miscellaneous. I gave each article a certain mark – plus, minus, or zero (to signify positive or negative developments for Russia in the given area) – and the result was a bit of a surprise even for me. Surely, my assessment of any given forecast does not necessarily match the author's opinion (but isn't it always the case with an outside opinion?).

## CONCLUSION

In the area of domestic policy, I got a rather balanced picture – three zeroes, two minuses (constitutional law and religion) and two pluses (the military and civil society). Internal contradictions in the concept of state and religious nationalism are never helpful to the consolidation of any state. At the same time, the nearing end of the age of reforms in the military and the mutual learning process that the civil society and the state are engaged in are good news, however painful these processes may be.

In the area of foreign policy, the overall balance was more positive: only four minuses and six zeroes and 13 pluses. The most positive developments are noticeable in international organisations and in Western Europe, formal as they are in the first case (e.g. the creation of new chat rooms) and focused upon economic interests in the second. A negative undercurrent has remained in the relations with the USA, Japan, Lithuania and... Belarus.

Under *Miscellaneous*, the most broadly defined subtopic, the reviewed issues greatly varied from very specific (e.g. energy) to very general (e.g. identity). However, the marks here were surprisingly positive – two zeroes and five pluses. Certainly, here the differences in the assessment of developments are especially evident. What is positively assessed from the Russian standpoint is not necessarily pleasing to Russia's neighbours (e.g. a successful policy toward compatriots) and the other way round (e.g. continuing rapprochement with the West, which I rated as positive but which is considered treachery by many in Russia).

Going from general to particular, we must obviously attempt an answer to the question that surfaced in various contexts in many articles and certainly in the mind of the reader – who of the current tandem will run for presidency in the next presidential elections in Russia? Although the elections will be held only at the beginning of 2012, the question itself should be answered within 2011. A majority of the experts tended to think that Vladimir Putin would become a candidate.

## KARMO TÜÜR

To conclude, I repeat once again my recommendation to read different opinions yourself and draw your own conclusions. Only then the symposium will have fulfilled its purpose and you, my dear reader, will have become one of our co-thinkers.

All our knowledge is worth little if we cannot (or dare not) use it to uncover the future. I wish you good thinking!



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