



Report on Wilton Park Conference WP839

LOOKING TOWARDS 2008 AND BEYOND: RUSSIA AS A GLOBAL PARTNER: RECIPE FOR SUCCESS OR EMPTY SLOGAN?

Thursday 15 - Sunday 18 February 2007

Summary

1. There was broad agreement that Russia's relations with the West were prickly at present and likely to remain so. Some saw the glass half-empty, a few saw it half-full, with disillusionment and mistrust on both sides. The Russian elite wants the West to keep out of its backyard while the EU wants successful states on its borders. Russia is still building a nation state and has now made its own civilisational choice. High energy prices and economic recovery have increased its options. But there are risks: of renewed economic stagnation; of rising nationalism; and, even, of systemic collapse. Civil society and a market economy cannot be created from above. By autumn 2007 we should know the identity of the intended next president of Russia.

Background

2. The conference opened with a British and a Russian view of Russia as a global player and a Russian assessment of the state of the Russian nation. Trust between Russia and the West was thought to be low. The West was troubled by a lack of transparency in Russia, as well as unpredictable behaviour, as seen in interruptions in energy supplies via Ukraine and Belarus over the past year, and concern over state run Gazprom taking control of the Sakhalin-2 oil and gas project, the world's largest, from Shell. The West and Russia also disagreed over the objectivity of Organization for Security and Cooperation in Europe/Office for Democratic

Institutions and Human Rights (OSCE/ODIHR) election observation missions, and over their respective roles and interests in the common neighbourhood – especially Ukraine, Belarus, Moldova and the South Caucasus. The West wanted these countries to be well governed, democratic and prosperous, whereas Russia appeared to have an interest in them remaining weak, poor and conflict-ridden. The glass appeared to be more half-empty than half-full.

3. In President Putin's address to the nation last year, he highlighted the need to tackle corruption, and to promote the rights and freedoms of citizens, democracy and civil society. Russia signed up to all of these on joining the Council of Europe and in the Partnership and Cooperation Agreement with the EU. Last year's G8 summit in St Petersburg produced a declaration on Global Energy Security. It contained commitments to open, transparent and competitive markets for energy production, supply, and transit; and to equitable, stable and effective legal frameworks as well as the obligation to uphold contracts. Shortly afterwards, Gazprom's monopoly on gas exports was effectively confirmed, and problems arose with the Sakhalin-2 project. Was it possible to take President Putin at his word, at a time when the EU's relationship with Russia was in trouble precisely over some of these issues? There were similar concerns about words and deeds in the Russia/NATO relationship. This was not just an issue for Russia, but one for the broader international community too.

4. Participants agreed that Russia has increased its economic and financial strength, with average GDP growth of around 6-7% per annum, debts repaid and huge currency reserves. It is the world's largest energy exporter, and Gazprom the third largest publicly traded company in the world. Living standards are improving and President Putin's popularity ratings are over 70%. The big question in everyone's mind is the succession in 2008. Will Mr Putin depart the presidency, maybe retaining an important role in the state, or will he stay on for a third term after all? Some thought that once a new president was elected, the notion of a key post-presidential role for Mr Putin was a mirage: there cannot be "two Tsars". Once the new man was president, he would hold the power, even if it took him a year or so to establish full freedom of action. Then he would expunge the power of the previous regime, as Mr Putin himself had done. This view was in conflict with another proposition, that Mr Putin could remain the driving force in Russian politics for many more years to come,

and could, for example, run for president in the 2012 election. The promotion on 15 February of Defence Minister Sergei Ivanov to First Deputy Prime Minister, so as to hold the same status as the other likely presidential candidate, Dmitry Medvedev, was thought to be a signal that both were in the running and no decision had yet been taken.

5. In the Duma, the Kremlin has constructed a bi-partisan system: projections for the elections in December 2007 suggest that the two Kremlin-sponsored parties – United Russia and Just Russia – would both garner a sizeable proportion of the votes (though currently they have about 46% and 8% of the vote respectively, with 12% going to the nationalist Liberal Democrats, 19% to the Communists, and 6% to the liberal parties). In March, regional elections will be held. These are important, as regional elites control local media, and if President Putin sets two presidential candidates against each other, they will not know which to support. Nationalists could make gains.

6. Russia's apparent strength was questioned. Economic recovery was not guaranteed to continue. While the Chechen War was said "to have been won", attention was drawn to the increased instability around Chechnya, especially in Dagestan and Ingushetia. The bureaucracy has exploited popular demand for stability in order to extend its control over society. Now people want its power to interfere reduced because it encourages corruption and obstructs private business. Attempts to establish an "efficient" authoritarian regime could split the elite, causing a systemic crisis, which only renewed democratisation could fend off. Two outcomes were possible: renewed modernisation after 2008, or a nationalist-fascist reaction to maintain control. One speaker described the crisis scenario as wishful thinking by liberal intellectuals.

Foreign Policy

7. Russians thought their country had overcome its identity crisis in foreign policy. It was no longer the "sick man of Eurasia", and had regained the status of a great power, capable of operating pragmatically and independently from other centres of power. It had shown that it had a role to play in solving the world's problems.

President Putin's speech on February 10 at the Wehrkunde in Munich¹ was seen as a response to that of US Defence Secretary Gates. Observers were struck more by Mr Putin's presence and robust tone than by the content of the speech – in previous years Sergei Ivanov had usually attended the conference. Russians resented the US's agenda of spreading democracy – tantamount to “spreading happiness by force” - but were not characteristically anti-western. A Russian view was that Russia could not be a partner of the West, as it was part of the West, but wanted to be treated as an equal. Although some Russians were convinced that the West was out to destroy Russia, this was not the prevailing opinion.

8. There is arguably more frustration than stagnation in the **EU- Russia** relationship. Disagreements over Iraq still lurk in the background, as well as suspicions in Moscow that the new EU member states are ill-disposed towards Russia. There are fundamental differences of approach: the EU is technocratic, while Russia operates on the basis of “sovereign will”. EU speakers did not deem there to be a crisis, and thought that the existing Partnership and Cooperation Agreement plus the Four Common Spaces provided an adequate framework pending the formulation of a new EU/Russia agreement desired by Moscow. Negotiations on a mandate for a new one were blocked by Poland over Russian policy on meat imports from Poland. The German Presidency hoped that this obstacle would be removed swiftly.

9. New trade agreements are expected to enter into force soon, and progress is sought on visa issues. The Northern Dimension includes Norway and Iceland in the relationship. While roadmaps exist for the Common Spaces, real content is still lacking, especially in matters such as judicial reform, human rights and corruption. New rules on the movement of foreigners seem counter to the principle of free movement of people. The EU wants Russia to ratify the Energy Charter, to ensure reliability of supply, but the more it insists, the more steps Russia takes to defend its perceived energy interests, and calls for reliability of demand. On a more positive level, once Russia joins the World Trade Organisation (WTO), a comprehensive Free Trade Agreement is a possibility. In foreign policy, the two sides could do more together, but it is not easy to identify common positions. In particular, Russia is

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http://www.securityconference.de/konferenzen/rede.php?menu_2007=&menu_konferenzen=&sprache=en&id=179&

unhappy with EU cultivation of the near neighbours, which it sees as encroachment on Russia's sphere of influence. Could Russia ever accept a choice by Ukrainians of a different way of life?

10. Trade is booming between the EU and Russia but there is still a "civilisational disconnect". Some regard Russian and European values as different. Because they "look the same" westerners have come to expect Russia to share their values but Europe doesn't expect countries like China to share them. Expectations in the 1990s on both sides were exaggerated. One Russian speaker saw EU-Russia relations more as a question of accommodation than integration: Russia did not want to adopt EU norms. Others thought Russia was using EU systems in pensions, for example, as a model. There was also disagreement as to whether ordinary Russians regarded the EU as a threat to Russia. The "harder" line on these issues was shared by the Kremlin elite, and should therefore be taken seriously. It was suggested that for the first time there was a gap opening between the opinions of the Russian ruling elite and the intelligentsia. The latter wanted integration with the EU based on European values. Many of them did not see Russia as "special". It could be democratic: Russians had twice voted for democratisers and polls showed that 60% endorsed "western values". If the price of oil fell dramatically, how would the rulers deal with this? The "law of unintended consequences" was cited. If the regime fails to reform it could bring about its own collapse, as happened under President Gorbachev. If this occurred, the leadership would be forced to start again with another modernisation project.

11. Looking ahead to the EU-Russia summit in May and the G8 summit in June, the key western priorities are to lay down a clear energy partnership, curb Iran's nuclear ambitions, and find a solution to Kosovo's status that will avoid deadlock in the UN. Chancellor Merkel has called on Russia to ratify the Energy Charter, but so far there is no progress. The G8 Presidency wants a rule of law initiative to strengthen the Group as a community of values. It will cover human rights and Russian support will be needed.

12. Some of the myths surrounding Sino-Russian relations were explored in discussion of **China** as an alternative pole of attraction for Russia. Some speakers

defended the notion of a “balanced” Russian foreign policy. Others considered that its partnership with China was limited while serving as a useful counterbalance to the United States. Russia and China have few shared objectives, but, rather, conflicting interests in Asia. Some 60% of Russian trade is with the EU, and only 6% with China (mostly energy, consumer goods imports and Russian arms exports). Turning its energy policy east is not an option for Russia, and only confuses the West about Russian intentions and bona fides (good faith). Both countries attach more importance to their relations with the West than those with each other. A military alliance between China and Russia was deemed unlikely.

Internal Issues

13. A discussion of the **media** reached an uncontested conclusion: that the role of a free media as society’s watchdog was absent in Russia today. There is no-one to growl or bark at the authorities, and thus to contribute to good governance. The present authorities observed how Berezovsky’s and Gusinsky’s media built up support for Yeltsin in the run-up to the 1996 elections, when he had only 2-3% popular support, and learned a lesson from it. Now they run all the media outlets of broad influence in Russia, in particular by controlling television. No-one tells journalists what the rules are, but everyone knows what they are. Ekho Moskvyy, which is fairly independent, is owned by Gazprom and tolerated by the authorities as a safety valve for the intelligentsia. But it is impossible for journalists to check their facts adequately, or to give both sides of an argument. Freedom of the media could only be re-established with the consent of the authorities: it could not be imposed from below. Use of the Internet was growing rapidly, however. It was suggested that the notions of accountability and transparency are simply not understood in Russia. Corruption is often excused as a culturally endemic. But it is really about personal enrichment. This gives ruling clans an incentive to stay in power. Russians have to deal with this themselves: transparency cannot be exported. Nevertheless, Russia has signed up to over 40 Council of Europe Conventions, so cannot argue that “arbitrary rules” are being forced on it.

14. A panel on Russia’s “**soul and national identity**” threw up further divergent Russian opinions on these issues. One view was that different religions gave rise to

different world views and hence different political and social systems, and that the Russian “soul” is compatible with western ideologies such as communism and liberal democracy but not willing to sacrifice all to an ideology like Marxism-Leninism. The Russian Orthodox view concerns the unity of power and the people, and the Communist Party of the Soviet Union represented a sort of quasi-church. The concept of political competition was an alien idea, so Russia was developing a model based on strong personal power. Russia will not copy all western systems, but will develop according to its spiritual principles. Others saw things differently: any country’s national identity is closely linked to its past, and Russians have no memory prior to the Stalinist regime. That is why today they view the periods when Khrushchev and Brezhnev were in power as times of tranquillity. Russians do not like extremism. This mood is exploited by the ruling class to stop people from remembering the repression of the Gulag, which resulted in the arrest and trial of over 52 million people. Over a million death sentences were carried out. One speaker asked, if Orthodox Christianity is deemed to prevent Russia from integrating with Europe, how is it that Greece, Romania and Bulgaria have been able to integrate.

15. Russia is still building its nation state. In the past it had always been an empire, but now ethnic Russians comprise 75% of the national population. Cynicism has taken root, together with abdication of civic responsibility. Differences also emerged over the role and rights of Muslims in Russia and the extent of a threat from Muslim fundamentalism. The question was asked: what is a “Russian soul” and does it include the country’s Muslims? Several speakers expressed concern about the racist attacks in Kondopoga in Karelia, among others, and the increase in skinhead violence especially against Central Asians.

16. Russia wants stability around its borders, first and foremost. This includes regime stability and no “colour revolutions”. And while Russia has close links with NATO in the NATO-Russia Council, many Russians still perceive NATO as a serious security threat. Historical ties between Russia and the other CIS states should not be ignored. They are natural. Some of the regimes in these countries are attracted to the Russian political model, but the latter offers no succession model for them, as seen in December after the death of the President of Turkmenistan. Ukraine has

broken away from this model. Russia's apparent lack of interest in equitable solutions to the "frozen conflicts" in the former Soviet region means they remain "cesspools of corruption" and add nothing to regional security. It was argued that an independent Kosovo was not a precedent for their independence, as Russians sometimes suggest, because Kosovo is a UN protectorate. Would Russia like Abkhazia and South Ossetia to be under UN control? In response one participant said that Russia learned zero-sum thinking from the West. It does not see why NATO military infrastructure should move closer to Russia. It wants friendly neighbours but will no longer subsidise their energy supplies. It was pointed out that Russia's trade with the Commonwealth of Independent States (CIS) states was in decline; all of them, including Russia, were trading more and more with other partners such as Europe.

Economy

17. There were differences of opinion both between Russian and between western speakers as to the sustainability of Russia's economic recovery. Had it recovered, or was it in remission? The post-1998 recovery had flattened off. Could a crisis be looming, as a consequence of "Dutch disease" and excessive dependence on oil revenues? There are poor as well as rich "petro-states". Russia's energy revenues are not enough to modernise the state. Its demographic crisis is dramatic, and not the same as Europe's, as it is a consequence of the high male mortality rate, and not just a declining birthrate. Depopulation in the Far East is high, while the population in the deprived south is rising. From 2008 the working population will decline by one million per annum, and there is no obvious substitute. There is a growing gap between rich and poor people and rich and poor regions. Large companies are flush with state orders but cannot be sure these will be extended beyond 2008. Increased defence spending keeps the inefficient military going, but reform has not taken place. Foreign direct investment remains very weak. Foreign business people find Russia untransparent and so are wary. Murders such as that of the journalist Anna Politkovskaya cause foreign companies to worry about security.

18. While the Stabilisation Fund has sterilised most of the excess liquidity in the economy, structural reform has slowed and in many spheres stalled completely.

Administrative capacity is poor and corruption rising. State ownership has expanded: whereas in January 2004 the state controlled 11% of the voting stock in Russia's 20 largest companies, it now controls 39%. But the Russian state is a poor manager and decisions are made to accord with the personal interests of the managers. Lines have blurred between the state's role as owner and that of regulator. There is no sign of a strategic vision for the sectors involved.² Price competitiveness is falling. In a study of revealed comparative advantage, almost all of Russia's high performers are raw materials, such as rough timber, pig iron, etc, apart from nuclear fuel, freight wagons and nuclear power equipment. Compared with the US, China, Brazil, and India, Russian manufactures are not competitive. This raised the question: should Russia even try to compete in, say, the motor industry? R & D are still a large sector, but its scientists are ageing and most R & D is still funded by the state and not by industry. Another factor is the declining workforce, especially in Siberia and the Far East. In India and China it is still growing. State intervention is seen by some of the government as the answer, while others want innovation and structural reform. Russia is reluctant to learn from other states, especially given the perception that western advice led to the chaos of the 1990s.

Energy

19. Throughout the conference, the issue of energy was repeatedly raised, both as a crucial factor in EU-Russia relations and on a global level, and in discussions of transparency and governance. Dependence on Russian energy supplies is growing. The recent deal between Shell and Gazprom was described by one speaker as a shotgun marriage and raised the question as to whether the market could thrive without clear laws and rules. New pipelines via the Gulf of Finland are designed to reduce dependence on transit countries, following the disputes with Ukraine and Belarus. The Baltic is becoming an important hub. While the Russian state continued to acquire an ever stronger role in the Russian energy sector, beyond Russia's borders Turkmenistan and Turkey had become major players, one as a supplier of gas and the second as a new transit route. While Russia spoke of the Far East as an alternative market for its energy exports, in practice there was virtually no

² See www.oecd/surveys/russia

infrastructure for this trade as yet. And the EU paid a good price, while China was looking for discounted rates.

20. With regard to security of supply, Europe is concerned about the lack of upstream investment, especially in gas, and security of foreign direct investment. Russia is interested in a level playing field for downstream acquisition. Russians say they want mutual dependence, and the right to buy European distributors, such as the UK's Centrica. Experts are asking whether there will be sufficient gas for Russian domestic use and rising exports. The answer could be yes, provided that Russia reduces domestic consumption, improves energy efficiency and invests upstream. How certain is this? After a slowdown in 2004-5 (partly because of the Yukos crisis) in 2006 Russia generated 45% of world oil supplies, the growth provided by private companies. But the state is increasing its ownership and has restricted foreign access to strategic oilfields. Oil companies want a pipeline to Murmansk, rather than to the Far East, as the oil to fill the latter has not been found yet. There is still no law on the subsoil or on taxation. Economic governance is weak. Kazakhstan is set to triple production by 2015, while Russia needs to develop new deposits. External financing is likely to be needed. There are only three Production Sharing Agreements in place, and Russians, up to the President himself, have said they are safe. It is unlikely that there will be any more. Russia remains a high risk environment for investment.

The Future

21. In a concluding session participants looked more closely at reasons for the deterioration in Russia relations with the West, and Russia's possible future development. The need for an enemy, and tensions around Russia's borders are partly to blame for Russia's return to previous styles of power. Naturally the West is concerned at Russia's resurgence and assertiveness. Russia wants to preserve the *status quo* internally and around its borders. Whereas President Gorbachev had used foreign policy in order to achieve domestic reform, Russia's foreign policy is now a consequence of its domestic development. The trend is towards a hybrid authoritarian power, with centralised power legitimised by elections. Foreign policy is

also a hybrid – geopolitics plus post-modernity. Russia will do things with the West (or not) but not as a partner.

22. Russia does not belong to any group of civilisations. It has not decided on its identity or strategic choice. This ambivalence leads to cooperation in some areas and obstruction in others. It seeks tactical trade-offs, often using offensive means. There have been external influences on this behaviour, such as the crisis of US hegemony and clumsy US promotion of democracy, as well as Western failure to take account of Russian concerns. The Russian elite had failed to identify a concept for integration with the West, while the latter failed to respond to offers of Russian cooperation. The West has seemed to be comfortable with this ambivalence and now has very little possibility of influencing Russia's development. Russia does not want confrontation with the West, but its leaders are trying to have it both ways.

23. Dangers ahead for Russia include the possible use of its renewed great power status to maintain domestic cohesion, and the 'legitimacy trap' of using elections to legitimise the political system, in which the system promotes its own decay. The system is suspended unsustainably between the past and the future, between dictatorship and democracy. It has to find a way out. What is not known is the timing and price of the exit. Other disagreed. Russia does have a clear foreign policy strategy: the multi-vector foreign policy. Being outside existing civilisational paradigms should be viewed as a strength, not a weakness. It is its own civilisation. Others thought Russia might well resume a course towards democracy. At present it is benefiting from high energy prices and Western failures such as Iraq. In future expectations on both sides should be more modest, and Russia needs to come to terms with its past.

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