Russian Foreign and Domestic Policies: in Harmony or at Odds?

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Opening Remarks

***ATIS LEJIŅŠ**, Director, Latvian Institute of International Affairs*

I am pleased to open this conference on a theme that will cetainly be with us for quite some time as the EU and NATO enlarges and new relations are being forged due to geopolitical changes in our time and an unprecedented attack on America last year.

We are witnesses to these historical events but we don't know what the history books will say ten and twenty years from now: they will be written by a new generation that will either be very angry with us or very pleased with us. I hope it will be the latter.

Today the EU will take the momentous decision to invite the Baltics and seven other states to join – after that, it is up to the people to accept - or decline the offer. Truly a vote of tremendous historical significance!

But by then the NATO ratification process may already have gone past the half-way mark and the Baltics may join NATO just ahead of the EU.

Where does Russia fit into this future scenario that is rapidly approaching us? Everybody would like Russia to overcome her past and join the family of democratic nations, not least the Baltics, but is this what Russia wants?

It is not easy to overcome the Soviet heritage – we in the Baltics know this only too well, and we are still struggle against its many perversions – but Russia has the double burden of being the country that upheld and imposed the Soviet system on others. Moscow was the center of an empire.

Will it become the center of reform leading Russia away from the past and will it come to terms with not only her neighbours but also international institutions like the World Trade Organization, the EU and NATO? I wonder if I should not add the OSCE? Russia seems to have lost interest in this organization.

It is fashionable today to hear that bilateral relations are more important than relations with institutions, especially in the struggle against terrorism. We hear analysts in Russia who claim NATO is not important – USA-Russian relations is what counts but is it as simple as that and what does this mean for Russian relations with NATO? What does it mean for countries like Georgia and Ukraine who also want to join NATO?

There are many "why's". One approach to view Russia's foreign policy is through the prism of domestic reform. Hence this conference, which is an outgrowth of the Baltic Task Force, or BTF, an ad hoc group of representatives of think tanks around the Baltic Sea with the aim of sharing views and apprehensions about NATO enlargement, relations with Russia, and NATO's future.

We have had several conferences this year in Copenhagen, St. Petersburg, and, now, a second one in Riga with the aim of understanding events that directly effect our region in an ever-shrinking world.

I hope the discussions today will help us in this endeavour and that the knowledge gained will lay another solid building block upon which we can plan and organize conferences on topical issues for the coming new year.

To quote Robert Hunter, the former USA ambassador to NATO – Confidence-Building Measures have become Conference-Building Measures that contribute to confidence through understanding.

***Dr. WULF LAPINS**, Project Coordinator in the Baltic States, Friedrich Ebert Foundation*

The double eastern enlargement of the European Union and NATO together with the consequences of September 11th are challenging the relationship between Russia and integrated Europe. Both, old and new members, are deeply convinced that EU and NATO are crucial actors for strengthening security and stability in Eastern Europe. Based on the concept of the European Union's Northern Dimension - with the EU membership of Finland since January 1995 the Finnish-Russian border is the border between integrated Europe and Russia as well. After the accession of Estonia and Latvia to EU and NATO the Transatlantic Community too is becoming an immediate neighbour to Russia. Taking this into account, do we really extend the spirit of openness to the East? Do we seriously support Russia's ongoing market reforms, economic stability, sustainable democracy and civil society?

The EU and NATO must mainly implement its normative goal of avoiding a new dividing line between EU/NATO countries and Russia.

While in the long run the prospect that even Ukraine, Moldova and Belarus, after fulfilling the Copenhagen criteria, could become possible applicant countries for the EU, Russia, on the other hand, never will acquire this status even though no one is able and willing to exclude Russia from the economic and political pan - European context. As long as Russia continues its Western orientation this dualism is, in fact, the scope in which the EU is willing to support and treat Moscow as a partner in its modernization process.

The decisive question in this respect is: Did President Putin really change Russian foreign policy, did he and his government honestly give up the former political decision-making process purely oriented on geopolitical standpoints to a new orientation towards national economic interests? Are the driving forces of the Russian market economy already strong enough to prevent possible relapses into the old Kremlin postimperial habits? On the macro-economical and high-ranking political level we observe and note real interests in stable Russian-European relations. But there still exists a considerable discrepancy with regard to military guidelines and thinking on the whole. In this respect should we trust those experts who want to convince us that the new Russian foreign policy is already irreversible?

They argue that after coming to power President Putin endeavoured to bring Russia more into line with the West. But not until the tragedy of September 11th was it possible for Putin to overcome the predominating political mistrust and hostility of the Russian elite. In this context Putin allegedly underlined his good will toward cooperation by the withdrawal of

troops from overseas bases and accepting the US decision to construct a national missile defense system.

Moscow's reaction to western critics against Russia's war in Chechnya and the the Kremlin's restrictive dealing with independent media was officially moderate.

Currently Russia's natural gas and oil exports are more than 40% of total exports and guarantee 65% of hard currency earnings contributing to one third of the GNP. The EU countries import 53% of Russia's oil exports and 62% of its natural gas exports. Russian officials consider the supply of energy as an inevitable boosting of the cashflow to finance needed investments. Both sides are latently concerned not to become dependent. The EU will not concede Russia an exclusive role in the European supply of energy and, in turn Russia's influential energy tycoons favour limiting purchase of domestic shares by foreign shareholders. The need of an energy dialog is evident in order to build up long term economical interdependence for mutual advantage.

In respect to Kaliningrad, the perception from the Russian side has to be changed from a strategic pillar into a weak region that demands particular support from the West. Considering the exclave position , cross border cooperation is very important and should be strengthened.

To sum up, Russian-Western relations create a lot of windows of opportunity, which could produce useful synergies. But it depends on the serious willingness of both sides to recognize these chances.

The international conference «Russian Foreign and Domestic Politics: in Harmony or at Odds» organized by the Latvian Institute of International Affairs, the German Friedrich-Ebert-Foundation with financial support of the Danish Ministry of Foreign Affairs, in Riga, December 13th is one important step in this direction.

***KRISTIAN SØRENSEN**, CHIEF EXECUTIVE DIRECTOR, DIALOGUE DEVELOPMENT, DENMARK*

It is with a special feeling of commonality that Troels Frøling and myself on behalf of the Danish Atlantic Treaty Association are able to congratulate our Baltic partners on the historic accomplishment that was manifested on November 22 in Prague.

Many of you here today from all of the three Baltic states also will understand the personal respect and the homage that needs to be paid to our organiser Atis Lejiņš for his personal courage, perseverance and ever readiness to see the new changes constantly taking place during these last eventful ten years.

This is of course also a historical day because in these very hours the EU member ship will be confirmed for the Baltic States in Copenhagen.

But NATO the Baltics join "is not your father's NATO" as Ojārs Kalniņš wrote some time ago after the Copenhagen conference in May this year. New threats have been defined under major geopolitical changes taking place in the last decade of the 20th century. It is a NATO where the broader security aspects and not least softer security has come into the forefront and will determine the actual agenda of NATO, given that the American technological and military dominance will prevail for a time to come.

Nothing can be more illustrative of these changes than the Russian-NATO relations at present developing with a considerable dynamics of its own.

In a paradoxical way the membership of NATO has brought the Baltic countries closer to facing the internal developments in Russia and the external co-operation issues than if the Baltic States had not become members of NATO.

This is of course also true for the membership of EU where the Baltic special relationship will be tested and it is a crucial question to be seen whether there will be created a bridge for future social and economic relations through the Baltic bridgeheads.

Hendrik Ilves recently remarked that EU membership would mean that a buffer had been created so direct pressure from Russia on any of the Baltic states could be diverted to Brussels. But also in respect of the EU membership the irony will be that direct pressure from Russia might be reinforced through that very protective shield that the EU should constitute. The recent issue of education in Russian language in Latvia is an indication of such a mechanism.

This of course makes the subject of our conference today extremely relevant because a new agenda has to be set for the so-called northern dimension thinking based on the larger relation to development in Russian domestic and foreign policy.

In a political dimension a key question will be whether Russia is to become the Russian federation or a federation of Russian states. This will be tested not so much in the formal nature of legal and administration reforms but rather in their implementation and practical enforcement according to European norms and standards.

In the context of such norms and standards it is crucial to contemplate whether Russia is leaning towards the secular multi-ethnic (or multi-national) state or towards an orthodox state. Ethnic Russians living in Russia and the newly independent states alike are undergoing simultaneous identity crisis. The extent to which the two groups decide that they are a single divided people will have an important impact on Russia's foreign and domestic politics.

At our recent conference in St. Petersburg in November with the participation of future leaders and research institutes from Russia and the Baltics, it was clearly demonstrated that the win-win situation has been created, but that a constant expansion of mutual relations and human networks must be sustained to overcome many of the still remaining obstacles súch as unsettled borders, energy and oil dependencies and reform of the military and security structures shaping the agenda of this conference.

From the work that we now embark on with our Russian partners on security and democracy in a northern dimension one should never forget that many of the changes taking place in the last ten years came from within Russia itself. It was Gorbachov that dismantled the influence of the party and laid the foundation for the new federation.

And it should not be forgotten that another famous Russian, Peter the Great when dismantling the Patriarchy said: "Any of my guard-lieutenants could manage church affairs".

Post EU Enlargement Relations with the East

***TOOMAS HENDRIK ILVES**, Former Foreign Minister of Estonia*

A couple comments before I begin. When you mentioned that the OSCE is dead, I think that the OSCE is dead only because it was kept alive because of the missions in Estonia and Latvia. As soon as they left I predicted – I predicted before, as soon as the missions are gone the OSCE will loose its importance. And that is exactly what has happened.

Perhaps I can answer today why it is that bilateral relations are, for Russia, becoming more important than the institutional relations is because it's the institutions that are so worrisome.

But I think perhaps — the paper I'm going to give, or parts of, which is too long to give in total, is called *The Grand Enlargement of the Great Wall of Europe.* And I think it's emblematic, some people might say symptomatic, that Russia only takes up a small part of this paper. I think it's kind of indicative of where thinking in the new member states of the EU is going. Today is a good day to give this paper once again.

Preoccupied as we have been with the enlargement of the European Union, and we really have been preoccupied, talking about things like how are we going to arrange the language question, how are we going to make decisions, what are the direct payments going to be for the farmers, we end up missing certain questions. Even when we discuss the future of Europe we end up missing certain questions.

I think that the big question that we face today is; what is going to be the relationship of the European Union, of which we will be members, with everything to our east? And this has not been paid attention to. Javier Solana and Chris Patton have written a joint document – on the need to think about the new neighbors, and I think that's a good term. The new neighbors is a lot better than the near abroad. But it is in many ways our near abroad. What will be the approach to all of those countries, East European former communist countries, that will not be in the European Union?

To understand why this is more than simply a discussion of how we are going to develop the association agreements with countries to our east. If you visualize, and I would ask you all to do so right now, the map of Europe as it will look on the first of May 2004.

The eastern border of the Union will no longer run from Finland, skip over to Germany continue through Austria, and than turn south to Italy.

Rather the border of the EU after this grand enlargement will begin with the eastern border of Finland, continue to Estonia's eastern border and then contiguously along the eastern borders of Estonia, Latvia, Lithuania, Poland, Slovakia, Hungary, and ending up in Slovakia.

The current borders of the EU, abutting for almost fifteen years these busily transforming countries, that will now become members, will shift dramatically eastward. In 2004 the countries bordering the EU will include Russia, which is there now, but in addition, Belarus, Ukraine, Bulgaria, Rumania, Serbia and Croatia.

Only slightly beyond these borders lie Moldavia, Macedonia, Albania, Georgia, Armenia, these are the new new neighbors of the EU.

Now, visualize this map again, and you'll realize you've seen it before. And you've seen it, I think it's on page 154 of *The Clash of Civilization*, which draws a white line through the middle of Europe where the boundary is the boundary between eastern and western Christianity.

This is the fault line that Samuel Huntington talks about. And on May 1, 2004 we will have done something that has never happened before; which is turned a religious choice into a physical boundary. And it is going to become a stronger and stronger physical boundary with the third pillar.

I mean the point is that Samuel Huntington's line, which is a book on a sort of potential geopolitical conflict, is going to be, without us even thinking about it, reified. A line dividing two confessional branches of Christianity is, in fact, probably an empirical geographical fact. The challenge that we will now face, that we face already now, but will become especially great on, in May 2004, is to prevent this map, on a treatise on geopolitics, from becoming an economic, social and political dividing line; a genuine Great Wall of Europe.

And the reason that is not an unsubstantial task is that everything that we have seen in the European Union is moving in the direction of making it into a Great Wall of Europe. Putting up a big wall that would keep the other side out. In fact, there has been a wall up 'till now. It has been much lower. But we've been struggling to climb over that wall. We today have finally made it.

But this new wall is going to be a lot more difficult, will be much higher, and will be much more difficult for people to cross for a number of reasons which I will enumerate.

There is no enthusiasm to enlarge the European Union beyond the ten that are being taken in today. Bulgaria and Romania are slated for entry in 2007, and Croatia, perhaps Serbia and Turkey in the second decade. But if you talk to politicians in the European Union, even the issues of Bulgarian Romanian membership in 2007 is something that they privately have doubts about.

Why do we face this situation? Well, if we recall the early nineties, why did this enlargement take place? Originally there was euphoria. Freedom. These people who had been denied the chance of living in Europe by tanks and barbed wire should be given the chance. But that

disappeared fairly quickly. Political euphoria doesn't last long. And it became a question of national interest. Very clear national interest. Because the countries of the EU – especially after the '95 enlargement with the edition of the Nordic's, - the EU realized that it did not want the barbed wire torn down so that Europe would lie exposed to a new glacis of impoverished, polluted, corrupt countries impinging and permeating their borders.

It was not expectable for the West to build a barbed wire to keep out the Poles and the Estonians and the Hungarians and the Czechs. And so it was seen that what we should do is offer these countries the carrot of membership and with the promise that if you reform yourself we will take you in. And this was clearly in the national interest of Germany and Finland and Sweden and Denmark, that the countries that were polluting, that were sending illegal immigrants, that were where the cars were being stolen to, that these countries would take over the laws, and the legal system, and the ways of doing things that have operated in Western Europe for fifty years.

It was a pretty good deal. I think that implementation and transposition of the *Aquis Communitaire* by these, I would stress seven countries – the three Balts and the four Vishigrad countries, is one of the great transformations of Europe. It is one of the great revolutions. And it has been benign.

The deal was; if you want to be with us then become like us. And it was an offer difficult to refuse. I mean, who would refuse that? And it was in fact through this that many of these countries democratized.

I don't think Estonia and Latvia would have liberalized their laws the way they have, regarding minorities, if it would have not been for the European Union, among other things. We also probably would not have such good environmental laws if it had not been for the European Union. But we changed ourselves dramatically because we wanted to become members.

And it has been very successful from the EU prospective because, again, out of national interest, Estonia, Poland, the Czech Republic, Slovakia and Slovenia ceased to be a threat to European well being. Because you don't have illegal immigration anymore. I mean especially if you can regulate it by saying that there'll be no free movement of labor until, I don't know what year, except for Denmark and the U.K.

What happened was that the rule of law has become a norm in these countries. The prospect of seeing a sort of huge immigration, all these other things, ethnic conflict, nationalist populism, political instability, all of the things that people feared, that they saw in the Balkans and thought this could happen – this was a model for all Eastern Europe that was been eliminated.

That's all very good, and we're all very happy about this sort of Cinderella – like tale of mutual self interest rewarded. But the question is that when you include more countries what do you do with the countries that lie beyond them?

The countries lying beyond are countries that didn't enact reforms. That are plagued by metastasizing corruption, they do export crime, organized crime, illegal immigrants, and unfortunately they export little else.

These new neighbors of the European Union, again Russia, Belarus, Ukraine, Moldavia, Serbia, Macedonia, Albania, Bosnia-Herzegovina, and Georgia and Armenia if we go further, have not

transformed in this period. In fact they are exactly what the EU was afraid to see on their own borders ten years ago and enacted the enlargement to avoid having this on the borders. Of course now they've enlarged and they have the same problem again. EU, keep in mind, has not been bordered by a undemocratic country since 1991. And now it is. Will be again bordered by several undemocratic countries.

Now the question is, for the EU and for us and for all these countries; what are we going to do about it? Are these countries going to join? I mean, do we have the political will to take these countries in? I mean we'll leave out Russia because I don't think Russia will want to come in, but I mean clearly Ukraine does and Serbia does and a lot of other countries do.

But I don't think they will. I can list at least four major reasons why not.

One is that the engines of enlargement no longer exist. The old engines of enlargement were Germany and the Nordics. It was in their national interest and that was why they were the strongest pushers of enlargement.

It may be in our interest to really want to pull in Ukraine. I think Poland and Estonia would love to see Ukraine in, but we don't have the clout that the Germans and the Nordics have. And I think a lot of countries – the new members – lack the will.

Secondly, I think we are going to be faced by enlargement fatigue. Two thousand and four will mark the formal entrance of these countries, but at the same time there is a tremendous fatigue on both sides. I can say I'm really tired. But I think the European Union is also really tired of enlarging. So there is going to be no real desire to continue. And that's closely tied to the issue of digestion.

We will formally enter in 2004. But it is going to take a long time before we are operating smoothly. It took the best performing countries, Finland and Sweden, at least three or four years to be digested. It took Spain and Portugal well, some say eight or nine, ten years to be digested until everyone know everyone and felt comfortable. We're dealing now with an enlargement of ten countries, which is going to be even more of an issue. So the fatigue issue is going to be very important along with the digestion issue.

And finally I think there will be a strong tendency to close the door on the part of new members. I mean despite all the rhetoric, I remember at least one Vishigrad country right after the May '99 NATO summit changed it's tune completely and said; why would you want to join NATO?

I suspect that in May 2004 there will be a lot of East European countries saying; well, why do we really need to take these other countries in? And I think that there will be a tendency to close the door after us.

I think there is one more factor which I think is going to operate more and more, especially when we are in what I call the self-made man syndrome. At least in Eastern Europe you have a lot of these really obnoxious right-wing people who started from nothing and became millionaires and think that well, if they did it why can't everyone else?

I think we are going to see something equivalent to this when it comes to EU membership. There is some basis for this. Especially when you look at the three Baltic countries, which

were, as we have been told for these ten years over and over again, former Soviet republics. Well, it's going to come back and haunt those people who were always saying; oh, you're former Soviet republics. Because we'll say; yes, we were and we did it. Ukraine didn't do it. And I think that is going to be a serious and obnoxious problem that we'll be facing. I think a lot of Estonians, Latvians and Lithuanians will simply say; we did it. How come they didn't do it? Why should we take them? We did all the difficult work.

I think all those factors mitigate against having another round of enlargement. And I'm afraid that also touches upon Bulgaria and Romania. I think it's a bigger problem because there is a difference in fact, not to mix this with the obnoxious self-made man approach, but there is a difference between what the countries that have just come in and the countries that are not going to come in – the countries that are coming in have done the work, and they have become European countries.

These other countries that are not coming in constitute a kind of space that a Macedonian economist has called, regarding the Balkans, but I think it applies all over, something called the provisorium. The provisorium, because these are provisional states, they're not failed states but they're not getting good grades either.

What defines the provisorium is a constitutional order that has very little to do with reality on the ground. That is you can have a nice democratic constitution, you can even have a legal system, but it doesn't work. Laws are not obeyed. Standards are not met. Organized crime flourishes. Corruption runs to the highest levels of the government. And again, if you run through the list of countries I mentioned, Belarus, Ukraine, Serbia, Albania, I mean that is unfortunately the situation that is there.

So we're actually faced with the nightmare vision that Europe faced in 1991, '92, '93, when they thought we would be the provisorium. But we turned out not to be. But unlike the thinking of the 1990s, which is that we would transform these countries into being nice democratic European countries through offering them membership, today there's not going to be any kind of major impetus to do that.

We should look at these countries individually. We clearly want to spend most time on Russia, but I think we should also look at all of them, because I think they are part of the same problem.

The closest ones to membership are Bulgaria and Romania, which are two countries in the negotiation process. Paradoxily, they're also the ones most at risk. I mean they're not going to be in in 2004. If the current date of 2007 is kept, that will mean that like Spain, the new members will have to give up some of the money we just fought until this morning to get. Spain's biggest concern about enlargement was that it would get less money, and become a problem in the last year and a half or so. I think you're going to see this in a much bigger way in the next three years with the new members who are not going to be eager to bring in more members and lose money.

Bulgaria and Romania may be haunted by their NATO membership. Last year some people were saying; well, we should give the Balts EU membership and Romania NATO membership, which is a very clever way of saying we don't want to give the Balts NATO membership and we never want to give EU membership to Bulgaria and Romania. But in fact I think people will say; they got NATO isn't that good enough? And that may be a problem.

I do think it's very necessary that the EU really take Bulgaria and Romania seriously, because if once they're left out then everything else is going to become even more hopeless.

The Southern Balkans is another area which is – has been a major destabilizing factor in the world, not to mention Europe, for the past twelve years. Croatia, Serbia and Macedonia are countries where we could use the carrot of enlargement. But if you slow down Bulgaria and Romania it's going to be even more problematic.

Then we have the borderline countries of Belarus, Ukraine, Moldavia, maybe-or-perhaps-Albania perhaps Georgia and Armenia. These are countries where the verdict is seriously out. And may remain so. The friends of these countries have lost faith in them, especially Ukraine. Many in Europe had little faith in the first place. Democracy is weak. Laws do not work or are selectively applied. International agreements are ignored. Administration is dysfunctional. Corruption runs rampant. In fact I think you can describe the entire provisorium by saying those are the countries that are at the bottom of the Transparency International corruption index. But they will be boarding us.

And then there is Russia, which I guess is the point of this conference. So I'll spend a little more time talking about Russia. I mean parodoxily, Russia is the only country of all of these that said it doesn't want to join the EU. All the other ones have indicated an interest in full EU membership.

Since 1999 the EU has also worked mostly with Russia. Its biggest efforts in dealing with all of these new neighbors have been directed at Russia. The Northern Dimension program was specifically designed as a Russia handling operation. In 1999 the EU worked out a common strategy toward Russia. As an afterthought they worked out a common strategy toward Ukraine. But basically Prime Minister Berlusconi's suggestions notwithstanding, there is realistically no opportunity or will for Russia ever to become a member of the EU.

The attention that has been devoted to Russia is, I think, natural. I mean you should devote a lot of attention to your largest neighbor. But first of all, we should not pay attention only to Russia and forget the Ukraine, Belarus, Serbia and so forth.

We see and we saw in the long squabble over Kaliningrad that Russia has no idea what the EU is about. It has basically treated the EU as a capitalistic equivalent of COMECON, or CMEA. It is not seen as a political entity. It's seen as some kind of market-based free trade zone. And I think with Kaliningrad Russia finally figured out that in fact this is a political unit.

But I think we will see many more of these problems coming up after Kaliningrad. We had some problems already several years ago when Russia, which I guess is more of an indication of how they didn't understand what the EU is about, delivered notes to seven countries and the EU demanding trilateral accession negotiations. Which would mean that Latvia would not have negotiations with the European Commission, it would be Latvia, Russia and the European Commission negotiating Latvian membership.

That note was delivered to all of us – actually it wasn't delivered to us, it was delivered to the EU, but the EU of course showed it to us immediately. It was something which they did for all seven countries.

The seven I think will become the key issue because up until now EU has had one approach to Russia. And it's basically the approach of five large countries who have no real experience of Russia.

As of May 1, 2004 there will be seven countries, the three Balts and the four Vishigrad countries, with different historical forms of experience with occupation, or the different forms of occupation, but they're seven countries that all have basically a not very good experience with Russia.

They also know Russian much better than the West Europeans, and I'd say the common attitude, which has already been indicated in NATO by Poles, Hungarians and Czechs, is that people in the West are simply naïve when it comes to Russia. That they believe what Russia says in a way that no East European would do.

On top of that we all, except for me, speak Russian. And most importantly I think these seven countries lack fear, Which I think is the one thing that motivates Western Europe, lacking experience with Russia, they fear Russia. Countries that have gone through fifty years of Soviet occupation do not fear Russia. We know what it's like. And we may not like it, and we certainly didn't, but were not afraid of it. It is not something in the dark that we don't understand.

I think every Estonian, Latvian, Pole and Czech has a fairly good idea what Russia is like and what it can do, when they know in their own families what it has done. But it is not the kind of blind fear that I think motivates German and British and French and Spanish and Italian policies toward Russia. Because they don't know what it's been about.

I suspect that is going to be a big problem beginning in 2004, that is, a difference in the approach these two parts of the European Union will take. It's certainly one reason why, as Atis mentioned, Russia is bilateralizing it's relations, because I think the Russians are beginning to understand that it has to bilateralize relations because it will be dealing with institutions that will suddenly have 75 million people in an institution all of whom have a very different view of Russia than the 370 million who are there right now.

But certainly the EU is going to have a much more difficult time ignoring bad Russian behavior after the enlargement, which they've done so nicely for the last fifteen years, when Russia has behaved badly towards its Western neighbors. But when we're in, they're not going to get away with it anymore.

We are going to see a lot more of the Kaliningrad type conflicts or issues coming up. But they will not be resolved the way that – when we look at what happened in Kaliningrad the French were willing to basically write off Lithuanian participation in Schengen by saying that Russia could have visa free travel. What are the implications of that view? If you give the Russians visa free travel between Kaliningrad that means that Lithuania would never join Schengen. That is possible to say only when Lithuania is not a member. But Lithuania will be a member; then it would not be possible to adopt that kind of policy. I think we will be seeing a lot of that in which previous efforts on the part of the Russians to have their way with their neighbors and get EU support will no longer work.

I won't talk much about the other countries. But I think that we really need to develop a very much more concrete and specific approach to all of the countries of the provisorium, including Russia.

Perhaps Russia is not part of the provisorium because it actually has a four hundred year history of statehood which the other countries don't.

But in any case, the EU really has to rethink its whole Eastern approach. First of all thinking of what it can do better. And also realizing that the Russia issue is going to be treated much more differently with seven new members.

Some of the things I would suggest the EU think about in dealing with these countries in the East is to develop and apply human resources to all of these countries.

In a year and a half a lot of very smart and talented people who have been dealing with enlargement will be out of a job. I think these people know better what was done well in Eastern Europe then just about anyone else. These people ought to be put to work on coming up with strategies and ways to reform all the provisorium.

In addition, which I think should be a major part of our policy, is to actually begin to use the expertise of Latvians, Hungarians, Poles, in the transformation process. Right now we've had several experiences which are positive in the sense of using our knowledge, which is quite different from the knowledge of say, Germany or Sweden, to help countries in the East.

When I was a minister when the Georgians finally began to guard their own borders in November of 1999 (the KGB guarded their borders up untill that time), they had to build up a new border guard from scratch. And here frankly the German Graenspolizei model was not something they would take over very easily given their GDP per capita.

But the Estonians also had started their border guards from scratch, and it's pretty good. Good enough so that we could help the Georgians.

I think that kind of a system is something that should become a basis of virtually all assistance to the East which is using the knowledge of Latvian, Hungarians and Poles to build up effective border control systems. This is one of the roles that the new members can play.

Certainly we need to do all of the things that EU has been doing for the past ten years, such as middle level official exchange, student exchange, we need to extract a promise from the new members that they won't close the door, rather we won't close the door.

But all of these are fairly cosmetic measures. What ultimately the EU has to do is figure out what it's going to do with countries that it doesn't want as members, but that it needs to deal with. I think that's been the issue the EU has run away from for all these years. It's running away again when it comes to Turkey; that the EU needs to come up with something other than membership, but more than a Partnership Cooperation Agreement. It needs to be quite substantial, so you could offer a carrot of reform to these countries. But at the same time it is clear, Europe will not tolerate in the next ten, fifteen years, members from countries – members such as Ukraine or Serbia or Turkey, unfortunately.

I've probably concentrated more on the EU than on Russia. But basically I think the point is, that unless we come up with an effective strategy we will be building up a big barbed wire on the EU's eastern border. And that's a pretty strange result. It will coincide with Samuel Huntington's division between two different religions.

UNSETTLED BORDERS: THE BALTIC STATES AND KALININGRAD

***INGMAR OLDBERG**, ASSOC. DIRECTOR OF RESEARCH, SWEDISH DEFENCE RESEARCH INSTITUTE, STOCKHOLM*

In this lecture I will deal with the history of Russian-Baltic relations, focusing on an important bilateral problem, namely the border issues. I will try to give it a scientific touch by starting with some thoughts on boundary conflicts in general.

Boundary conflicts can be divided into three different types. The first type is over the desired location of the borders, that is where to draw them. This can be done according to different criteria. One common criterion is geography. Thus there is talk of natural borders such as mountain ranges or rivers. This geographic criterion is often connected with economic and strategic criteria. For instance a river may serve different purposes and a region may be claimed because of its rich natural resources.

Another criterion for drawing a border is with reference to history, that an area first belonged to a certain country (or people), did it for a long time or most recently. This kind of argument is often connected with reference to law, previous agreements etc.

Still another criterion for drawing borders, which has been most powerful since the 19th century is connected with ethnicity, the nationality of the inhabitants in the border area as defined by language, religion etc.

The second type of boundary conflicts is not about where the border should be, but about how to interpret the drawing of it on the map and to demarcate it on the ground, for instance in settled areas, in the middle of a river or along a shore.

The third type is over border significance, that is the degree of openness of the borders. This entails the rules of passage, visa and customs problems.

In all these types of border conflicts there are also political considerations that need not be directly related to the borders. Usually they have to do with the perceived power relationships between or inside the states in question. For instance a change of government in one state may induce it to raise border claims or induce a neighbouring state to do it. A final question is which of these types of border conflicts are the most serious ones.

I will now apply this model of analysis to the Baltic area and Russian policy vis-à-vis the Baltic States since 1991. The first type of conflict can be found in Russia's relations with Estonia and Latvia, since these states made claims on Russian territory based on references to law and a perception of justice. They considered the transfers of these areas to the RSFSR at the end of the Second World War as illegal, as the changes were carried out after the states had been reoccupied and again incorporated into the Soviet Union. Estonia and Latvia wanted the borders of the independent republics of the interwar period, on which they based their statehood and sovereignty.

Thus the claims were not based on geography. Estonia in fact wanted a border beyond the Narva River, which could be considered a natural border. Nor were the claims based on strategy or economy. As far as I know there were few economic resources in the claimed areas. The claims were also not based on ethnic arguments. True, there are the Setus in the Petseri area who are closely related to the Estonians, but they are quite few, and references to them were mainly made by one radical party in Estonia. Most of the Estonians and Latvians in the ceded areas moved to their mother countries after the war.

The Russian resistance to these claims was, of course, of the opposite nature. Russia defended – and still defends – the Soviet occupation of 1940 as legal, including the subsequent transfers of the areas. Russia has also supported this argument with reference to the population in the contested regions, which now is completely Russian, adding that Estonia and Latvia already discriminate against large Russian-spoken minorities. Indeed, the ethnic argument may have had some importance for Russia's decisions to change the borders after the Second World War. It is also worth noting that Russia has not used arguments of geography, strategy or economics for keeping the present borders.

However, Russia also has political reasons for resisting the border claims. One is that secession of these regions would create precedents for other areas, for instance concerning the four Kuril Islands which are claimed by Japan. Another political consideration is that Russia considers itself a great power, while the Baltic States are small, so Russian prestige would suffer, if these areas were ceded. Finally Russia was reluctant to change the status quo and wanted to fortify the present borders in order to stop smuggling and illegal passages. Thus it started unilaterally to demarcate its border on Estonia in 1994.

However, the political conditions for the Estonian and Latvian governments to want border revisions changed in the 1990s. The states soon found out they did not enjoy support from Western states for their claims, no matter how illegal the occupations and transfers were. Moreover, NATO and the European Union decided that countries wanting to join these organizations must not have unsettled territorial problems. Since membership in these organisations was the most important objective of Estonia and Latvia, they officially dropped their border claims on Russia in late 1996 and early 1997. Also they wanted to solve the border issues quickly, to demarcate the borders and impose strict border control. The introduction of the Schengen border system in the EU, which means abolishing internal controls and reinforcing the external ones, only strengthened the need to solve the border issues.

For Russia on the other hand, NATO enlargement became a reason to change its policy in the opposite direction and refuse to sign the agreements that were already worked out. Russia also continued to make the border agreements contingent on the difficult citizenship issue in Estonia and Latvia, which meant that the latter was viewed as more important.

Obviously, the Russian position was weak, since Russia had wanted border agreements before. Neither NATO nor the EU blamed the Baltic states for not having border agreements with Russia and admitted them as future members in late 2002. Since Russia could not stop that and is interested in good relations with NATO and the EU, there is now little reason for it not to sign the border agreements with Estonia and Latvia. But of course Russian nationalists, for instance in the Duma, could still try to postpone the signing or the ratification of the border agreements by linking them to the citizenship question.

Let us now turn to Russia's border conflicts with Lithuania. Also here there have been some border claims of the first type emanating from nationalist groups in Lithuania. They have maintained that the Potsdam Agreement of 1945 only gave Russia the Kaliningrad region for fifty years and that the decision has not been confirmed by international agreements.

There is a pressure group called 'Lithuania Minor' which claims the Kaliningrad region also on historical and ethnic grounds. For instance they have pointed out that the extinct Prussians, who gave their name to the area in German times, were closely related to the Lithuanians. On the official level, the first President Landsbergis in the early nineties talked about the demilitarization and decolonization of Kaliningrad, and after he became opposition leader he advocated autonomy for Kaliningrad or a fourth Baltic Russian republic, All these overt or implicit claims were vehemently criticized in the Russian press.

To be true, also the Russian side has raised claims. Russian nationalists, including the former Kaliningrad governor Leonid Gorbenko, have held that the transfer of Klaipeda (Memel) from the RSFSR to Soviet Lithuania was illegal. Some have suggested that Lithuania got the region when it was a Soviet republic and should return it when it became independent, others have demanded that Lithuania also should turn over Vilnius to Belarus, since Lithuania has denounced the Stalin-Ribbentrop pact, as a result of which it got this region back from Poland in 1939. In this way Russia would also solve the problem of transit to Kaliningrad and get better access to the Baltic Sea.

However, different from the Estonian and Latvian cases, there have been no *official* claims with regard to Lithuania. All Lithuanian governments have recognized and recognize the present borders with Russia, and Landsbergis denied that he wanted a border revision. One explanation of this Lithuanian position is that Stalin in 1939 did not take away but rather gave Lithuania more territory than it had before the war - at the expense of Poland and Germany. Also the successive Russian governments recognized the border with Lithuania. Thus instead of a conflict over where to draw the common border, there were negotiations between the governments throughout the 1990s over the delimitation and demarcation of the present border, including the economic zone in the Baltic Sea - that is a border conflict of the *second* type as mentioned above. In 1997 these negotiations resulted in a border treaty signed by the presidents Yeltsin and Brazauskas. This treaty was ratified by the Lithuanian Seimas in 1999.

However, to date the Russian Duma has refused to ratify this agreement and the demarcation of the border has stalled. Again political considerations seem to have influenced the border issue. Similar to the Estonian and Latvian cases, the Duma saw the border treaty as paving a way for NATO membership for Lithuania and also linked the ratification to the issue of transit across Lithuania. Later, when the Lithuanian Seimas took a law demanding compensation from Russia for the postwar Soviet occupation, the Duma made the border treaty ratification dependent on the abolition of that law. Thus the border question was again seen as less important to Russia.

But after Lithuania was invited to join NATO and Russia reluctantly accepted this and after Russia concluded an agreement with the EU on transit across Lithuania, these linkages have lost their topicality. Thus one can expect the Russian Duma soon to ratify the border agreement with Lithuania.

My mention of Russia's transit problem regarding Kaliningrad brings me to the *third* type of border problems, namely the one concerning the openness of borders, visas etc. This has been one of the most current and important problems in Russia's relations with the EU in the last few years, as already stated by other speakers at this conference.

The Baltic States imposed visas on Russian citizens in 1992, but Lithuania made exceptions for the Kaliningrad exclave, and Lithuania and Latvia accepted visa free transit on trains between Kaliningrad and the rest of Russia. Russia granted the region customs-free trade, which boosted border trade and made the region dependent on imports from abroad. But as the Baltic states aimed at joining the European Union, they also had to adopt its Schengen border regimes. In 2001 Latvia decided to demand visas for transit to and from Kaliningrad, and Lithuania decided to require visas for transit as of January 2003 and for visits in the country from July 2003.

This evoked anxiety and protests in Russia, especially in Kaliningrad, which as a region was dependent on free transit and on trade with the neighbors and on trade with Russia. Kaliningrad authorities proposed visa freedom or multiple visas at the border. The Russian government for some time suggested a Baltic Schengen, including Kaliningrad, which implied visa freedom for it with all the Baltic States. In negotiations with the EU, the Russian foreign ministry last year proposed free transit on trains, buses, cars, and in the air, on agreed routes across Lithuania and Latvia; for Kaliningrad people they proposed free one-year visas to these states. All this would mean better access than before.

In 2002 there were very tough negotiations between Russia and the EU on these questions. At a summit with the EU in May President Putin strongly opposed the introduction of transit visas, because it allegedly violated Russian territorial integrity and the human right of Russians to visit another part of their country. The solution of this vital question was an absolute criterion for relations between Russia and the EU, Putin concluded. On a later occasion he proposed similar transit for Russia to Kaliningrad as the West had to Berlin in the 1970s, disregarding the difference that Westerners heading for Berlin were not likely to escape into the GDR. Other Russian officials talked about 'corridors' across Lithuania and Poland and suggested rapid, non-stop trains. Instead of asking for visa exemptions for the Kaliningrad people when visiting the neighbouring states, Putin proposed visa freedom between the European Union and all of Russia. This means that the Russian leadership deemed the link with Kaliningrad more important than averting the isolation and solving the economic problems of the Kaliningraders.

However, the Russian position has some flaws. Russia could not expect the European Union to change the Schengen agreements. At best it could ask for favourable interpretations and implementations with regard for this unique case of a foreign enclave inside the Union. Nor could Russia expect the Baltic states to maintain closed borders on the European Union for the sake of Russia or Kaliningrad. The talk about corridors made the Poles and Lithuanians fear for their sovereignty and reminded of Hitler's policy against Poland in the 1930s.

Further, the Russian opposition to the introduction of visas by EU states is undermined by the fact that Russia itself imposed visa regimes on CIS states in 2000, though exceptions were then

negotiated. For example Georgia was hard hit, but Abkhazia and South Ossetia were exempted, which meant that Georgian sovereignty over them was questioned. In general, Russian visas have been more expensive than those of EU member and candidates states, and it is complicated to get them.

Another problem is that even though the introduction of Schengen rules will cause new problems especially for Kaliningrad, the present situation at the borders is also very bad, characterized as it is by corruption, smuggling and crime. Such things of course scare away honest business and tourism.

One should also bear in mind that the European Union gradually has learnt to understand the special problems of Kaliningrad. In 2001 the Commission conceded that Schengen need not apply to the new members at once, that present practices could be maintained, and exceptions be made for border populations. Visas could be multiple, long-term, cheap and easily available at consulates in Kaliningrad. Lithuania wanted to expand its consulate in Kaliningrad, Latvia to open one, but Russia made difficulties, presumably in order not to undermine its opposition to visas.

The EU also strove to increase border efficiency by supporting the improvement of the infrastructures at the external borders. Finland was often used as an example, because after entering the EU and the Schengen area, trade and travel across the border on Russia actually grew.

Finally, Russia and the EU in November 2002 reached a compromise on the transit problem, which seemed to satisfy both parties. Avoiding the term 'visa', they agreed on introducing, firstly, a so-called Facilitated Transit Document (FTD) for Russian citizens to be applied for at Lithuanian consulates, allowing multiple transit trips on all means of land transport to and from Kaliningrad. Secondly, an FTD for single return trips by train was instituted, which would be attainable on the basis of personal data submitted at the time of ticket purchase in Russia. This information would then be forwarded electrically, and the FTD would be checked and issued at the border by the Lithuanian authorities. Lithuania pledged to accept Russian internal passports until 2005, and the EU would investigate the possibility of building a rapid, non-stop train passage, which presumably would be done at its expense. In exchange Russia vowed to sign a readmission agreement by 30 June 2003 with Lithuania, so that refugees could be sent back, and to start negotiations with the EU on the same thing. It also consented to permit the enlargement of the Lithuanian consulate and the opening of other consulates in Kaliningrad, and finally to speed up the issuance of international passports.

Before that decision was taken, the EU Commission had agreed to examine the preconditions for future visa exemption between the EU and Russia, though noting several problems. Among these belong the great numbers of potential Russian emigrants, of refugees from third countries stuck in Russia, and Russia's long and badly controlled borders with Ukraine and Kazakhstan. It deserves to be mentioned that Russia so far has opposed Ukrainian wishes to demarcate the common border with reference to high costs.

On balance, it seems that the acute problem of transit to Kaliningrad has been solved for the time being, but the difficult problems of the Kaliningraders remain. Their social and economic woes remain and threaten to spill over to the European Union and its future members.

By way of conclusion we can observe that the Baltic area well illustrates all the three above-mentioned types of border conflicts. Russia's disputes with Estonia and Latvia over

where to draw the common border, a type of conflict which has so many wars in the past, were complicated by political considerations not directly connected to borders. Fortunately, these problems now appear to come to an end. The same can be said about the border dispute between Russia and Lithuania, which mainly concerned the exact definition and demarcation of the border.

Concerning disputes over the degree of border openness, which by comparison could be viewed as less dangerous, the case of Kaliningrad shows that such disputes in fact can be quite serious and difficult. Indeed, this type of border conflict now seems to be the most widespread and important one in Europe, because illegal immigration and trade as well as international terrorism have become paramount political problems in virtually every state, including the Baltic states.

Comments

***IGOR LESHUKOV**, Director, Institute of International Affairs, St. Petersburg*

Many thanks, I'm very pleased to be here. And I always, when I have time, accept the invitation from Atis.

But getting directly to the subject, we received a very good overview of the facts and state of affairs with the border issues between Russia and the three Baltic States. I don't think anything should be added to that. But it gives me an opportunity to be more speculative, and to make a few remarks which I think are very essential to understand the matter.

First of all I have been always wondering when the Balts officially will come up with their points about the occupation and the continuation of their pre-war states.

Why do not Russian officials hit back in return by bringing up and questioning the foundation of the first Baltic independence? To be more precise, I mean the Narva and Riga treaties. Because if you look into the actual details on what happened after the collapse of the Russian empire, many things were concluded under the very open threat of force. We do remember the German troops advance. We do remember many other things.

So, in making a very unfair point, I would say if I would not be an independent researcher, but instead an official of the MFA or presidential administration I would strongly lobby in favor of opening a number of boxes which are very unacceptable to many players.

Because the other thing about the occupation is clearly that civilized nations banished Hitler and his allies for what had been done. But, the boxes of what had preceded that Munich and many other things, have not been clarified fully.

Just imagine what sort of mess could arise if politically and legally a number of things from say, 1917, 1920's, late thirties, forties, could be brought to public attention?

I think here we can find a key to why the West never supported the Baltic claims on the territorial questions and many other controversies with Russia. This could be partially explained by the fact that there are many developments, which many actors today are not willing to fully clarify. There have been policies of which nobody would be proud of. You could only say; well, you know, times today are different from those earlier and we're all a new generation, we now do have other values, etc, etc. Sorry if I'm slightly provocative.

The second wonder may be even more essential; why has the Russian Federation never tried to claim its continuation of the Russian Empire? Blaming the Soviet regime for all what has been done to the country and nation, and drawing a very clear mark between the past and present.

Just imagine for a second if Moscow would dare to choose that path. What sort of legal complexity and political implications might involve. Talking very justfully, but perhaps a bit cynically, about the burden which the Russian, Soviet, I don't know how to describe my nation properly, bears for that process. And I do think that there have been reasons why Moscow never did that.

Furthermore the status of the Russian Federation as a successor state to the Soviet Union, is not just the point about keeping control over certain property and rights, making some things a bit easier than these things would be if Russia would not be the successor state. I think the reasons are deeper. And I think here we do have a key to understand what is going on today in Russia. And I think this also gives a key to understanding why Russian approach to the Baltic States and related questions look so controversial.

In that sense I would agree with Mr. Oldberg who said that at some stage Russia decided to sign the treaties, then, at another moment decided: no, we don't need them. Certain linkages were made to other issues.

I would only partially agree that this approach is controversial.

I think that in essence, if we look backwards on these past ten years we can deduce a certain logic in what is going in Russia and what the Russian establishment is about, and in what they want to achieve.

I am afraid that we are too often driven by very misleading assumptions about the essence of what's going on in Russia. We do take at face value the current rhetoric that Russia is moving from the Soviet Union towards democracy and a market economy. One must learn to differentiate between rhetorics and interests.

Then why do we follow this very simplistic presentation of Russia moving towards democracy? Let us have a look on today's Russian establishment and ruling elites. We see familiar faces of the Soviet nomenclatura. Well, these are not the first rank, perhaps second or third, but nevertheless the same kin and greed.

Why on earth would these people need to destroy the system to which they belong? Why would they need to destroy the system's fundamentals which make them exactly those who they are? That does not meet any formal logic. That does not fit into the criteria of rational choice analysis. We do know that the individual's actions are subjective, that's right. But when we analyze the actions of groups of individuals we can rightfully apply the means of rational choice analysis.

What is the rational choice for Moscow?

The only logical assumption, which in my view can be valid in this context, for Moscow is as follows. When the Russian system, being less and less efficient, less and less competitive to the changing environment, decided that it needed to adapt. It needs to modernize; it needs to make

the system more efficient, more competitive toward the new environment, the new challenges. But at the same time preserving the essentials of the system. Otherwise the elite would disappear. Otherwise they would clear the landscape for other forces to come.

And I think that is exactly what is going on today in Russia. And I have very mixed feelings about whether it is good or bad when Russia becomes more modern.

When Russia is acting in an old fashioned style, we are very well equipped how to react to that. But when the same instincts, and the same interests are now being pursued and implemented in new forms, in various 'civilized' ways of conducting business, any response to that is very complicated and even problematic.

Coming to the border questions with the Baltic States. I think the current concern whether the border treaties would be ratified or not, is a bit outdated, it is not the main concern. I think the main interest lies in between the lines, which has been described by Toomas Ilves, in a sense, what sort of world would it be? In other words, if we would see the spillover between the two systems, which way will that spillover go?

I think we'll have more time later on to talk about the energy business and so on. I think that this is exactly the context in which we can talk today about Russian interests. I think Moscow did realize that it's not that necessary to quarrel with the Balts about certain sovereignty issues, when it's much more sensible to create a sort of economic interdependence which would make the Baltic elites and establishment much more sensible to the Russian concerns than they are today.

How are we going to react to the Russian energy operators buying strategic assets in the Baltic States. My colleague Ingmar Oldberg talked about this in his briefing.

How are we going to react to this phenomenon? Is it positive? Is it negative? It's very unclear for the moment which way this mutual, business to business rapprochement would ultimately work when the two systems would remain essentially incompatible in terms of their values and interest formation and the way they operate.

In that sense I would agree again with Toomas Ilves that quarrels like that of Kaliningrad could resurface in different forms. Not necessarily about Kaliningrad, not necessarily about any given issue, but quarrels would be unavoidable in a situation when the old system which now operates in a new institutional form would strive for its interests.

To conclude I may give a brief remark about the title of today's conference, i.e., whether the foreign and domestic policies are in harmony or at odds? I would say from the perspective I just described there is clear harmony between the two though formally they are in absolute contradiction. I think I will stop here.

***ELENA KLITSUNOVA**, PROGRAM DIRECTOR, CENTER FOR INTEGRATION RESEARCH AND PROJECTS, ST. PETERSBURG*

I will focus my remarks on some current trends in Russian-Baltic relations.

I would like to suggest that despite many positive trends currently taking place in Russian-Baltic relations, there still remains a sound possibility that coming years will witness the rise of new dividing lines between Russia and the three Baltic states. That is not to say that there can be no positive scenario of Russian-Baltic relations. But in order to realize this positive scenario state- and non-state actors particular have to formulate a clear policy on cooperation.

After a remarkable freezing in the 1990s, Russian-Baltic relations have clearly improved over the last years. Yet, there are fears that Russian-Baltic cooperation may be undermined in years to come. Indeed, positive developments on certain levels notwithstanding, there are still reasons for a pessimistic prognosis for another suspension of Russian cooperation with the Baltic states.

What and why may go wrong? Let me briefly take up some reasons for a pessimistic prognosis.

The first problem is the lack of *cooperative* responses to the many challenges posed by the coming EU enlargement. The accession of the Baltic states to the European Union is fundamentally changing the face of the region. While advocates of the eastward enlargement argue that it will bring more prosperity and security, there is still a looming danger that new dividing lines may be erected between accession and non-accession countries. Whether the various gulfs between accession and non-accession countries will widen or narrow in the years ahead depends on the ability to convert positive tendencies in Russian-Baltic relations into a sound cooperative policy.

The problem is that until now neither Russia nor the three Baltic countries have invested much effort in building up policies on Russian-Baltic cooperation. Although the Russian Federation seems to be working on their relationship with the EU, it clearly lacks proactive policy concerning the EU enlargement to the Baltic States. The controversies over Kaliningrad clearly demonstrate that Russian policymakers have just started a search for effective partnership with potential EU members.

At the same time, while Baltic states are becoming more and more preoccupied with very concrete preparations to joining EU and NATO, they pay limited (if any) attention to shaping their policies in such a way as to develop some degree of cooperation with Russia. Moreover, there could be even a less cooperative trend in the Baltic policy on Russia after the Baltic States' entry into the EU. The idea of "returning to Europe" remains, for some politicians and

intellectuals, closely intertwined with the idea of "distancing from Russia". That is, the EU means not only economic and political forms Baltic states should adopt, but also "salvation" from Russian influence. As many analysts have argued, one possible outcome of the Baltic States' pursuit of EU membership could be minimization of Russian-Baltic interaction accompanied by attempts to bring a strong anti-Russian dimension into the EU policy on Russia.

Assuming the complexity involved in the EU eastward enlargement, one key to success in designing effective policies on Russian-Baltic cooperation is the capacity to demonstrate awareness of the ways counterparts interpret events and to reconcile divergent interests and approaches. Moreover, if Russian-Baltic cooperation is to enjoy broadly based public support, it has to prove its worth to all actors by constructing the perception of linked interests and shared objectives. In order to realize that ambition we have to develop a well-designed policy on strengthening Russian-Baltic political dialogue. Yet, one of several ironies of Russian-Baltic relations is that in the political field old "zero-sum-game" ways of thinking and systematic mutual misperceptions seem to prevail.

It is easy to see that rhetoric construction of post-Soviet neighbors as negative "others" were deployed in both Baltic and Russian politics in the early 1990s. Endless charges and countercharges were part of the larger process of changing borderlines between the external and internal, reorganizing communities, and reconstituting political legitimacies. The problem is that the political resource contained in presenting negative images of neighbors was to carry out into the new millennium. Neither Russian no three Baltic countries' political elites have invested much effort in reshaping the practices of systematic misrepresentation of each others. Until now the process of formulating policies on Russian-Baltic relations is dominated by those political actors who accustomed to using rhetoric of confrontation (rather than rhetoric of dialogue) as an important means of accumulating political capital. This prevents a major restructuring away from mutual mistrust toward new ways of thinking about how to overcome negative tendencies in Russian-Baltic relations.

I would suggest that there has been the apparent asymmetry between economic and political dimensions of Russian-Baltic relationship. While economic policies are more and more based on the principles of constructive relationship, the policies in the political field remain to follow more confrontational and less adaptable line. Thus, the present challenge for Russian-Baltic cooperation is not how to foster economic cooperation but how to foster political dialogue. The puzzle has been how to translate emerging cooperative trends from the economic into the political field, how to enable Russian and Baltic policymakers to view each other as partners instead of potential threats, and how to rethink Russian-Baltic relations.

How to solve that puzzle?

I would suggest that effective approaches for treating complex issues of Russian-Baltic relations require new competence and understanding generated by those actors who easily interact across national boundaries as well as across domestic-foreign frontiers. Effective solutions, innovative ideas and new imaginary are likely to be generated by those acting in the role of intermediaries, or go-betweens, and operating outside the fixed bureaucratic hierarchies.

If this premise is right, the direction of Russian-Baltic relations will be shaped, in large part, by the outcome of trans-border interactions among civil society actors. The potential importance of

non-governmental institutions to enhancing Russian-Baltic dialogue is their tendency to be outward-looking and, in sharp contrast to many governmental agencies, reform-minded organizations.

This is not to say that all non-state actors are equally likely to be effective in enhancing Russian-Baltic dialogue. Yet, in my view, many non-governmental organizations and think tanks are characterized by active involvement in various domestic and transnational knowledge-, advocacy- and policy-based networks and ability to accumulate transnational competence which lubricates enhancement of regional security and sustainable development.

That is why to find effective approaches for overcoming negative tendencies in Russian-Baltic relations is to forge deeper cooperation between NGOs from Russia and three Baltic states.

DISCUSSION

Atis Lejins: We come now to the discussion, to the questions and answers. But would any of our speakers like to make a comment before I open the discussion?

Toomas Hendrik Ilves: Let me just run through a few things quickly.

First of all on borders. Just to make things clear, there has been a Russian claim for years that we have claims on them, actually in 1994 we gave up on the until then strictly formal request to restore the borders. It was a formal request. No one in Estonia took it seriously. But we did it for a bargaining position. It was abandoned in 1994.

The borders of 1920 at the Tartu peace treaty did go into what was traditionally ethnic Russian territory. It was done for military reasons; the border went 12 km from the Narva River because that is how far Russian shells could reach. And so basically we didn't want in1920 to be shot at. So that was not an issue.

I think the real issue with Russia's understanding of borders and Schengen is that it is paranoid. It thinks Schengen is directed against them. Unfortunately you're not that important.

Schengen is one of the few things that the average citizen in the EU appreciates, because the average citizen doesn't really touch the European Union very much, the EU doesn't really impinge on your life, okay if you're a farmer you might get some money, but the average citizen loves Schengen because you can go from Germany to France to Sweden and you never need a passport. And this is the problem with Kaliningrad. Schengen is like a ship, if you put one hole in it, it will sink. If you put three holes in it, it will sink faster. But the point is that one place where people can come into the EU without a visa will ruin Schengen and will ruin the entire structure that has been built up for the citizens of the European Union.

Unfortunately this has not been realized because frankly if you have visa free travel from Kaliningrad to Russia at some point there will be big problems because Russia doesn't have any kind of border controls with Kazakhstan, or with Tajikistan. 85% of the heroin in Europe comes from Afghanistan, and probably most of it through Russia.

I mean there are concrete reasons why there is Schengen. So, I think one should not view this in a paranoid way.

I was asked here before to talk a little about internal developments, and I think one of the previous comments touched upon regionalism.

I think one of the big problems with the Northern Dimension Program is that in Russia there is today less regionalism than there was five years ago. There has been a centralization of authority. Virtually all Northern Dimension Programs have failed when it comes to Estonia, Latvia and Lithuania because the Russian side will not give the local cross border authorities any authority or any power to make agreements to do anything.

It's worked a little bit with Finland because Finland is a richer country. But even there it has been fairly unsuccessful. It has been a complete failure in the Baltic countries. And not because lack of trying, someone here said there were not enough positive signals. Well, frankly I think we tried real hard when it comes to regional cooperation with the cross border areas. It was always blocked.

In general I don't really like hearing that we are not sending positive signals. It's kind of like beating someone up and then saying; why don't you love us?

And this again comes back to Russia's completely absurd approach to the European Union for the past ten years, which is that it has not dealt at all in a positive way with the seven candidate members that it could have, potentially, done something with most of them, with the ones where they have the most experience, as it were.

Instead, Russia has completely ignored the Baltic countries and the Vishegrad four in EU matters, preferring to deal with the old members, I mean these seven countries are kind of like the Midwest in the United States; it's flyover land. You just don't deal with these seven countries. You only deal with the EU. Now, here is the problem. Suddenly we're in the EU as well, and I think that is one of the big issues that Russia will have to deal with.

I reject the idea that the EU thinks that if you are not in the EU you are not a democratic country. That's not true. I would say its the other way around. If Russia acted like Norway I think we would all be very happy. Norway is not in the EU. No one says that Norway is undemocratic. Iceland is not in. Switzerland is not in. There are a number of European countries that are not in the European Union. No one is saying; if you're not in the EU you're not democratic.

My advice to Russia is to begin to deal with the EU as a serious entity and understand that the EU is not directed against them, to get over this paranoia, and to deal now seriously with the seven that are joining the EU.

Atis Lejiņš: Right. We have a lot of questions now.

Ingmar Oldberg: Well, I'd like to comment on something that Toomas Ilves said at the beginning when he talked about new members of the EU to the East.

I think you should add Turkey to the list. Turkey is today, and has been for a long time, the biggest problem that the European Union faces and will face in the future. And after this enlargement I think Turkey will after all be, perhaps after Bulgaria and Romania, the next candidate. And that will really be hard to digest.

Because it's big. It's different. It's Muslim.

Then we need to think; how would Turkey impact on further European enlargement? Turkey will undoubtedly come before Russia, for instance. How would Turkey think about Belarus, Ukraine and the others? Ukraine is also very big.

Another thing is a comment on what Atis said about Russia losing interest in the OSCE. The reason for that probably is that the OSCE wants Russia to withdraw troops and secondly criticizes Russia for the war in Chechnya. And I think this thing is also a problem for Russia in its relations with the European Union. And also quite a big obstacle for a really good understanding between Russia and Europe.

Unfortunately now the United States seems to be much closer to Russia in this regard, and the Russians often say that the Americans understand us. They understand our fight against terrorism. I think that's worrying for the United States and for Russia.

Atis Lejiņš: There is one thing that occurred to me. You mentioned before the Kuril Islands.

Toomas Hendrik Ilves: Northern Territories.

Atis Lejiņš: Yes. The Balts gave their territory to Russia. Maybe the Russians, for example, could give the Kuril Islands back to Japan. It would be very interesting to see the mirror image between here, the Baltics, and Japan and the Kuril Islands. But that's just a thought.

Toomas Hendrik Ilves: Atis, as a Latvian I think you should use the term Northern Territories. It's the Japanese term.

Atis Lejiņš: Sorry. Northern Territories. Mr. Nurick from Moscow has a question. But he is not a Russian, he is an American in Moscow.

Robert Nurick: When we were speaking briefly before the session, Toomas commented to me if I thought he had been provocative while he was Foreign Minister of Estonia and that I hadn't seen anything yet, that he was going to be more so now.

I hate to disappoint you Toomas but I agreed with almost everything you said. But I want to start with the two things I disagreed. Then turn to a third point and build on a point that you made which I very much agree with.

First on the areas of disagreement. One has to do with the Kaliningrad issue. It's certainly true that the initial demands put forward by the Russian government for complete visa free regime and an open border would have obviated Schengen.

But despite the very strong emotion attached to this in Moscow, most people whom I know there and who are working on this issue privately understood this was never going to happen. And that certainly includes Mr. Rogozin and his staff, who ended up negotiating the outcome.

The issue now, where I disagree, is on what has to be done on the issues that remain to be solved now given the agreement was reached a few weeks ago. And specifically this question of the train.

I start with two premises. It is certainly the case that whatever is arrived at has to be agreed by the EU so it doesn't prejudice Lithuania's case. And it's got to meet the basic criteria underlying Schengen as you mentioned; that the borders are secure and controllable. Which means among other things Lithuania's need to have the option if they want to exercise it, to control that border, look at documents, and so on.

But I would caution now, people talk about this train as if by itself it would sink Schengen. The issue there is whether the EU wants to allow an exception to Schengen for the sake of the special case of Kaliningrad. An exception which would allow people without formal visas to travel on a train.

That train, I think, is not something that is going to provide a practical border problem. It's an issue of policy.

People talk about it as if the problem is that people will get on the train and jump off in large numbers. That they'll go flying off this train and disappear somewhere into Lithuania. Given the state of the borders otherwise, I think this is simply not serious.

What I do think is serious is the policy issue about whether and under what circumstances there should be exceptions to Schengen. But once again, this is a political question. And part of the difficulty is that there's been plenty of criticism legitimately directed at the way the Russian government has handled this.

But I think there is some criticism that can go to the EU, too. One of which is to believe for several years this was simply a technical issue which could be handled by the commission. Everyone who looked at it knew that this was going to be a problem that was coming and that it was important to get politicians engaged. This is what happened, and I think a sensible compromise was worked out. So just a caution on that point.

Secondly, on the question of the recent emphasis on bilateral ties, I think there is a very different explanation. Toomas, your explanation was that in anticipation of the fact that the new countries are going to be coming into the EU, the Russian Foreign Ministry should have been adapting to this and not bypassing what in a few years time will be a more hostile EU apparatus.

Well, first of all it would be strange behavior on the part of most governments to adapt in advance. And this is never a charge which I've heard leveled before at the Russian Ministry of Foreign Affairs. The charge is usually quite the opposite; that they adapt about two years too late.

I think that there is actually a much simpler explanation, which bears on the broader issues we're dealing with today. And the simpler explanation is that increasingly among the Moscow political community and the government there is a combination, at its most benign, of skepticism, to it's least benign, of contempt for the European Union as an institution.

They see it as a feckless defense institution; they look at ESDP and think that nothing has happened.

But in addition, there is even among the most reform minded economists a questioning about the relevance about the EU as a model for their own transformation.

They know it's going to be an important market, but they are looking at the whole gambit of EU rules and regulations and saying; are these really appropriate for us?

Given that, they are asking similar questions about the relevance of NATO, although that's a different kind of argument. But in both cases they are asking about whether these institutions, firstly, are important, whether they are going to come anywhere close to meeting the ambitions that they are setting for themselves, and secondly, whether they are relevant and good models for Russia. And under those circumstances what's happening is, among other things, reverting to a very old Russian instinct, which is to focus their relations on what they think are big and important countries. Not on institutions. I think this is a mistake because, in both cases, Russia will need to come back to deal with the EU as a serious institution, and relatedly with NATO, despite all the question marks about their future.

Final point, very quickly. And this is something which I want to build on an observation that you made before Toomas which I very much agree with, where you were talking about the difference that the prospect of membership made for the aspirant countries in Central-Eastern Europe.

Clearly, this is a prospect which Russia and, up until recently none of the other countries in the region have had before, and most of them still don't. And it has made, and will continue to make, an important difference domestically. You refer to the extent to which this prospect has served as a discipline, as a catalyst, sometimes as an excuse for domestic changes.

This has not been the case in Russia, and I think one of the issues for Western policy is if it's the case, as I agree it is, membership is not in prospect for Russia in the foreseeable future, either for NATO or the EU. And this applies to other countries as well.

Is there a functional substitute for it that we can take seriously? That is some kind of intermediate, some kind of relationship which we can describe, take seriously, and link to a real program of action of the sort that equals the functions the acquis has served and the membership action plans have served and the like.

At the moment neither institution has it. There are names and labels for these non-membership states, but there no content that anyone can define very well to them.

It seems to me that's one of the questions for Western policy. Is there such a beast? What does it look like? And what has to be done to get there?

Kristian Sørensen: Actually, what I was going to say will follow on your second observation, Bob.

I think it is extremely important to observe that while we are so occupied with our own integration in terms of looking at the EU as a pivotal point for a model for democracy and developing norms and standards, one should observe that there is, and I tried to say that in my introduction, indigenous inspired reform process in Russia itself.

It should not only be seen as an appendix to the European integration model, but rather we should try to look perhaps more detailed into what are the positive aspects of reforming Russia on the legal side, on the structural side, in terms of federalist structures.

Actually I've been very surprised in my personal working in Moscow about the extent to which thinking had gone inside Russia on these issues.

It may be, to a certain extent, obscured by our own process and by the fact that the Chechnya issue is so high on the agenda. Because also on the issue of ethnicity there has been a lot of developments.

I think in a way what we really need to observe, with a little more humility, is how the EU is relevant to Russia and not by being us, but by how we can become more Russian. And I think that is really interesting in our way of thinking.

I think that's really very necessary because I have felt that, to a certain extent, when you go to the regions which I've had an opportunity to visit over the last couple of years, at least ten, fifteen of the regions in Russia, a lot of things are happening locally. There are networks, there are people, there are issues you can deal with directly.

I used to say that when it comes to the commercial field, you don't have these kinds of necessary limitations about centralist thinking.

In Russia there are certain possibilities where you can act directly, and we should maybe not be so systemic in our thinking that we would dismantle our own ability to act directly.

I would actually like you to comment a little more detail about how you look at this issue of a federation of Russian states verses the Russian Federation.

Liliana Proskuryakova from the St.Petersburg Center for Humanities and Political Studies «Strategy»: I just wanted to briefly comment on two things I heard in the speech of Mr. Ilves. The first one was already commented twice by Ms. Klitsunova and Mr. Nurick, which is that Russia was the only post-Soviet East European state that clearly did not state her willingness to join the EU. And that in my view only shows the common sense of the Russian authorities who clearly see that there is no prospect of joining. It reminds me of the old joke; if Russia joins the EU then there is a big question of who is joining who?

Secondly, several countries have been mentioned as problematic for the traditional and stable West European democracies. And those who were mentioned were two countries form the, Caucasus, Georgia and Armenia. And Turkey was mentioned also as a problem, and the Balkans countries, Serbia and Albania, even the East European countries, Ukraine and Belarus.

First of all I strongly object against labeling any countries as problematic.

And the second, my point is that there is different perception and different understanding of what are democratic standards. And the traditionally accepted standards of behavior in society.

The index of corruption by Transparency International that was cited here is exactly the perception of corruption by society, and things that could be perceived as corruption in the Nordic countries would be a normal thing in Armenia, for example.

If you look at how the EU could solve this problem in the Balkans it is simply by pouring money into the states. And we see that the same actually happened with the Baltic States, until they reached this level of GDP per capita, which they can boast of now.

Atis Lejiņš: Lets see what the EU has to say about all this.

Andrew Rasbash: It's a good day to talk today, isn't it, about the EU? So, I'm Andrew Rasbash, European Commission representative here. It's been a fascinating discussion so far, and there is an awful lot of items I would like to pick up. I'll limit myself to a couple, because there is a lot of other people who have some things to say.

I wanted to follow up on the digestion question that you mentioned, Mr. Ilves. And also then to pontificate a little bit about the future economic development prospects for Latvia and perhaps the other Baltic States inside the EU in a couple of implications of that.

On the digestion question, it's interesting to divide the coming years into two periods: 2004 to 2006 then from 2007 onwards. And I do that partly because they are the first three years of membership, but particularly because the policies of the EU are essentially set for that period. From 2004 to 2006. And the question that then has to be faced is to make those policies work both in the new countries and in the acceding countries, but also in the commission.

You made some very kind comments on the wonderful officials of DG enlargement, of whom I happen to be one. In fact what we're going to be doing is we're going to be very busy inside the other Directorate Generals commission, trying to make those Directorate Generals work with 25 countries, instead of with fifteen countries.

So we have an internal indigestion to deal with, so that will be the Alka-Seltzer for that one.

And then there is the digestion problem. But this is always on the basis of the existing policies. Because basically the deal offered to the ten acceding countries is; you take onboard all our policies. You have accept it as it is. Then, the next big step comes from the period 2007 to 2013. That's the next financial period. The big reason to get in in 2004 and not 2007, for any acceding country is not to miss out on the current deadlines, and the current date, because then they will be excluded from the process of discussing the policy framework of the EU for the next financial period, 2007 to 2013. Very important structural funds, common agricultural policy, and so on.

But also in the context of this particular discussion we're having today, it is very important to know what is going to be the policy of the EU vis-à-vis the near abroad, the neighbors, whatever we should call it.

And particularly, what is the sort of the financial underpinnings that will go with that. At the moment there is a program called TACIS, which provides support to the countries, you know, further to the east from here, which is a bit of a sort of a poor orphan of the whole program.

But once you have seven countries all with borders directly onto the Ukraine and Russia, that sort of program will have a much greater importance, it will have a greater financial importance, it will have a greater policy importance. And so I think that will then lead to significant changes in policy in that area.

You made some very controversial statements about Romania and Bulgaria. There our view is absolutely clear; the current enlargement processes includes Romania and Bulgaria. I would be extremely surprised that if anything would happen on that, and in case of doubt I suggest you just phone Paris. And I think you'll get a very clear message on that one.

Of course then it gets much more complicated with the next enlargement with Turkey, that's decided, and to southeast Europe. And I'm afraid that once again the poor Turks may see people overtaking them. Croatia and Serbia perhaps are going to find it much easier to make the necessary adjustments.

But this then does raise the issue, which is one of the main issues which I suppose is somehow underpinning the discussion in the European Convention on the future shape of Europe.

Do we carry on with single monolithic structures with all member states treated in more or less the same way? Or do we have special arrangements for a rank of countries in Eastern Europe, in Asia Minor, in North Africa, countries which want to have close relations, which should have close relations, and for which we don't really yet have the necessary structures in place. That's my first point.

Second point is we spend a lot of time looking at economic development, I'm based in Latvia, so I focus particularly on Latvia, how we can help Latvia to develop. To get a decent level of GNP per head, to prevent social problems and the whole process of economic and social cohesion is something which is very important for us, very important for the Latvian authorities.

So one of the things we strongly encourage Latvia to do is to look for comparative advantages. Where does this country have a comparative advantage? Nobody is going to invest here because of the size of the internal market. It's two million people. Look at Poland, it's forty million.

But Latvia has certain advantages, and it's been mentioned already by so many speakers here today. An intimate knowledge of the neighbor to the east. Long standing relations there. And if you look, we're in Riga, a wealthy city, for 800 years it's been a wealthy city because of its geographical location essentially. That hasn't changed. And that the obvious future development for Latvia is as a port if entry in both directions. European companies wanting, having interest in Russia. Russian companies interested in Europe. This is the place in the middle.

But, that would imply a sort of economic development which would mean having somehow the internal self-confidence to accept a very strong degree of economic interest coming from Russia, involved here. Which is a difficult question that I think has to be faced. Because that's certainly the obvious economic development alternative, and it's the one that I think the E.U. funds will be encouraging the development of. Perhaps that's one also for other Baltic states, but I leave that on the table.

Toomas Hendrik Ilves: Just to be quick, that's the right of the speaker, to have the last word.

On trains, let's recall why it was Latvia produced the visa here. Trains are not irrelevant. The St. Peter's church here was occupied and threatened to be blown up by a number of fellows who jumped off the train from St.Petersburg to Kaliningrad.

Of course the idea of sealed train has a certain resonance in history that we may not want to address either.

When you said Bob, that the Russians don't look at the European Union as a model, well I would submit that the Soviet Union didn't look upon the West as a model either. I think that's not the issue.

When you say there should be a different status, well that's what I said too. Though I didn't expand on that. But I think there ought to really be some kind of new status. And not only because of Russia or Ukraine, but maybe, if Mozambique takes over the *acquis communitaire* in its totality maybe it should be offered something also, but probably would not be voting membership.

You asked about the Federation of Russian States, or Russian Federation. Well this I think gets back to the problem there is a Russian Federation, but it's being centralized and sort of defederalized in many ways. If you had a federation of Russian states then I could foresee in fifty years if the Petersburg region were an independent country that it might say; lets take over the *acquis communitaire* and try to join the European Union. Maybe Sakhalin would not be interested in that.

People are saying corruption is a matter of perception. For some people its corruption, for some people it's a normal way of doing things. I agree. That's precisely what we say.

I mean, that's fine, you may not consider corruption as corruption. We do and we don't want it. So, I mean if you consider bakshis or whatever you call it as the normal way of doing things, well that's just not the European way of doing things and you can go on doing it. Fine. But we don't want you with us doing it. So that's your decision.

And also on another relativist comment about how, we see some countries as undemocratic but they don't see themselves as undemocratic. Well, you're probably right. Belarus, for example, I think Lukashenko does not think that he's undemocratic.

But it is our right to decide who we let in to our house. And if we think you're undemocratic we won't let you into the house. I mean you can call yourself democratic and a lot of countries until 1989 put the term democratic in their official name, which was always a clue to the fact they weren't democratic.

Atis Lejiņš: German Democratic Republic.

Toomas Hendrik Ilves: Right. But the point is that no one is forcing anyone to do anything. No one is forcing a country to join the European Union. The European Union is not saying bad things about countries because they think they are bad. It's just that if you're not going to be like us, be who you are. But you're not going to be a member, that's all. Thank you.

Energy and Oil: the Baltic States

SIGITAS BABILIUS, *Institute of International Relations and Political Science, Vilnius University*

I would like to share my vision about what is happening in the region and what is happening in regional energy politics.

Firstly I would like to say that for this presentation and interpretation of empirical data, the realistic approach to international relations was taken. Such decision is based on the fact that the politics of energy always involve issues of force and influence.

The development of Lithuanian and I think the Baltic energy market is influenced by the following factors:

Russia implements an active foreign policy, which is based on the price of structural dependence between the producers and consumers of energy resources. The interest of the Russian government and its energy companies in the region of the former Soviet Union is to assure a large market and strategic positions. Regional energy markets are in a huge transition. National governments are privatizing national energy companies, and Russian companies are in the process of vertical integration.

The transit of oil through neighboring countries is against the Russian national interest, and aspirations of some companies. I mean energy companies. Because of that, alternative projects or routes are implemented.

The cycle of high oil prices began in the beginning of 1999. This allowed Russian energy companies to acquire big amounts of additional financial resources, which are used for the acquisition of companies in Russia, and especially in the neighbor countries of Eastern and Central Europe. By gaining control of companies in Eastern Europe, Russian companies gained future positions in the market of the future European Union.

Step by step Russian companies are acquiring or dividing the markets of Eastern Europe. It should be stressed that till now Russian companies avoided to compete in foreign markets. On the other hand, most of the national companies in the region are small and uncompetitive in the regional market. The destiny of those companies is thus to search for big companies or go bankrupt.

The economic impact of high oil prices can be, and is, transformed into political power. After the Russian crisis, Russia has started to develop an import substitution economy. Profits gained from the export of oil was used by energy companies in order to be more active in politics and in the market.

It could be said that in 2000, the total income of Russian oil companies was by one third higher than the year before. The profits of Lukoil, the biggest oil company was sixteen times bigger than the year before, about twelve hundred million US dollars.

The cycle of high profitability has still not peaked. Russian companies used the money to achieve political and economical aims. It should be stressed that despite some differences in the aims of the Russian government and energy companies in the domestic market, there is compromise with regard to foreign markets. The Russian government and the political elite stress defense of Russian interests abroad, especially in the neighboring countries in the region of the former Soviet Union.

It is useful for energy companies because eventually they can implement their economic goals. It means gaining control of the markets or companies in the neighboring countries. They are acting as subjects of Russian foreign policy. Because of this, Russian energy companies are backed by the government.

Two main factors influence the activities of Russian companies in the market of Central and Eastern Europe.
They are: first, the competition with indigenous companies for the market share. Very often national governments are afraid of the political consequences of Russian investments, both politically and economically; second, the so-called insecurity of transit of Russian oil to the Western markets.

In 1999, about seventy percent of Russian oil exported passed through the territories of the neighboring countries. Taking into account that only one of those countries, Belarus, was in the same geo-political orientation as Russia, this factor was recognized as very important for Russian national security.

Consequently, the Russian government decided to improve Russian energy independence while gaining influence in the region. This decision brought about the following measures: Russian companies seek to save the cost of transit. The Russian government also stresses the importance of alternative routes of oil export.

On the other hand, the Russian government and companies use the means of economic influence to achieve political and economical goals. These goals may be to force national government to adopt decisions useful for Russian companies. These decisions are taken mostly in the process of privatization of national companies.

For example during the privatization of Lithuanian oil company Mazeikiu Nafta, it received 34% less oil than the year before. This was economic leverage influencing the privatization process.

In 2000 Russia began to implement at least three projects in the Baltic region. These were increasing the capacity of the St. Petersburg oil terminal by 85%, the building of the Primorsk terminal and Baltic pipeline system, and the Batareinaja oil terminal.

Russian companies began also to take-over and to participate in the management of energy companies of the neighboring countries. It's implemented by two different means. Participation in the process of privatization, and acquisition of the debts. The situation in the regional market is good for Russian companies. Many national energy companies are under privatization. And western companies, energy companies, are still avoiding to invest in the regional energy sector. All the companies under privatization are dependent on Russian energy resources.

For example, during the energy crisis in the Ukraine, Russian conditions for the renewal of oil export was to allow Russian companies to participate in the privatization of Ukraine's oil refining sector.

Finally, integration projects are implemented. The aim is to rebuild a common energy system on the same lines which functioned during Soviet times.

For example, one of the main aims of Russian and Belarusian union is a common transport policy. Because of that, gas for Byelorussia is sold three times cheaper than for Lithuania. Two years ago at the peak of the Ukrainian energy crisis, Russia proposed to join Ukraine to the system of common energy grid of Russia, Belarus, Kazakhstan, and Turkmenistan, and to rent its pipelines and coordinate the planning of the transport system. It should be stressed that the independent energy system of Ukraine is one of the most important symbols of its sovereignty.

The issue of transportation is the most interesting. In 1999 the total capacity of oil terminals in the eastern part of the Baltic Sea was about 170 million tons of oil and oil products per year. Total actual capacity of pipelines was at about 100 million tons. The biggest target countries of Russian oil export were Great Britain, Switzerland and Ireland.

It means that Russian oil companies were registered in offshore zones.

As was mentioned, at least three projects of new export routes in this part of the Baltic Sea were introduced. Now, after the implementation of these projects and some other projects, I mean Butinge, modernization of Klaipeda and modernization of St. Petersburg oil terminals, the capacity of oil export terminals is about 188 million tons of oil and oil products per year.

At the same time Russia started to refine more oil in domestic refineries. Yet the amount of exported oil and oil products is the same.

Consequently, the competition in this region is much more higher than even two years before.

After the opening of Primorsk terminal and increase in the capacity of other oil terminals which determine several factors influenced the routes of oil exports, which route is better for one or another Russian oil company.

These factors are: distance from the region of production; cost of transportation to the export terminal; cost of the transportation to the consumer, cost of the terminal and logistics; and other conditions. The criteria of "other conditions" is more important for terminals in the northern part of the Baltic sea.

There are political criteria and the question of ownership. The latest development shows that Russian energy companies want to control all the parts of oil business. It means that terminals and refineries with Russian shares have an advantage compared to those owned by national companies, or nationals.

Under the opening of new routes of Russian oil transit, Russian companies can more freely plan their oil export. Baltic countries, especially Latvia and Lithuania in this game committed a strategic failure, i.e., to implement the western pipeline system project and compete with the Baltic pipeline system project, and the modernization of St. Petersburg region oil terminals.

This failure means that the common geopolitical goal to control Russian oil exports was replaced by competition between the ports of Ventspils and Klaipeda, and disagreements about the setting of sea borders. This question I think was especially important for the failure of the Western pipeline project.

Now I want to share some ideas about Lukoil activities in Lithuania. These ideas could be useful in making decisions in the future.

According to Russian experts Lukoil activities in Lithuania was the fourth strongest lobby campaign in the year 1999 in the whole post soviet region. Lukoil had the following interests:

Mazeikiu refinery historically was incorporated to the structure of Lukoil. This refinery was the instrument of gaining control of the Baltic retail market. Because of that any other company having influence in this company was the potential threat to the business structures of Lukoil.

Lukoil tried to stop negotiations between the Lithuanian government and Williams International Company. This company was the strategic investor in Mazeikiu Nafta. After the treaty was signed, tactics changed. The refinery received small amounts of oil, which allowed to produce only for the domestic market and, of course, for Lukoil petrol tank stations in the Baltics.

Such a squeeze meant huge financial losses for the refinery. This shortage of oil supply was motivated by bureaucratic obstacles in different Russian institutions. These technical issues were followed by an information campaign.

Lukoil tried to create an information monopoly – main information about developments in oil sector came from sources related with Lukoil. The energy business was the main issue for the mass media, which published a lot of "sold" articles. During this campaign Lukoil tried to promote several stereotypes: First: Mazeikiu refinery is worth nothing, second – Western investor Williams and government are corrupt, third – Lukoil is modern and fair company.

This information campaign influenced the agenda of Lithuanian politicians.

Lukoil also worked on the level of the Russian Ministry of Energy and Transportation, and Transneft company which is the coordinator of oil supplies and oil export.
After the long period of instability, and unsuccessful negotiations, the majority stake if Mazeikiu Nafta was sold to the Russian company Yukos.

It means that there was a sort of agreement between this company and Lukoil on a division of the market. Shortly after that Lukoil tried to win the privatization tender of the biggest Polish refinery, Polski Koncern Naftovy refinery.

Conclusions. Russian oil companies are gaining control of energy markets of Central and Eastern European countries. National companies of these countries have little chance to compete with them. This economic background allows Russia to influence politics of the small Baltic countries, the new members of NATO, and they hope - new members of EU.

Discussion

Andrew Tesorière, British Ambassador: Thank you very much indeed. And thank you for an interesting presentation. I've got lots of questions. What I'd like to do is perhaps try to link this morning's discussion with the latter part of the morning, if you like, politics with economics.

As we look forward, my questions revolve around whether economics is going to lead the way, or whether politics, political initiatives are going to lead the way.

I could be wrong in saying this, but there seems to be a certain momentum behind Russian investment and business interests in the Baltic region. Given that the goal of perhaps our discussion this morning is improved Russian-Baltic relations, what are going to be the sorts of benchmarks that political leaders are going to look for in the near future? By that I mean one to three years.

And what is the fit between, or the relationship if you like, between the economics, which is probably going at quite a fast pace, and for our part, we try to focus rather more on these aspects of strategic investment, if I might put it that way, in the Baltic, and political initiatives?

If I might just pick up on something very specifically about political initiatives. This morning there was mention of the ratification of the border treaties. If that were to happen, one would assume that is a very strong indicator that we have made a lot of progress in terms of Baltic-Russian improved relations.

What would the panel see as important benchmarks or steps or actions to be taken by political leaders? And will the economics be a complicating factor or a helpful reinforcing factor? Thank you.

Ingmar Oldberg: If Russia now increases its exports through Primorsk, and decreases it's export through Latvia for instance, does this mean that Latvia would be more inclined to have Russia buy shares in companies here? That's the question.

In Sweden and other countries on the other side of the Baltic Sea there is concern now about tankers with single-hulls passing through the Baltic.

I think that should be perhaps a concern for you too. There was a tanker stranding in Klaipeda the other day. This is a threat to pipelines versus tankers for export to Europe.

And then a little comment concerning Lukoil and Yukos in the Mazeikiu Nafta Company. Wasn't it a fact that Lukoil refused to guarantee safe deliveries of oil through the pipelines and that Yukos accepted that?

Sigitas Babilius: Actually the answer is quite complicated because the question of supply was related to a whole complex of questions. I mean questions of ownership. Questions of price of oil. Questions of the price of oil products which this refinery sells.

But we can say that Yukos proposed better conditions for this refinery than Lukoil. And the image of Yukos in Lithuania was much better than the image of Lukoil. And maybe because of that the Lithuanian government agreed to the Williams and Yukos contract when Williams sold all the shares of Mazeikiu Nafta to Yukos.

About this accident in Klaipeda. I think the answer to this question is very simple. As far as we are joining EU, this question will be under EU regulation.

As far as I know, last week some institution of the European Union discussed the question of technical permits of ships in the Baltic Sea. A decision that all oil ships, must have two-sided tanks was taken. The EU decided.

Atis Lejiņš: I have also a comment. Before I give the word to Igor I'll answer Ingmar Oldberg.

You asked about Ventspils Nafta and Primorsk. You know now that no oil is going through the pipeline in Latvia to Ventspils. And the equation right now is the following. If TransNeft can obtain Ventspils Nafta, then they don't have to build Primorsk II. Because it's much cheaper to get Ventspils Nafta than build a new terminal.

The problem is that this is not a question of price, what I've been hearing lately is that they want it free. Not paying anything for Ventspils Nafta.

I would like to hear what our colleagues from St. Petersburg know about this. Because then it goes back to the question that the British ambassador asked, who's leading who, politics or economics?

Igor Leshukov: I'm clearly not an oilman in the sense that it's clearly a very technical business with lots of tricks. You really need to be an insider.

But even from the outside there are things which force upon you certain reflections. At one stage we ran a seminar on the Baltic pipeline system. Bringing together environmentalists with Transneft people, etc. We also invited Ventspils Nafta, but Ventspils Nafta did not come because it thought that this might be detrimental for their business. We were also forced that day not to convene the workshop, because of very direct threats.

Anyway, what I'm willing to say... I waited several days for the tax police to rush into my office, etc. That was real talk. I have even that in writing. Because the leadership of Transneft put that in writing addressed to me.

I would say; yes indeed, oil and energy is very big stuff. When I've been talking irresponsibly about NATO enlargement I never got anything in writing from the people concerned. When we started to comment something on energy, well...

But getting to the substance. If I'm right in understanding what you said, the failure of the Western pipeline system through Latvia and Lithuania was due to internal competition between Klaipeda and Ventspils. I would have a bit different view in the sense that I would say; the failure of Western pipeline system is primarily being determined by certain clarity in Russian politics.

What they found expectable, what they found sensible, etc. And to that end it's very difficult to differentiate between politics and economics and who drives whom.

But one point is clear in terms of Russian energy policy. Russia has no alternative so far to the European oil and gas markets. But it can enjoy certain flexibility of maneuver towards the transit routes.

On the one hand, this is a very sensible economic motivation, to exercise a higher leverage towards your partners, with certain excesses. Because I have lots of sympathy toward the Baltic operators how they are trying to secure their economic positions. But I would find very difficult to advise what can be done under the circumstances. Because basically you face ultimatums, or you face offers which you cannot reject.

Look at the Caspian pipeline system, and Transneft. The question is, which model the Western pipeline system would follow? We got a very clear answer. That this will be a part of Transneft, this will be a Russian state run monopoly. Full stop.

This is the way how the Russian establishment today manages the energy sector. Yes, you have private oil companies, and they are free to make their profits. But they are on a very short leash. In the sense the way how the pipeline is managed. And the way on which conditions the Russian establishment is prepared to accept investment is very, very instructive.

For instance, when Mr. Kasyanov, the Prime Minister of Russia faced by some suggestions voiced by the Finish counterparts about the conditions to EBRD funding, responded by saying that these conditions are unacceptable. I guess this would be the same logic how the Russian government would talk about any investment in the energy sector. They, indeed, would say, yes, we want them. They even evaluate these investments for their Western counterparts.

But, when it comes to real business they would know very definitely on which conditions they are ready accept. Otherwise they say; no, we don't need your money at all.

For the Baltics Russian business investment is not very clear.

What raises concern is why the Russian government still stops any regional cooperation efforts between the neighboring regions and says, no, no, no, no, there is a problem with human rights in especially Latvia.

How you can make deals with people who do not honor such a fundamental values? On the other hand, when Lukoil, Yukos, Gazprom, etc, tries to take shares, and then not get enough,

they use all their political weight to defend their big operators from discrimination and entry in the markets. They never say they are giants. What do you do? You're going to contribute to the budgets of the states who do not respect fundamental rights.

So there is a very clear logical contradiction in that position. And the question is why? Or the question is what is the real policy? Why Russia favors big businesses they can control, and why they stop small and medium enterprises from developing. And as a result better understanding between the people. Which is the fundamental grounds for any good relationship between the Baltic States and Russia.

Question: I think you would all agree the name for modern politics is economic interest. That's obvious nowadays to everybody. And I think you would also agree that the energy market is something which has to be perceived globally and not regionally. Because the prices on oil makes one or another regional deal either competitive and profitable, or completely the opposite.

And I would like to touch upon the conclusion, the pessimistic conclusion, as it was called, of our speaker, that Russia would exert political influence through having strong positions in the energy market of the Baltic States.

Well I would argue that it's not the case. Because the EU has clearly shown a interest in exporting Russia's natural resources and importing oil and gas, and I don't think that EU in this context experiences any political influence or political demands from the part of Russia.

Opposite to Belarus, against which Russia made an attempt to exert influence through means of a strong energy position, the Baltic States, now future members of the EU and NATO would not face such an attitude on the part of Russia for the one simple reason that today in our modern world, we see the very dangerous consequences of trying to use energy as a means of political force, as in Iraq. Thank You.

Elena Klitsunova: I think everyone who is really interested in this question should look more precisely at what's going on right now between Russia and Belarus. Because it's very interesting to check how energy now is starting to influence and effect the political dimension of the Russian-Belarusian union.

Before it was quite obvious that Russia, lets say, didn't question the legitimacy of the Lukashenko regime. But as soon as Russian oil companies faced some problems with privatization of oil and gas transportation structures in Belarus, Russia tried to keep a more strict position on the question; who is Mr. Lukashenko? What is his political regime about?

I think the dynamics is very complex one. But still, I think that this question can be partly answered by looking at the Belarussian particular case, because it's a very interesting one.

And one more comment on the Primorsk port. When discussing the gas and oil industry, we are usually missing one point, the environmental one. I would add to this question of Primorsk, that we have a very complicated system, we have St. Petersburg, and the Leningrad region too. In these regions there are concerns about the environmental impact of the Primorsk project. It is not so secure from the environmental point of view. And there are some people who lobby the transportation of oil and gas through the Baltics, because in this case Russian northwest region will be more secure from an environmental point of view.

Atis Lejiņš: Mr. Vladimir Socor, who has written quite a lot in the *Wall Street Journal Europe* on these oil questions.

Vladimir Socor: There is really no comparison or no analogy possible between the situation of the European Union vis-à-vis Russia in the energy sector and the situation with the Baltic States as it is now emerging, vis-à-vis Russia in the energy sector.

With regard to the European Union countries, Russia is the supplier of energy. But, in the countries that are about to join the European Union, the Baltic States, Poland and some other Central European countries, a completely different situation is emerging, in which Russia is not only the supplier of energy, but is increasingly becoming the owner of refineries, getting control of distribution systems, and thus acquiring multiple economic and political leverage.

The situation that's shaping up here raises the prospect of the European Union after 2004 being divided from the standpoint of energy security into two different zones of unequal security. One in Western Europe, where Russia is supplier, and one in the new acceding countries where Russia controls supply, refining and distribution. I think this is a problem for the European Union to address, because otherwise this economic situation will have undesirable political consequences even in the medium term.

Moreover, a pattern of Russian behavior is emerging here in the Baltic States whereby Russian energy giants, connected more or less to the Russian state, are being allowed to drive local energy companies into bankruptcy by withholding supplies.

Would such a pattern of behavior be accepted in the old members of the European Union? No, it would be totally unacceptable there. Why then does the European Union accept this pattern of behavior in countries that are about to join the European Union? I think these are questions for EU policy to address.

Atis Lejiņš: But I would like to finish with an interesting note of statistics. Because oil has diminished through Ventspils Nafta, Latvia has lost 1/4 of one percent of GDP growth.

So if GDP growth would have been 5.5, now it is 5.25 percent, because Ventspils Nafta cannot pay taxes, they have no profits.

I'm not saying, that the Ventspils Nafta people are angles. Far from it. But what Russia is doing is clearly against WTO rules and could have strong political implications for Latvia.

This has led some people in this country in saying; do we need Ventspils Nafta? Maybe we can live with it and find other sources for GDP growth to compensate the loss of oil transit.

Toomas Hendrik Ilves: I predict that single-hulled ships will be banned in the Baltic Sea much earlier than currently planned after the recent events off the coast of Spain.

When you think about the Gulf of Finland, which at its deepest is about 300 meters and is only 80 kilometers wide, and you compare it to this ship that is sunk three kilometers and is several

hundred kilometers from the Spanish border the idea of that kind of accident taking place in the Baltic Sea would basically destroy the Baltic Sea.

I predict that single hulled ships will be banned soon. I think there will be a lot of pressure from Finland and Sweden, and probably also from even the Baltic countries to minimize oil transit through the Baltic Sea. And this is a perfect way of closing it. I mean you just close the Straits of Jutland. Say no more oil. I don't think it will get to that, but I think the environmental concerns are much more important than the discussion has been here. And I'm glad someone pointed out that in Russia as well the environmental concerns are growing. I think the wake-up call came a few weeks ago.

That's oil. There is also gas. I mean they're two separate things which are very different in their nature and on the kind of dependence that exists. Clearly all of Europe is dependent on gas. I think the fear of dependence on Russia eventually will start driving the currently moribund Baltic energy ring running through all along the Baltic coast with Norwegian gas.

So far the Swedes have been against that. I think that would change eventually.

The question the UK ambassador raised about benchmarks. I'm not sure the signing of the border treaty is really a benchmark. It's a technical matter that simply for silly political reasons hasn't been done. And I don't think that will represent a major development. I think that – annoying the Balts such as refusal to give MFN, well that has to end by May 1, 2004. Or otherwise there will be no MFN for Russia with the European Union.

But I think the real benchmark would be actually a change in the quality of rhetoric. Today it reminds us more of the 1970's Soviet era rhetoric, but when this changes to the rhetoric you see, say between Russia and Finland, or Russia and Sweden, not necessarily Russia and Denmark, when Russia starts talking to these seven countries in the way they talk to other countries, then I think that would be the real sign.

Kristian Sørensen: Can I as a Dane say that we have several levels of dialogue with Russia. And I would like to indicate just one example.

The steel works of Denmark, of which there is only one, has traditionally had very big strategic importance but has now been taken over by a Russian company. It may give an indication there is more below the surface than just politics.

At the same time as we may have a tough language exchange between Russia and Denmark, there are other more serious issues going on. And I would venture to say that an answer to your question is that there is both a very clear economic agenda and then there is a political one. And they're not necessarily consistent.

Sigitas Babilius: I would like to try to answer the question, what is more important, economics or politics? And I would like the answer this question taking into account the Lithuanian example.

Well, Lithuania had a right wing government in office, led by Mr. Landsbergis. The main idea was then that politics is more important. This idea was implemented in different laws. We had a law that Russian companies, or Eastern companies, energy companies, can not have majority stock stakes in Lithuanian strategic energy companies.

There were many projects of integrating the Lithuanian energy market into Western markets. I mean the construction of Butinge oil terminal was completely a political decision.

The decision to connect Lithuanian gas pipelines to Polish and to Norwegian pipelines also was a completely political decision.

But these political decisions were not implemented because of economical reasons. Lithuanian companies would have suffered great losses.

When the left-wing government took office, this political idea was changed by the economic idea that all energy sectors should function according to economics, not politics. The left-wing government allowed Russian companies to invest in the Lithuanian national gas company, Mazeikia Nafta, and so on. The laws were changed.

In Lithuania economics is leading politics.

Oil, Energy, and Military Conflict: the South Caucasus Region

***VLADIMIR SOCOR**, Senior Fellow, Institute for Advanced Strategic and Political Studies, Washington*

My presentation today is titled Caspian great game, the current state of play.

The recent discovery and development of Caspian oil and gas, a wealth until recently completely unknown to the outside world, is the most important development in international energy politics and economics in the last thirty years.

This development was made possible by Western investment capital and by Western technology. Also by the need for increased energy supplies in Western countries, and in those non-Western countries that are closely integrated with the Western economies.

Russia is not an importer, but rather a net exporter of oil and gas. And in spite of all these factors, Russia is successfully monopolizing the transit of Caspian oil and gas to consumer countries in other markets.

How did this come about? I'm tempted to improvise a radio Armenia type of joke. Listener writes in; how come this country which has historically been unable to even find, much less extract, the bulk of Caspian oil and gas, this country which does not need Caspian oil and gas for itself because it is itself an exporter, how come this country is managing to monopolize the transit? Radio Armenia replies; dear listener, this is this country's professional secret. Lets see how this has worked until this present moment.

The bulk of Caspian oil and gas reserves is concentrated on the eastern shore of the Caspian. European attention is largely focused on the western shore, mainly Azerbaijan. But this is a misplaced focus because Kazakhstan and Turkmenistan have far larger reserves compared to those of Azerbaijan.

The oil from Kazakhstan has been preempted for transit for many years to come by Russia.

Here is the current state of play regarding the transit of Kazakhstani oil. In June of this year, presidents Putin and Nazerbayev signed a set of agreements which guarantee that fifteen million tons of Kazakhstani oil will go through the Attermal-Samara pipeline, a Soviet era pipeline,

owned today by Transneft, for fifteen years, fifty million tons a year. Another 2.5 million tons will go also through a Transneft pipeline from Mahknaetz to Tihoretsk via Tihoretsk to Novorossiysk.

Under an agreement signed last year by a Western pipeline consortium with Kazakhstan, 28 million tons of Kazakhstani oil will go to Novorossiysk through the Caspian Pipelines Consortium's pipeline. A line built with Western capital, Western technology, by a consortium headed by Exxon-Mobile.

Thus we have a total commitment already at this moment of 45 million tons to go to Russia every year for the next fifteen years.

In addition to that, in May of this year, Putin and Nazerbayev signed an agreement regarding the very promising field of Kurmangazy, which Russia recognized as lying within Kazakhstan's jurisdiction, on the condition that the field would be exploited as a joint Russian-Kazakhstani venture on a 50/50 basis, and that it's entire output would go to Novorossiysk. That makes a total of 55 million tons.

Fifty five million tons is the projected out put of Kazakhstan ten years from now. By 2015-2020, that output is going to grow to 100 million tons, projected, almost exclusively for export. That leaves about fifty million tons to be disputed between Russia and the West in terms of transit. The Russians are already moving far ahead of the West to secure their grip on those fifty million tons.

First, by applying to increase the capacity of the Caspian Pipeline Consortium's line to Novorossiysk from the present 28 million to fifty six million tons a year from 2015 on.

Second, by plugging the Karakjanak field, an onshore field, now developed by an Italian company, by consortium headed by an Italian company, to plug that into Novorossiysk well.

And thirdly, by expanding Transneft's pipeline system within Russia to connect with the Baltic pipeline system terminating in Primorsk.

There is no counter move from the West to these Russian moves at present. If these trends continue, by 2015-2020, Russia will have a monopoly on the transit of 100 million tons of Kazakhstani oil.

To make a dent into that, to insure some balance, it would be imperative for Western interests to secure the West-Balt transit of Kazakhstani oil from a field now under development. That is the Kashagan field. East Kashagan, discovered one year ago, west Kashagan discovered this year. Altogether Kashagan is estimated to constitute the richest oil field discovered anywhere in the world in the last thirty years.

There should be a political battle ahead regarding the direction of the transit of oil from Kashagan. The United States has a solution to this, but it's a theoretical solution, not yet backed up be any practical steps. That is to plug Kashagan into the Baku-Tbilisi-Ceyhan pipeline of which I will talk in a moment. The government of Kazakhstan is under heavy pressure from both Russia and Iran not to go along with that solution. Russia and Iran jointly oppose any trans-Caspian pipelines. Thwarting trans-Caspian pipelines would insure Kazakhstani oil would go either via Iran or via Russia.

The Iranian option is completely unrealistic. It is opposed, first of all by the United States, with sanctions in place on those Western companies that invest in Iranian oil projects.

This American resistance to trans-Iranian pipelines is not only politically motivated. It is not simply a function of the poor relations between the U.S. and Iran. Even if those relations were good, Iran would be ruled out as a transit route for oil because of considerations related to energy security.

The Persian Gulf already handles an excessive share of the world's oil supplies. It is an American objective, tied to considerations of world energy security, to at least place a cut, and if possible, even diminish the share of world oil exports that are handled through the Persian Gulf. That would not change even if political relations between America and Iran would improve.

The second largest export project out of the Caspian Sea is the Baku-Tbilisi-Ceyhan pipeline. This is still a plan. It is an intention which has been announced for many years, already since 1996. This pipeline will be dedicated to the three oil fields in Azerbaijan which follow the object of the so called contract of the century, signed by Azerbaijan with a Western consortium in 1996, an investment valued at 10 billion dollars in the extraction project alone, with another 4 billion dollars projected to go into the Baku-Tbilisi-Ceyhan pipeline.

British Petroleum is the operator of this project. Its main moving force is, of course, the United States, from the days of the Clinton administration, which instituted a policy, which the administration called multiple pipelines.

In fact as it turned out several years later, multiple pipelines was a general formula which in fact, at times, tended to cover the absence of a policy. Multiple pipelines can mean anything. This formula does not say anything about how to allocate, how to apportion the available balance of oil between the various pipelines.

There was an unspoken understanding on the part of the Clinton administration to divide the Caspian Sea into two zones. One, centered on Azerbaijan, from which oil and gas would flow westwards, bypassing Russia. The other, on the eastern shore in which Kazakhstan was in effect conceded to Russian transit interests.

In the 1990's when this implicit policy, unspoken policy, took place, the reserves on the western shore of the Caspian tended to be overestimated, the reserves on the eastern shore tended to be underestimated. It has turned out the other way around.

Another failing of the Clinton administrations policy was to present Baku-Tbilisi-Ceyhan as a purely commercial project, thereby not authorizing the U.S. export-import pact and the overseas private investment corporation, OPIC, to lend money to this project. Baku-Tbilisi-Ceyhan was left to be handled by private investors, responsive to commercial interests only.

This was essentially a public relations strategy on the part of the Clinton administration. It was its defense against accusations that Baku-Tbilisi-Ceyhan was essentially a political project.

The result is that six years later ground has only now been broken on the pipeline construction. It was broken in September. The target date for completing the pipeline has constantly shifted

with the horizon, into the future. The original target date was 2002, this year. Now the original target date for completion is 2005.

Azerbaijan's and Georgia's hope for development as independent states hinge on this project. It may well be that the two countries development and viability may even stand or fall on this pipeline.

Azerbaijan until recently was thought of as a producer country, Georgia as the transit country par excellence. But as oil discoveries in the Caspian Sea have made clear, Azerbaijan is not only a producer country, because in that role it is almost dwarfed by Kazakhstan, not to mention Turkmenistan. Azerbaijan is also a key transit country, it is key to securing direct access of eastern Caspian oil and gas to Europe.

These are the stakes in the South Caucasus at present.

Azerbaijan is also emerging as a significant producer of natural gas. But let me talk about gas later in connection with Turkmenistan, because Turkmenistan is of course the great potential gas producer.

The second largest potential, the second largest oil field in Azerbaijani waters, is called Alov-Sharg-Araz. It's a combination of three fields, lying well within Azerbaijan's territorial waters, but claimed by Iran.

Vessels of British Petroleum and of Azerbaijan's state oil company, were exploring Alov-Sharg-Araz until last year, when in July 2001 Iranian gunboats and war planes chased those prospecting ships out of those oil fields, which as I said, lie well within Azerbaijani territorial waters.

This has for the time being removed from contention those Azerbaijani fields. Their reserves will remain locked. This incident of the use of force by Iran took not only Azerbaijan, but took the United States and Great Britain by complete surprise. The United States had no reply to make. It had no naval or air assets in the region. The only reply that could be organized was to have Turkish airplanes stage a demonstration of acrobatic flying over Baku. These were F-4 planes, therefore obsolescent planes. They were unarmed, of course, when they staged the demonstration. It was a moral shot in the arm for Azerbaijan, but it did not achieve the desires of the effect of military deterrence.

Britain was also a directly interested party because British Petroleum was developing those fields. The Foreign Office in London, just like the State Department in Washington, made some very low key statements and preferred to close their eyes to this incident.

Also from Azerbaijan there are two small capacity pipelines leading to the Black Sea. One is the Baku-Supsa pipeline, Supsa terminating in Georgia. Supsa is an oil port on the Georgian coast of the Black Sea. This pipeline only carries ten million tons a year. It was built by the consortium which is involved in the contract of the century, mentioned earlier. It is a stopgap solution for the so-called "early oil". That is the oil from the contract of the century fields that needs to be exported before Baku-Tbilisi-Ceyhan comes on-stream. There was a need for a stopgap solution for that early oil and that is Baku-Supsa, but only ten million tons of oil a year. And Baku-Novorossiysk, a Soviet era pipeline, currently with a capacity of only five million tons a year, but because the pipeline is in poor condition, even that capacity is only by half, two and a

half million tons a year. The Russians would like Azerbaijan to export more oil through that pipeline to Senaton-Novorossiysk, and would even like Azerbaijan and it's Western partners to invest in upgrading and expanding that pipeline. Of course it will not happen.

The thinking at present in Azerbaijan and among it's Western partners is that almost every drop of Azerbaijani oil for the next five or ten years needs to be committed to Baku-Tbilisi-Ceyhan pipeline in order to make it profitable and attractive to foreign investors. There is very little, if any, oil available for Azari pipelines.

And that is why the Odessa-Brody pipe in Ukraine is dry. When the Ukrainians invested hundreds of millions of dollars in building that pipeline from Odessa to Brody, on the Ukrainian Polish border they expected Caspian oil to flow through that pipeline, to flow into Poland, to Gdansk. Part of it to be refined at Gdansk and exported as oil products, part of it to be exported as crude, out of Gdansk.

It did not happen for two reasons. One, that the calculus of the profitability of Baku-Tbilisi-Ceyhan necessitated every drop of Azerbaijani oil to be routed through it. And second, because Russia, with Iranian help, blocked the plans for a trans-Caspian oil pipeline from Kazakhstan. Therefore neither Kazakhstani nor Azerbaijani oil is flowing through Odessa-Brody. Ukraine wasted almost half a billion dollars on it.

And in the mean time, another factor is interfering with the progress of this project. And that is the Lukoil plan of taking over the Gdansk oil terminal. If that happens then the Ukrainian pipeline will loose its initial purpose. Moreover, Ukraine will remain dependent on Russian oil deliveries.

Moving on to gas. Turkmenistan is the great looming factor on international gas markets. Officially, Turkmenistan's reserves of gas are ranked fourth in the world. First being Russia's. In fact, it is very likely that Turkmenistan's reserves are second only to Russia's, since the current ranking, number four, is based on incompletely prospected deposits. There are believed to be vast deposits that have not yet been prospected or estimated.

What is even more relevant is the comparison of Russia's and Turkmenistan's export potential. Comparing gas reserves to gas reserves, or gas output to gas output between countries is not necessarily the most relevant criteria. The most relevant criteria is export potential. Russia has a total gas output almost four times the present output of Turkmenistan. But Russia's output is consumed to a very great extent internally, and also by CIS member countries, where as Turkmenistan's output is almost entirely available for export to hard currency paying markets.

Russian gas deliveries to Western Europe are stagnant or even declining. In the last two or three years they tended to decline marginally, from about 120 billion cubic meters annually to about 115 billion cubic meters annually.

Gazprom is itself anticipating increasing difficulties in meeting its contractual obligations to west European importers. The solution to that would be to develop additional gas fields in Russia, but those are located in the far Artic, or at great depths, at great distances from the consumer markets. Therefore the investment in the transportation expenses would be very high, correspondingly increasing the cost of gas. By contrast, Turkmenistan's gas is much cheaper to find, develop, and bring to the market.

Turkmenistan's gas output peaked at the end of the Soviet era, around 1990, at 90 billion cubic meters annually. Ninety billion. Almost all of it of course, pumped to Russia. Very little consumed internally. Compare that export potential to Gazprom's total current deliveries to Western Europe of approximately 115 billion.

Moreover, Turkmenistan's peak output of 90 billion had been achieved before some of the largest and richest fields had been discovered. Therefore at relatively little cost in terms of investment and transport, Turkmenistan can become an equal factor to Russia on European gas markets. It will become a competitor.

Russia's answer is different. President Putin at the beginning of this year, in February of 2002 proposed an OPEC for gas. An OPEC of CIS countries for gas. This is how Putin presented the project at a meeting in Moscow with president Saparmurad Niyazov in February.

Kazakhstan and Uzbekistan would also be part of this CIS OPEC for gas. But Kazakhstani and Uzbekistani gas output is very limited, so this is not attractive commercially if these countries are considered separately. Putin's idea is to concentrate on this under Russian leadership.

Russia, of course, would be in command of the OPEC for gas because Russia controls both the input and the output of the gas pipeline, because Russia sits at either end of the export pipeline from Turkmenistan via Russia to Europe.

In effect the Russian plan amounts to buying Turkmen gas, consuming it internally in eastern parts of Russia, in order to free the domestically produced Russian volumes for export to the West.

Or, alternatively, to simply buy Turkmen gas at the Turkmen border cheaply, and resell it in the West with a huge commercial markup.

Turkmenistan has not gone along with this strategy. Instead, Turkmenistan is simply withholding gas exports to Russia. Turkmenistan's chief customer is Ukraine.

From 2002 to 2006 Turkmenistan will be exporting a staggering total of 250 billion cubic meters of gas to Ukraine for Ukraine's internal consumption. But it is a bad deal for Turkmenistan. The price is 42 dollars per thousand cubic meters, which is modest by European standards. Turkmenistan could get far more in the West for it's gas. Could get at least twice as much, possibly almost three times as much in the West.

Moreover, Ukraine being insolvent, or partly insolvent, in terms of hard currency, Ukraine would pay fifty percent of the gas bills in cash and the remaining fifty percent in the form of investment goods produced in Ukraine. That is to say, low standard, low quality investment goods. Moreover, Ukraine's payment record suggests it will have difficulty even meeting the fifty percent portion in cash.

This is not a lucrative prospect for Turkmenistan. And the reason it's not lucrative, the reason Turkmenistan stagnates, the reason they are loosing investment in Turkmenistan gas output is the absence of a market because market access is blocked by Russia.

As in the case of Kazakhstan, Turkmenistan also is at the receiving end of pressures from both Russia and Iran against trans-Caspian pipelines. The project that could have resolved Turkmenistan problem is the trans-Caspian gas pipeline, TCGP project, proposed in 1998-1999, by the American companies Bechtel and General Electric, for the midstream and downstream portions, and by Shell for the upstream portion.

The trans-Caspian pipeline was proposed to go from Turkmenistan via the Caspian Sea, via Azerbaijan and Georgia, paralleling the Baku-Tbilisi-Ceyhan pipeline to Turkey. To carry 16 billion meters of gas from Turkmenistan to Turkey per year, over a period of sixteen years, and then 32 billion after that. Turkey was to serve both as the main consumer and as a transit corridor to Europe.

Under the European Union's EnoGate project, Turkey and Greece are expected to link their pipeline networks. Through that linkage, Turkmen gas being piped across the Caspian Sea, across Azerbaijan and Georgia to Turkey, would then flow across Greece into Europe, into the Balkans and Danubean Europe. That is encroaching very substantially on Gazprom's traditional markets.

These projects would have had enormously beneficial consequences for Turkmenistan, Azerbaijan, Georgia, and for all concerned. It was blocked by two factors. And I'm not sure which of the two was more important.

One: implacable Russian-Iranian opposition to trans-Caspian pipelines. And two; president Saparmurat Niyazov's own delights in political gamesmanship and financial blackmail on the Western companies. Niyazov requested, rather demanded, outlandish financial conditions, including 400 million dollars prepayment from the Western consortium before the project would get off the ground.

Hence for the time being Turkmen gas remains, to a large extent, locked under Turkmenistan's soil, and certainly unavailable to Western Europe entirely, because of exports go to Ukraine.

More recently the United States has attempted, in fact this year, the United States is attempting, to move the situation off the dead center from Turkmenistan by proposing an alternative pipeline to carry Turkmen gas from Turkmenistan to Afghanistan and from there to Pakistan. This is an earlier project; in fact the documentation and the blueprint had been prepared already in the mid-nineteen ninety's by the U.S. company Unical. The project was called the Sent Gas Pipeline.

It has been revived by the United States in the post Taliban era, because this project can be an effective nation building tool in Afghanistan for the United States. It would be by far the largest economic project of any kind in Afghanistan. It would be the first ever source of hard currency earnings to Afghanistan. It could solidify Afghanistan internally and politically, it could give the various tribes, warlords, and chieftains a common stake with the Karzai government in Kabul in managing this project, insuring its security and making it reliable.

I'm sure the discussion of this project will continue next year, about thirty billion cubic meters of Turkmen gas will go to Afghanistan, and from there annually to Pakistan. However, this amount is not sufficient to make the project commercially attractive and to obviate the need for public financing by the United States.

The key to its profitability is India. If India would agree to have the pipeline extended into India, in order to carry greater volumes of gas, that would make it commercially viable. But India does not wish to do so, because it does not want to place its energy security in the hands of Pakistan.

To wrap up the natural gas chapter of this presentation, it must be said that Azerbaijan is becoming a significant natural gas producer in its own right. Last year and this year, Azerbaijan concluded a set of commercial and construction agreements with Georgia and Turkey for the delivery of 7 billion cubic meters of Azerbaijani gas to Turkey annually from 2005 to 2012. The gas originates in Azerbaijan's offshore field of Shah Deniz, both the extraction and the transport operations are being managed by British Petroleum.

Seven billion cubic meters a year is a significant amount. As you can see that Azerbaijan's significance is dwarfed by that of Turkmenistan, whose export potential is at least 100 billion cubic meters annually.

So who holds the eastern Caspian, holds the Caspian energy reserves. And transit, as of now, remains a Russian monopoly.

Baku-Tbilisi-Ceyhan, Shah Deniz, and the ultimate solution for the Kashagan field, may reduce the Russian share, but for the time being Russia has, as I said it elsewhere, Russia has a lock, stock and barrel type of monopoly over Caspian oil and gas.

President Putin's strategy is to concentrate Russian and Caspian oil and gas reserves into a single pool for export under Russian physical and political control. If successful, this plan would gain leverage over Western consumer countries, renewed Russian political predominance over Caspian producer countries. International energy economics would be distorted, and the supplies would not be immune to Moscow's political agendas.

Let us now go on to military and ethnic conflicts in the area and see how these influence the availability of oil to the West.

In my view at least, military conflicts are not directly relevant to the availability of oil and gas from the Caspian basin and the South Caucasus's.

The conflicts in Abkhazia and Karabakh had no direct bearing on oil and gas developments. Baku-Tbilisi-Ceyhan is bypassing Armenia and Karabakh. The most direct route would have been through Armenia and or Karabakh, but neither Azerbaijan nor Turkey would agree to placing in Armenian hands the spigot of these pipelines.

Even if the Karabakh conflict were to be resolved in the near term, on terms acceptable to Azerbaijan and Turkey, even then, these two countries would not have sufficient political confidence in Armenia to allow the pipelines to cross Armenia's territory.

Abkhazia is only having the marginal effect of narrowing the Black Sea coast available as an outlet for Caspian oil and gas. But it is not closing it by any means; it's only narrowing the window on the Caspian Sea.

Much more important than military issues are political relations between Russia and Georgia. Georgia is the sole available westbound exit for Caspian oil and gas pipelines. If Georgia is closed, there will be no westbound exit for any Caspian oil and gas pipeline. So Azerbaijan would have to export its oil and gas through Russia. If Georgia falls it is as if a truck would slam shut on Azerbaijan as well.

The paradigm of Russian policy in the south Caucuses has been the paradigm of controlled instability. Moscow is not interested in having an explosive political and military situation in the south Caucuses. It's interested in having a simmering instability, one that continues at moderate levels, allowing Moscow to play various conflicting parties against each other, short of an outright eruption.

The United States, Great Britain and other Western countries initiated developments, beginning with the financing, of Caspian oil and gas and its transport without putting in place a regional security framework. This development is proceeding in a regional security vacuum.

I don't know what kind of assumptions went into this kind of policy. Its flaws became evident last year when Iran, not Russia but Iran, staged that incident in the Caspian Sea and left the United States and Great Britain without a reply.

I think the international assumption behind this policy is that in the post-Cold War world there are no games, certainly no great games, and God forbid, zero sum games. Theses are politically incorrect concepts. In the meantime Russia is playing the Caspian game and it is playing a winner take all game.

Comments

***IGOR LESHUKOV**, Director, Institute of International Affairs, St. Petersburg*

The issues really are fascinating and I have a lot of sympathy with what Vladimir Socor said before, mostly I'm in agreement with what he said.

There are a number of consumer news concerning Caspian oil, perhaps that is what I can start with.

Everybody from the Soviet past knew Borzhomi sparkling waters. Hence the first news about the Baku-Tbilisi-Ceyhan pipeline is that there will be no Borzhomi water any more. The shortest way for the pipeline was through Armenian territory, but for Azerbaijan as well as Turkey, that route was fully unacceptable. They decided to take the only one available route, because further to the north you have mountains, unclimbable mountains. So the pipeline will pass exactly through Borzhomi valley. The Georgian Greens and other forces in Georgia were unhappy with the BP president visit to Georgia, and it is saids that president Shevarnadze is under very, very high pressure, but there is no alternative.

If there will be any leakage in Borzhomi valley, you understand what that will mean for the water. It is considered to be a Georgian strategic export.

But coming more closer to the substance, I would perhaps start with gas, but opposite to the scheme which Vladimir had been implying.

He talked a lot about the Turkmenistan potential. That's actually a very accurate analysis. Already today Gazprom is meeting some of its European supply commitments by buying Turkmenistan gas. The main tricky point is whether Russia would sign the Energy Charter Treaty, which Gazprom is very convincingly opposing. That's the treaty which has been signed by Russia but not yet ratified. And Gazprom, the last couple of years, has given to the state Duma very convincing analysis of its losses if Gazprom would loose one of its monopolistic rights, i.e., it's access to the pipeline system which Gazprom operates.

Gazprom is powerful not just because of the huge deposits of natural gas in Russia, but also because Gazprom has a monopoly over the supply pipeline system.

In other words, if Turkmenistan wants to supply gas to anywhere either to Ukraine or Europe, it has to do that through the Gazprom pipeline system. And it's up to Gazprom to decide on the conditions.

If the Energy Charter Treaty will be ratified by Russia, then it would open fair access to the pipeline system to non-Gazprom producers, including Turkmenistan.

The Energy Partnership between the European Union and Russia has a very tough condition about the signing of the Energy Charter Treaty which is essential a precondition for any investment coming into the Russian extraction industry, and into modernization of the pipelines.

But in my view it is a bit questionable if the European Union would ultimately succeed in actually opening the Russian gas pipelines the way as they wish to.

I don't know what will be the skillful compromise, but it has to be seen, and I think this will be one of the very crucial factors for energy supplies.

More generally, when we look at what is the energy supply policy of the major markets like the European Union or United States, we can see that basically its logo, although the wording differs a bit, is the following; secure supplies at affordable prices and environmentally friendly. That's the logo. That's the policy objective, and this is an economic interest.

How does it fit into regional stability or overall political objectives towards countries like Russia, or towards the regions like the Caspian region?

As you see, there is no notion at all that it is somehow linked to democracy, or that it is linked to stability, or to prosperity or linked even to human fairness. This somehow is detached or contradicts overall EU policy objectives. On the one hand, the European Union in it's strategy towards Russia says; while we want to do everything that we can to support democratic processes in this country, to support the market reforms, in practice, in the energy field what the EU does is to subsidize Gazprom. The EU is going to double energy supplies from Russia, according to Prody, provided that it will be commercially affordable, and not be dependent on one source of supply, in other words, the EU is seeking diversification.

When we see how this policy affects regional stability, we also get a fairly contradictory impact. Lets take Afghanistan, because there was much talk that the Taliban came to power with Western and Pakistan's support in order to put an end to the divided country and an alternative energy transit route from Turkmenistan to Pakistan could be built circumventing Iran and the Persian Gulf. The result of this policy are apparent today.

If you ask the American tax payers about who actually contributed to the whole nightmare that ended up with the bombing of Afghanistan, it would be very difficult to get a convincing answer, since the policy brought very, very controversial results. It's very difficult to say so far what can be the recipe now. Anyway one point is very clear - the world is designed asymmetrically. In one part of that world you have vast deposits of natural resources, while other parts are industrially developed with major markets and an increased demand for energy resources, but limited deposits of natural resources. We all know how the economies are dependable on energy supply. The oil shock of the '70's demonstrated that very clearly.

Whatever new technologies can be introduced in energy saving, it's not necessarily going to bring us less demand for energy. Because the more savings we introduce, the more efficient

technologies we develop, more energy is consumed anyway because then the consuming starts. And we also know that the extraction in Western Europe is diminishing. We know that Britain, who had been self-sufficient in natural gas, is going to be a net importer by say, 2010 or 15. The Netherlands will not be either an important natural gas provider as it's been so far.

The picture is very simple. There are not many alternatives. I am quite interesting to know what Vladimir thinks about the role of OPEC, because the oil experts are quite divided about this role. For example, whether it's going to be less or more in view of the increase of exports from Russia and the Caspian area?

Just a few minor remarks. The Russian energy sector today is at a crossroads. A strategy has been presented officially on the development of the energy sector until the year 2020, which is somehow similar to the Green Paper by the European Commission on the security of Energy Supplies, which also takes the midterm perspective for twenty years. But this strategy has been very heavily criticized in the sense that this is a plan how to develop the energy extraction sector. But this is not an energy strategy for the country. That means it remains to be seen what will be the Russian policy in that regard because I would say that when we look into Russian developments we see that with regard to institutional political developments then Russia has been able to introduce all the needed institutions of Western democracy, but managed to avoid introducing and development democracy itself. That's accomplished, that's achieved, and this is great fun for observers, if you can retain an amusing sense of humor. Because whether you accept the official definition of guided democracy or whether you take the position of a liberal critics, who says this is democracy imitation, nevertheless neither guided democracy or imitation democracy is democracy.

But the point is the following: How to make the economy efficient without destroying the power base, without touching the fundamentals of the political system in Russia – this is the big question.

Getting to the issue raised by Vladimir about the professional secret, on how Russia managed to become monopolized. I think this is a common Russia and Western professional secret and my very small comment to that would be that one of the reasons why this system managed to flourish and been implemented in full scale was that the Caspian pipeline system is not part of Transneft. Well, it's under Russian control, that's true, but it is not the Russian State monopoly as the rest of the pipelines.

I am just wondering what would be the fate of that project if it would be just a part of Transneft like the Baltic pipeline system.

Reform and the Russian Military/Security Sector

***ROBERT NURICK**, Director, Carnegie Moscow Center*

I am not sure I am going to be able to tie all this together. My task, at least as I understood it, was to talk about a particular aspect of the broader problem that this conference posed, namely that the broader problem being the relationship between foreign and foreign economic policies and policy issues on the one hand, and domestic policy and domestic reform on the other. And that particular aspect of that broader problem in this case is defense reform.

Let me begin by saying that, in many ways sitting in Moscow and watching the subject, the first and most obvious thing that has to be said about defense sector reform in Russia is that there's been very little of it. There've been a lot of plans announced over the last ten years; practically every defense minister since 1991 has had a plan. None of them have been implemented, at least as have been designed.

President Putin has stressed the issue again more recently. But then again there are real question marks about results from his renewed emphasis on the problem. It's clear that there are major constraints and inhibitions on the whole process. And more importantly from the point of view of our broader topic today it's clear that these inhibitions and constraints and the debates specifically about what should be done about military reform in Russia have been linked to much broader questions and debates about Russian foreign security policy orientation on the one hand, and other domestic reform issues, especially economic reform, on the other.

In other words, this really is an issue which does lie at the intersection of foreign and domestic politics and from that point of view, I think, it is a good prism to look at this broader question.

I will try to summarize what I think has happened over the past ten years and try to give a sense of where things stand now. Then quickly recite what it seems to me some of the lessons of what this history has been and particular, what have been the main obstacles to serious reform, why has defense reform been so hard. And then try to speculate a bit about what has to change if reform has to proceed – that is what the key factors for reform may be if reform actually is going to take off. And then finally, a few words about the implications of all this for the rest of us.

First, the question of what's happened? What's the story of military reform in Russia since 1991? Well, the fact that there hasn't been much real reform does not mean that the defense

sector has not changed. It has changed a lot; in particular, since the collapse of the Soviet Union it shrunk, and shrunk considerably. Just in pure manpower terms from about 2.7 million people in uniform in the regular army to somewhere between 1 and 1.2 million. And there have been reductions in other services as well. The basic structure has gotten smaller, the equipment and holdings are much smaller, and so on.

This is a much smaller military than it was ten years ago. But this shrinking has largely been forced, that is, it's been the product primarily of declining budgets, of shrinking manpower pools, and the like. Not the product of any particular design, a thought conceptualized and implemented by either the military or civilian leaderships. It is preceded largely, I think, without any clear ideas about how the structure, the missions, and the doctrine of the military should be altered to correspond to Russia's new circumstances; both new domestic circumstances and new foreign policy circumstances.

To the contrary, the pattern of shrinkage, that is what has shrunk more and more quickly within the military, has been the product, again as I say, not of any particular plan that I can discern. But more of the product of sort of a political balance of power both among the various services that is – the land forces vs. the airborne troops vs. the nuclear forces and alike. And between the Defense Ministry on the one hand, and the other so-called power ministries, particularly the Interior Ministry on the other.

All and all, there's been change no doubt, but not much in the way of a real structural reform.

As I mentioned before, there had been a lot of proposals – each Defense Minister has had his own plan. If we go back just a few years to Defense Minister Grachev, for example, he had started a call for controlled reductions in the size of the military and of the manpower pools, but he placed great stress on preserving the overall structure of the military, as it then existed. Even though the forces within the structure were starting to get extremely hollow. He also placed considerable stress on airborne troops, which not coincidentally, was his own service.

His successor, General Radionov, was one of the first to start talking seriously, or at least regularly, about the need for to moving to more contract troops. That is, diminishing the importance of conscription. But he made his general support for reform as such contingent upon receiving major increases in the defense budget to implement it. And he again, not coincidentally, stressed the need for preserving the land forces, which happened to be his service.

In both cases whatever the difference in detail between what they seemed to have in mind for the military, the basic vision seemed to be to produce a smaller version of what essentially were the Soviet-era Armed Forces. That is essentially the same structure, based on essentially the same assumptions about operations and threats, but reequipped with modern weaponry and better fed and better housed soldiers.

Now, their successor, General Sergeyev, was the first, I think, in his public remarks who talked about the need for serious structural change. That is change not only in simply the size of the military but how it is organized and the like. He also was the first to stress the implications of structural change for personnel policy. That is, and particularly for this question of conscription, to what extent should the draft be kept, to what extent should the military move to a contract or a professional basis?

And this turn, reflected, I think, an increasingly widespread recognition both within the military, certainly within the senior officer corps, and a very heavy stress from outside the military that suggested that the current system of conscription was going to be unsustainable over the long run. Manpower pools were going down, draft evasion was going up, and if people simply looked at demographics and looked at what the pools of eligible manpower in Russia were going to be in 10 or 15 years, the numbers simply didn't add up. You could not man an army of the size that was planned in Russia with the existing pool of eligible draftees, unless you radically changed the nature of the conscription arrangements.

The issue started to take shape, there were plans, and when Putin became President, he arrived in the middle of a big fight that the then Defense Minister Sergeyev was having with the Chief of General Staff about precisely where the military should go, and where the emphasis in defense policy should be.

Aside from the merits of the fight, and I won't bore you with details right now, Putin found the fight, and the fact that it became public, an embarrassment and wanted to settle it. But he also, to his credit, started to signal in a way that was much more articulate and coherent, than I at least had heard from Mr. Yeltsin before him, that he saw a need for serious reform, real reform that was going to address some of the underlying structural problems.

And, again, it's not entirely surprising, because by this time the critiques of the military sector, in the sense that the sector in general was in bad shape, had become very widespread. Within the military itself, accounts from inside suggested strongly that morale had gone down, discipline was down, draft evasion, as I mentioned, was up, the quality of recruits was deteriorating, even the standard of living in the officer corps was problematic. Many of them didn't have housing.

Moreover, the effects of Chechnya, the first Chechen war, were starting to influence this debate in two respects: it brought home the extent of corruption within the military, or at least, parts of it that had been sent to Chechnya. And it also dramatized the extent to which operationally at least, the military, at that point as then organized, was simply not very well equipped to deal with the kinds of military challenges that places like Chechnya posed to it. This was an army which had been designed to fight NATO in big tank battles and the West. Not to deal with insurgents in the mountains of Chechnya.

Defense industry also was increasingly unhealthy, there were very few if any, government orders and people were increasingly worried about the ability of the defense industry to sustain itself long enough or sufficiently to support anything resembling technological reequipping of the military forces.

One of the first things that Putin did when he became President was to appoint a civilian, and a reputedly close friend, Sergey Ivanov as Defense Minister. And the fact that he was a civilian, the fact that he was an old acquaintance, if not old friend of Putin's, led many in Moscow to see this appointment as reflecting Putin's own determination to bring the defense sector finally under control.

If that was the case, if that was the purpose or one of the rationales of the appointment, I think most people in Moscow would say this has been a disappointment from that respect. Again, not because Ivanov did not offer a plan of his own, he did. But it was one that was drafted largely by the General Staff, it focused primarily again on further personnel cuts, and did not have,

despite some superficial changes, it did not have a lot of structural change in it. There was some rebalancing but not much more.

More importantly it was not linked in any important way to a serious review of Russia's underlying security situation. That is, it did not reflect anything resembling a new consensus or settled view even at the highest levels of the government about the basic question that has been bedeviled military reform from the beginning, which is; what's the military for now? What are the real security threats to Russia and how have they changed, and what kind of military do we need in Russia to deal with them?

September 11 and its aftermath really energized the issue. Within two weeks of September 11 Putin called a major meeting with his General Staff, he issued his strongest statement yet, both internally and externally, about the need to adapt the defense sector to the new world, to the new threats. He had a series of meetings since, all given a very great deal of publicity in the Russian press, which I think meant to reflect his determination to bring about change, but conveying at the same time a sense of frustration that I think that he seems to have at the lack of movement.

There was another spurt this Spring, it became a political initiative by Yabloko and SPS, who at one point clearly saw reform as a possible issue which they could use to cement their own political collaboration, which has been problematic, that is an engine for their collaboration between the two parties within the Duma. It worked for a while and then fell apart. It fell apart with a lot of acrimony between those two parties and under a lot of pressure and opposition from the General Staff and finally, under apparent removal by Putin of support for the plan they put forward.

Now what does this tell us? What are some of the lessons, what are the obstacles to serious reform?

The first, I think, is money. This is an issue that the General Staff in particular has stressed. Some observers in Moscow view it as an excuse for the lack of reform. I have no doubt that in some cases that's true, but it is also a real issue. The fact is that modern armies, particularly modern professional armies, are expensive. The financial implications of them can be attenuated by a fact that if you have a professional army that is better equipped and better trained, you can get away with a much smaller one. But you still have to make considerable investments in the training, in the recruitment and incentives to keep them in the technology that they will field and the like.

Moreover, whatever the end state is, transitions cost money. This one thing we know in the West – that is the transition from conscript armies to professional armies, all volunteer armies, are expensive. And right now, given the very severe stringencies and constraints on Russian public sector spending, and especially on the defense budget, the horizons that people have, that policymakers have, are quite short term. They are worried about getting through the next few years and how to finance the next few years. It's not a great deal of compensation to tell them; well, but you know ten years from now, actually, costs will go down. That's well and good but they have to figure out what to do in the meantime. That is a real problem.

But I think a bigger one is not the fact that there is too little money, but that there are too many requirements, which is to say; this is still a military based on traditional threat perceptions, the core of which are threats from NATO and the West.

The centrality of the Western threat and the threat of NATO started to be attenuated in the 90-ties but came very hard after Kosovo, and was written into the major planning documents. Now, if you read the national security concept in Russia, it starts by talking about what is clearly the possibility of a major threat from a coalition of forces to Russia's West without specifically naming NATO.

This basic idea that hedging against a possible revival of this threat is, I think, perhaps, the single largest intellectual and, in many cases, institutional obstacle to serious change in the military. If you believe that this is true, a serious threat to Russia, it is very hard to argue that you should go to a much smaller force, that you should get rid of conscription, that you don't need a mobilization base and the like.

And again, inside the military you'll find people who will acknowledge that, yes, of course it's the sign that the world has changed. But some of them still do not seem to be persuaded that it has changed forever. In any case, it's not reflected either in doctrine or in the rationale for the existing structure.

A third obstacle, which is closely related, has to do with basically the patterns of socialization inside the military. Manuals have not changed very much since the Soviet days, most of the exercises particularly recently, have not changed very much – many of them still involve dealing with major warfare against some attack from the West.

As a result, it's not at all clear whether the next generation of officers; those who did not grow up in the Soviet system, are going to have the same kind of view about the military as their predecessors or a different one. The assumption and hope, of course, has been that the next generation would be different, and may be they are. But if they are, the socialization they are getting now inside the military is not reinforcing that difference.

Finally, there is a very simple set of constraints and obstacles; namely that there hasn't been much support for domestic reform, for military reform politically. There's just not a lot of committed reformists right now in the Russian body politic, and there are a large number of quite committed opponents to it. And again, it is not that people are indifferent, to the extent that there has been polling data for example, about this issue. There is at least a small majority, perhaps a growing majority, in public opinion generally for, for example, movement to a professional army.

But organized political support inside the political community in Moscow has been weak, fragmented and disoriented, as unfortunately the history of the brief Yabloko union of right forces coalition on this issue demonstrates.

Now this is a pretty formidable list of obstacles, and I must say, among other things, that makes me, at least, quite pessimistic that a strong and sustained and effective impulse for serious reform will come from within the defense sector itself. I hope that I am wrong, but I don't see much signs of it.

But a question that, of course, immediately arises is – what could change this? And let me just say a few words about that and then I'll stop.

It seems to me that there are a couple of things that could change it. One, and the most important, would be a strong push from the top. This, I think, is absolutely critical and it

is not entirely impossible that it won't happen. I do think that Putin and a few people around him have been seized for a variety of reasons, with the need to do something. That the current situation is unsustainable and needs to be changed. But whether he is going to have a leverage to do it and whether it is important enough to him and the people around him, to expand the political capital, to get through all these obstacles that I mentioned is, I think, very much as open question. I don't see much sign of it now, although that could change.

Another factor that could change things is perhaps a serious crisis or defeat of the sort some people have predicted. One of the factors, that could produce a crisis, which would force change, is the demographic factor I referred to before. Some of the more dire predictions suggest that, as I mentioned before, on its present course, the army will simply become a hollow force, it will not be able to sustain the structure that exists.

Another could be Chechnya. And it is clear, I think, to me, among the many reasons that Putin gets so emotional about Chechnya when he is questioned about this, as we've all seen, is that he is smart enough to know he is in a quagmire there but doesn't know how to get out of it. And, I think, he also understands quite clear from some of the comments he's made, that aside from the other things that Chechnya is doing, it is corroding the army. Which it undoubtedly is.

A third, if not defeat and crisis, if not sense of crisis, is the one that Putin himself has tried to marshal for the sake of reform, and that is terrorism. And I think that there are a lot of things about the way that terrorism has affected the political discourse in Russia that disturbs me, at least. But one positive effect it's had has been to undercut the case of those in and around the military who would suggest that everything is fine and that nothing need to be changed. On the face of it, it is not a credible case to make. Again, how much Putin or others will push it, and what they will see as the implications of this in detail for structural reform in the military, still remains to be seen.

The last though, and I think the largest political issue, has to do with Russia's relations with the West. As I mentioned before, probably the single largest conceptual, and in many cases institutional, obstacle to reform has to do with the set of requirements which have been generated by old threat perceptions. These threat perceptions look increasingly strange to large parts of the Russian body politic. They will look even stranger to the extent that if, for example, Russian-NATO relations will improve.

So I think serious movement on that front is also going to have a major impact on the internal debates in Moscow about military reform.

Finally, why should we care and what could we do? I think we should care for a couple of reasons. One is that the course of military reform is closely related to the course of reform in general. The debates have gotten very closely interlinked, and it's very difficult now, for example, to talk about defense reform, and prospects for defense reform, without very quickly getting into a discussion about where the economy should go, and what its prospects are. On the one hand, more broadly, it's also very closely linked to underlying debates which are still unresolved in Russia, about foreign orientation. A truly reformed military of the sort that Russia's own reform-minded critics have articulated, and that many people in the West have envisioned, is not an army that is very consistent with the maintenance of a serious hostile relationship with the West. Or, to put it differently – a political relationship with the outside

world that is very different from the sort that still informs Russian planning today, is not something that could sustain the current forces or the assumptions underlying it.

One of the reasons we ought to care, is not that it's going to determine what Russian foreign policy will be, or that it will determine what Russia's domestic economic policy will be, or that it will determine what it does in Chechnya, but rather that military reform is affected by all of them and will affect all of them.

What can we do about it? Not a whole lot, except in the areas that I've indicated before. It is in our interest to try to find ways to make Russia-NATO relationship work. There are things we can do to try to find points of contact with the military. NATO is trying to do it, I think individual Western countries are trying to do it. Over time, if this is going to happen, it is important to build constituencies within the military for reform. This can only happen, I think, if younger officers have experience in the West. It's the people who sit at NATO or go to Western staff colleges who in a decade are going to be the ones who will be pushing for a serious reform; it's not going to be the others.

At the end of the day, it is mostly Russia which will decide what to do. We will not decide for them. But there are things that I think we can do, some political, some institutional, and particularly having to do with Russian relations with NATO that can affect these debates in ways that may not be central but also are not trivial.

Discussion

Atis Lejiņš: May I begin with a question to Robert Nurick? Listening to you, I always kept thinking what happened to the armed forces in Latvia, which had a very strong Soviet heritage. And even though we had to start from scratch, we ran into similar problems that you were talking about. But NATO did wonders for us, because we wanted to join NATO. Plus, of course, the Nordic total defense concept. That saved us.

Now, Robertson met Putin the other day. Putin said that cooperation with NATO was fine, but he was mostly interested in the politics of NATO.

How do you comment that? Because I would think that he would be interested in what could NATO actually do to help reform Russian armed forces. Because if NATO helped us, it can do the same thing for the Russian armed forces. But is doesn't appear that Putin is interested in that.

Robert Nurick: Well, a couple of things. First of all, NATO is never going to have the effect on Russia that it had on members, because among other things Russia is not going to be a member. There is no set of requirements that NATO will impose or that Russia would accept, or has decided it wants to accept, that would serve that function.

This is the point I made earlier. This is true both of NATO and the EU; that the prospect of membership has had this huge disciplining effect on all those who aspired to it. Russia is not in that category. Membership as such won't serve that function.

In terms of what Putin wants from NATO, I'm not sure, I just don't know – I can't read his mind. Whether or not he hopes that NATO or relations with NATO will help with his military reform problem, or what.

There is some evidence that he might view it this way. And the evidence is simply what NATO officials tell me within the last month or so, for the first time they can ever remember, that Russian officials are signaling an interest in talking to NATO about defense reform.

This goes against a very long and very deep instinct which has been not to be interested in such discussions, but to be quite suspicious of overtures from Western militaries in general, and NATO in particular, to talk about this issue.

So there are some signals at least that at least parts of the military may be interested in doing it. They have very particular ideas in mind; at least what they've signaled interest in so far is help

on things like defense budgeting, some training issues and the like. But these actually are not trivial issues and if they are serious, they also happen to be areas where the West does have some expertise and some experience to share.

Again, I don't want to be overly romantic about this, but these are the places where you start. And you test. Whether or not they'll be sustained, I cannot say. But, as I say, they are the first signs of interest and it is not inconceivable that if these get developed that they will get added to the agenda of the NATO-Russia council, that a new working group will be formed.

Again, this is not in itself going to change the world but if you are thinking about how to get something serious started, that is one potential place to begin. We'll see. I think in any case, this has become so much a political issue in Russia, the last thing in the world I would expect would be that Putin will say; "You know I really want discussions with NATO so that NATO can help me change my own military". This is not the kind of statement he is going to make.

Atis Lejiņš: Why not?

Robert Nurick: (Laughs). Whether or not that's in fact what he hopes I have no way of knowing. But I am not surprised he has not said it, the question will be what he does about it.

Atis Lejiņš: So much easier to be a small country. (Laughter).

Unknown speaker 1: There is a link between oil and the military, because I think the scenario Vladimir Socor laid out about the isolation of Ukraine leads directly to what is perceived as a policy of negligence from the EU side on Ukraine. And, I think, equally the Russian disinterest, you might say, in Ukraine. Wouldn't we have a whole scenario here that would be interesting to discuss?

Vladimir Socor: With regard to Ukraine, I notice a great deal of concern in Kiev regarding the very soundness of EU policy toward Ukraine. Seen from Kiev, EU policy could be almost summarized in two words: get lost.

Atis Lejiņš: Benign neglect. But you make it sound more aggressive.

Vladimir Socor: Benignly neglect, but within the last few weeks Romano Prodi made two statements which conclusively ruled out going further than PCAs with Ukraine and a host of other countries in the direct neighborhood, including Belarus and Moldova. And even grouping those three countries- Ukraine, Belarus, and Moldova, with North African countries, in terms of the EU's external relations.

And I know from first hand that European-oriented officials in Kiev and in Kishinev who are on the defensive to begin with, who are embattled to begin with, felt shocked by those statements of Romano Prodi, because they played directly into the hands of the Eastern-orientated forces in both countries.

Now it is true that those statements by Romano Prodi are not necessarily representative of EU policies on the whole. There are other views within the EU, but that kind of statement plays politically in very undesirable ways in Kiev, Kishinev, and elsewhere. It only vindicates those

forces in these countries which say: "The West never expected us. Our future is not in the West." I think it's a very undesirable situation.

Does the EU have a well-thought out policy towards Ukraine, Belarus, and Moldova? Personally, I don't see it. And more importantly, European forces there don't see it.

And I'd like to tie in the answer to this question with the NATO issue, in a single sentence comment. And that is: Ukraine's military reform, defense reform has been major integral part of Ukraine-NATO relationship for years, in contrast to Russia's attitude.

And if I may ask a question to Dr. Nurick: from your Moscow vintage point what are the rationales behind Russia's recent military deployment in Kirgyzstan?

Robert Nurick: You probably have a lot more interesting things to say about that than I do. Let me go through the three points very quickly.

First of all, on Russia and Ukraine. It's very interesting, I was asked about a week ago in Ukraine about the Russian reaction to the announcement at the Prague Summit of Ukraine's official statement that it intended to apply for membership in NATO; it was striking how little reaction there was in Moscow.

But my own view of it was not because of disinterest in this issue. Quite the contrary. It's simply that looking at the political community in general, in the capital, they simply don't take it seriously. Part of it is that some of them don't take Ukraine seriously as a kind of independent actor. But others, who do, simply do not, when looking at the situation in Ukraine, simply do not believe that whatever Ukraine says about membership in NATO this is anything resembling a feasible proposition in a foreseeable future. I agree there has been a lot of interesting interactions between Ukraine and NATO in the area of defense reform. But it's unfortunately the case that Ukraine has not given Russia enough reasons to take that seriously. And I think that is the underlying problem. People simply do not believe that this is something that they need to worry about. If they thought it was real, I think you'd get a very different reaction.

On the question of Russian military deployments in Kirgyzstan, the short answer is – I am not sure. I think clearly part of it was a signal both at least as much internally as to the U.S. that Russia still cares about this region and has the ability to make its presence felt.That it has interests and it should not be forgotten. I don't know, I've been trying to find out to what extent this was a surprise, for example for U.S. commanders.

My impression is, that it was not worked out in advance. What they are saying is not a great surprise. I don't know to what extent that is true. The reaction, at least publicly, has been very mild about it. And I think that maybe either because there was some discussions or simply they recognize the facts on the ground, which is that, you know, Russia can put troops in there. But going beyond the role they had before, dealing with border issues, there is not a lot they can and will do. I don't know anyone that I've spoken to that's planning operations or thinking about operations on the U.S. side who believes that Russia is going to be a problem for them. And I think if they had different political judgments about it, or saw a different military equation in the region, they'd feel differently. But they seem quite relaxed about it.

Atis Lejiņš: I just had a flippant explanation for it, Bob. You had a serious explanation. But mine was; remember the Balts were going to send soldiers with the Danes to guard the American base there. Well, the Russians put their foot forward and said to the Kirghiz government: "You are not allowed to let that happen." And they didn't. But this is the answer - the Russians can guard the American base better than we Balts can.

Russian Foreign Policy and the Domestic Reform Agenda

***Dr. DETLEV KRAA**, Executive Director, Association for Market Economy and Democracy in East Europe, Berlin*

Let's talk about the everlasting problem; how to argue about Russia and how to define Russia, its foreign and domestic policy.

I want to present some remarks from Germany and I have the honor to replace Alexander Raa, who should have been seated here. By chance I happen to be at the presentation of his new edition of Putin's biography about a week ago. Hence I can provide you with some of his ideas, too. And it's very remarkable because this new edition already presented a completely different orientation about the foreign policy of Putin.

The basic fact is, of course, as we all know, that Putin tries and tried, to bind the Russian system into the world market, world economy, and the Western-oriented world. And in so far he abolished the former ideas of Primakov, for instance, the Eurasian way, he has succeeded. It is more or less the European and also the Pacific way of Russia which we now have to learn about.

The first edition of the Putin biography, was titled *Putin, the German in the Kremlin*. That means Putin's only international connection was with Germany when he worked in Dresden as a KGB functionary, where he and his family learned to speak fluent German. His way to orient and bind the new Russian regime into the Western world went through Germany and in the first period he tried especially to do this.

The new edition of his biography was written after September 11. Obviously Putin seized the opportunity to reorient Russia further and now a better title could be *Putin, the American in the Kremlin.*

That means that, frankly, the Europeans and the European Union have very much lost importance in this regard. And of course, the bilateral relations between Putin and George Bush obviously shows where the first choice in Russian foreign policy is now.

One can ask: what is the role of the European Union now? And how much does Putin need the link to Europe. In answering that it's obviously an economical question. That means he needs

the Western world and the Europeans to modernize the Russian economy in his drive to overcome the old Russian structures.

But September 11, of course, also gave the opportunity to play again an international role, but not the old imperial role. Putin since his start has bettered Russia's position. The former Russian foreign policy overstretched the whole regime and the Soviet empire had to pay for this. Things now have changed, binding the world system together economically and providing a more favorable situation for new Russia. This is really a gain and Putin is content with this minor role not the old, former overstretched role in foreign policy.

Let me just change the topic because I think the foreign policy role is obvious: Putin took all the chances the eleventh of September gave him. You can notice that the way to fight terrorism is shared by the American way to do this. You can notice that the prevailing of military means to solving problems are shared between the Russians and the Americans. And the role of the Europeans are, of course, in that regard, is not very important.

How is this policy linked with Russian domestic policy? That is a very important question and we should ask how long will politically influential circles tolerate or share Putin's view of foreign policy? That means what can Putin promise to these elites for this changing of policy, because we've heard already something in the defense policy. The old elites are calm as long as they realize the win-situation by this policy. And let me say; without September 11, of course, the international role of Russia would be far less than it is now.

There might even be a danger of undermining the Western institutions, and in the long run damaging even NATO because the direct link between the United States and Putin has a certain significance.

Returning to domestic affairs and the question, how far has the system transformated? I have to touch upon some aspects of the domestic situation, where we see, for instance, that democracy and freedom of the press, is a very weak point in domestic policy. But the decision not to sign the law limiting press freedom after the terrorist attack in Moscow is, according to Alexander Raa, a proof of Putin's democratic credentials. Raa says that Putin is on the way to becoming or already is a democrat. But he has to overcome the old elites with old Soviet attitudes. I am not sure in this regard. This might have been a tactical more.

But the seriousness of economic reforms seems to me very obvious. Economic reforms are really happening and they are leading to certain basic changes in Russian society, which are obvious for everybody who knows the Soviet Union or the development afterwards. Especially the legislation land ownership. Huge speculation on land in Russia is going on now. There is no longer any free land. It's already sold out, everything is privatized. And this is already something which is a fact for the further development of the economy. Also, the availability of money is another fact. You may remember that a couple of years ago Russian trade was mostly done with barter. The availability of money is something which frees the people to act independently from Russian State authorities, or more independently. This is a new sign and, I think, a development which can't be redone.

These are new, hard facts. And you can watch that the division of power between the administration and the tradesmen, or the industry, is changing. There are new roles and the administration is obviously losing its control.

From my own experience you can find a new elite of small and medium sized businessmen who are fighting against the administration and finding their own way. The retreat of the administration, of course varies in the provinces, but it is a remarkable sign. Many people in the administration are without any duties. They have nothing to do. They try to regain some control but they can't because of the new situation. This is a new opening, and I think, the economic reforms can not be changed back to stronger control by the administration.

One can also find some changes within regions which are splitting up the administration in several parts. That means, for instance, in creating new minor parts within the administration. It started next door here in Pechori, and you can find this beyond the administrative level of "rayons" and "volosti". This also a development that is new in the Russian Federation.

To sum up these developments I would say, that change in some basic areas has to lead to the old confrontation or the old question – does a market or evoling market economy need a liberal system? This will be the big question in the future. If the people are freed to have their own activity, economically speaking, they are of course, demanding rights.

COMMENT

***MARKO MIHKELSON**, DIRECTOR, BALTIC CENTER FOR RUSSIAN STUDIES, TALLIN*

After September 11 there have been major changes in Russian foreign policy. Just a few years ago it was almost impossible to imagine that Russia would turn around so much, and seek cooperation with Euro-Atlantic allies, with the US or European Union. Or allow US forces to deploy in Central Asia, or accept NATO enlargement to the Baltic States. Or, last but not least, to work very closely with Western intelligence services, most of all with the CIA.

These changes have been a miracle if we just think about what happened a few years ago, in 1998, 1999, during the NATO-Kosovo conflict with Evgeny Primakov as Foreign Minister and Prime Minister etc. Basically we can say, of course, that the role of September 11 has been very traumatic. But there is one person who assumes an important role in this situation. And this is President of Russia Vladimir Putin, who is enjoying, of course, very good times thanks to increased oil production in the world and high oil prices up already since 1998, right after the financial crisis in Russia.

Basically everything what happened inside Russia and outside made Putin very strong, and for him quite good way to build up a new Russia in the way how he acts in the international arena.

But this actually makes the old issue a little bit fragile as well. And as Dr. Kraa already mentioned, that there is a strong idea in the Kremlin under the Putin administration to tie up Russia closely with Western countries, especially of course, with the US. But this basically still is based on the high popularity of the President and his administration.

This is to remind that his current popularity is around 80%, people trust him. This is a typical Russian belief: a good czar or a good leader who can pave the path for a better future. And then over 50% are ready to vote for him if the presidential election will be next Sunday. That means, of course, that a huge responsibility rests of the Russian President and Kremlin administration as well.

At the beginning of today's session we talked about Russian federalism, but I can't personally see any kind of federalism tendencies in Russia. It has been a total recentralization and the

whole power pyramid goes right up to the Russian Presidential Office, even on foreign policy issues. Who is responsible for foreign policy?

If just few years ago, or at the time of the Kosovo crisis, the role of Foreign Ministry of Russia was clear, and everyone knew that at that time Minister Primakov was very influential. Today the role of the Russian Foreign Ministry is pretty much close to zero. This is said not only by observers from outside of Russia, but also by the people who are very close to the decision-making process in Moscow and the Kremlin. I can tell you even stories when sometimes initiatives put forward from the Putin Office or administration have been done in a way that the people responsible even forget to call Mr. Igor Ivanov to tell him what has been decided either this or that way.

One of the strongest institutions in Russia right now taking part in the decision-making process in foreign policy is the Russian Foreign Intelligence Service – FSB. Actually the battle between the FSB and the Foreign Ministry has in Russian recent history, been seen in embassies around the world or inside the country.

If we remember Putin's heritage, look at the people who are surrounding him, then we can see that the people who he really trusts come from the services. In a way of course, this is not bad. It's not dramatic.

And in a way, of course, it can influence positively because Russian Foreign Ministry is like most Russian institutions, bureaucratic, and very slow to react to the issues around the world. Instituts like the FSB, for instance, are of course, much more flexible, reacting quicker in the world after September 11.

To sum up, I wanted to tell that there are a number of indicators which are important for me that tell if these are really the will of Russia to turn around and to be a close ally of the Western countries. Or is this just a game, just a one-night affair.

Let's look at three indicators. First, the question of Chechnya since September 11. Of course, Russia is pushing its view around the world, at different meetings, that Chechnya is the same international terrorism situation we have everywhere around the world – that it is fighting the war against terrorism together with the US and leading allies.

And Russia has basically succeeded in this. Internationally there are very few voices about the real situation in Chechnya, and what it means. We can see this with regard to Akhmed Zakayev. The person I actually met in 1996 in his home in Chechnya when I worked as a journalist. We would drink tea, he wass dressed in fatigues with a Kalashnikov on his arms, he was one of the most intelligent Chechens I ever met in my journalistic work down in the region.

And, of course, the way how Russia is acting against Denmark at the moment. Or trying to get Zakayev deported from London, it's very serious issue in my point of view.

The second question is Belarus; also good indicator of what Russia really wants to see around her, and what her goals are. The issue of union between Russia and Belarus is one of the questions how we can really understand the foreign policy of Russia in the near future.

And last, but not least, again, our three countries, the Baltic countries. A very good indicator for this will be how the relations between Estonia, Latvia, Lithuania, and Russia will develop after expansions of NATO and the European Union. And the most important question, of course, in this is; is Russia finally ready to find a way for signing and ratifying border treaties between all three Baltic States? Is this somehow a minor question? The treaties are already ready for years, but the question is political will. Does Russia really want to turn around her basic attitude toward the West. I think that answers to the three indicators I have mentioned could be steps that show that something is changing in Russia. Thank you.

Discussion

Atis Lejiņš: We have plenty of time for discussion. Please, questions from the floor.

Igor Leshukov: I have mixed comment and a question to the panelists. I have always wondered about speakers who talk about Boris Yeltsin as a grantor of Russian democracy, in a similar way that Shevardnadze is another gate for rapid change, etc. As my colleague here, Vladimir Socor has been telling us, there are quite worrying patterns of political-economic relationships that are emerging in the post-Soviet landscape.

How does our understanding of the reform-minded Russian President Vladimir Putin meet the other facts which we know about this political background, developments in Russia and the other parts of the puzzle. How do these contradicting logical ends meet in your minds? And how you explain – why does Vladimir Putin, as you say, try to engage Russia into the world system? What does he want with that? What is the ultimate goal?

Just an observation, since I dropped a remark about Ukrainian energy which we discussed before the coffee break. We also observed an interesting tendency in the sense that Vladimir Socor said that basically the message to Ukraine was to get lost. Somebody suggested that this is neglect, benign or not so benign. I could say that if we look at the comments on the recent visit of Mr. Lukashenko to Moscow, it is that Mr. Lukashenko came to surrender. And why? Because he had been traded out, or sold out, if you wish, between the West and Russia. He has nowhere to go, and had to accept Moscow's terms. And that's why Moscow can afford being very patient about lots of uncomfortable things from its neighbors, while earlier Moscow had been reacting quite nervously. Now Mr. Kuchma can talk anything about Ukraine's future, because Russia will remain unimpressed.

I wonder – is Mr. Kuchma the next one after Mr. Lukashenko to come to Moscow with only one political agenda to discuss?

With regard to the energy and transit systems, we must note the very high business stakes involved. A trend observed by some commentators is that there are so many personalities and political elites around the post-Soviet space, that it's been decided that it's too much... it makes more sense to leave these personalities, elites, and landscape to be handled by Moscow.

Would you agree with this or you do have different view?

Atis Lejiņš: Thank you. Who would like to comment that? Russia's "near abroad" is left for Russia to take care of.

Marko Mihkelson: That's quite clear that the "near abroad" – it's becoming again the Russian domain. Also because of the attitude we mentioned with regard to the EU outward boundaries and the future of Ukraine and Belarus.

You ask what is the intention of Putin in binding Russia into the world economic system? Of course, by reforms he wants to reestablish Russia as powerful as possible again, but, of course, without overstretching Russia, that's now over. With this participation he is on an equal, almost equal level as the American President in certain matters. But obviously, only symbolically. And his attitude, if it is not already clear – his attitude towards Koenigsberg or Kaliningrad is based on this symbolism.

Robert Nurick: I have to say, in some ways, I'm a little bit astonished by this last turn in the conversation. Here we are, sitting in the Baltic States, which for a long time were considered the "near abroad" and we are worried about the future of this region. If there is anything that I think has been dramatized by the last few weeks, it is that this is not Russia's domain. And it's not going to be Russia's domain. I mean, suddenly we've got a new "near abroad" now, includes Belarus and Ukraine. Now, let's look at these states.

I think the future of Ukraine and its prospects are highly uncertain and it is certainly possible that Ukraine may become vulnerable to pressure from Russia or from, if you are from a different cast of a mind that I am, from the West.

Now the first question I ask is; whose fault is that? Why is that? The underlying problem is Ukraine's political weakness and it's problem of lack of reform. And there are a lot of reasons for that, but I mean, it's very hard for me to ascribe the difficulties in Ukraine to Russia. It may produce some longer-term, as I say, structural weaknesses. And there are plenty of people, as I mentioned before, in the Russian political community in Moscow who basically expect Ukraine to collapse and come crawling back home where it belongs. I think that those who believe it are going to be disappointed.

I think most people in Moscow actually know better. But aside from what they know, I think we ought to be careful about this, because among other things it's a very bad message to send to the Ukrainians. I've just been there. Before I moved to Moscow, I spent a lot of time in Kiev working actually with the Defense Ministry and others. And I was just there again last week for a meeting, the purpose of which was to bring East-Central Europeans to Kiev to give them the lessons that they had learned in the process of adapting, readying themselves for NATO and EU membership.

And the East-Central Europeans there said all the things, I think, the Ukrainians needed to hear. Which was, integration is a problem of domestic policy, it starts at home. It's a question of reform; it's not a question of what you say you want to do in foreign policy. It's a question of a whole range of things you have to do over a period of time. People in Baltic States know this very well, it took a long time and it was very painful.

The inhibitions, the real inhibitions to going down that route are also internal, they are not external. The problem was that about twenty minutes later the people there would nod in agreement and say; but you know, we'd actually be doing a lot better if the Russians would stop meddling.

Well, I'm sorry. The basic problems are going to be, are, internal to Ukraine. And I think Western policy has got to find a way to do two things at once, which is difficult. Make it clear that, and here I very much agree with the point I took from Vladimir Socor, that it's very important for the West to hold out this option of a serious Western orientation for Ukraine on the one hand, but on the other hand without pretending that this is going to be something that is going to be easier, not going to require significant changes, primarily on the part of Ukrainian policy and the Ukrainian body politic. This is the basic issue.

Now let me come back finally just to the Russian case. It's basically the same set of issues there, which is, that I myself believe, they have been persuaded, Putin is dead serious about the integrationist rhetoric. He means it. We can come back to why he means it. But the interesting and the hard question is whether, and to what extent, people have thought through the domestic requirements of that course. Because in every area that you look, there are big and difficult domestic problems, we've talked about several of them. If it's a question of economic integration, it's all about economic reform. And it's not surprising that therefore we're in a period now where the hard economic reform issues are also the issues which are the tough issues on the agenda, for example, Russia's discussions with WTO. It's one of the reasons WTO process looks like it's gotten stalled. Because now they're on the tough issues that really effect concrete issues there.

If you look at the question of Russia's engagement with Western security institutions, one of the issues I talked about before is defense reform. Because if Russia wants to interact in a serious way, on serious defense problems, in the future with NATO, or the European Union, or individual armies, they're going to have to restructure the military. The military is simply not designed to do that, and can't do it very well.

I may be just demonstrating that I'm one of these naïve Westerners who doesn't understand Russia. But I think in all these cases politics begins at home, and we can talk about Russian policy here. I think it happens to be a lot more mixed and complicated than some of what I've heard in the discussion. But in any case, the real inhibitions are domestic ones. And I think that's true in Russia, I think it has been true in Baltic Sates, that's where the real requirements came from and the real challenges came, were primarily internal. I think it's true of Ukraine. It's that link that we ought to be focusing on.

Ingmar Oldberg: First I'll comment something about the concepts we use to talk about with regard to the "near abroad."

As far as I remember, the Baltic States were not included in that. But even that concept, I think, now is not in use anymore. Nor do they speak about multipolarity. Only when they meet the Chinese they sometimes do, just keep them happy.

Instead I get the impression that the Russians seek multipolarity together with the G7 or G8 – there they find company, especially the Americans. And also with the UN Security Council, of course. That's the company where they feel their prestige is boosted most.

We have heard today that Russia has a very strong economic position. The weak underbelly – oil and gas policy in the South – that's undoubtedly true. On the other hand, I think Russia is aware of all the costs it would entail if they took over political responsibility or got involved very much in taking power there.

And Ukraine is also another case, a very big country where, I think, Russia is also looking for economic advantages. Not only to exercise political pressure. And even with regard to Belarus, there are limits to Russian power. Lukashenko himself is resisting, wouldn't like Putin to take over or shuffle him away. Lukashenko is sort of a guarantee so far, of Byelorussian independence, or sovereignty, if you like.

And also, I don't think, Russia would very much like to subsidize Lukashenko or Belarus. And all of this is because of what Robert Nurick and others said, that domestic concerns and economic interests or, primary, are the most important. I think, maybe Putin has understood that real strong political and military power grows out of economic strength.

I think maybe he has a long-term view of the whole. First Russia gets a secure environment, a stable environment all around, and then it can build up force, and then we'll see what happens.

Valdis Bērziņš: Valdis Bērziņš, from the newspaper *Lauku Avīze*. I have a question to Mr. Leshukov. Some officials in Latvia say that the relationship of Latvia with Russia will improve with time, especially after now that Latvia is on the point of joining the European Union and NATO. Do you agree with that viewpoint?

And I have a question to Mr. Mihkelson. Mr. Sørensen in his report said that the Baltic countries can expect even greater pressure, not on the part of Russia, but on the part of the European Union, and even NATO, in the sphere of language and citizenship. What do people in Estonia think about that?

Igor Leshukov: Well, there are two viewpoints in Russia. One branch of the Presidential administration says: "Yes, they will improve." The MFA would say: "Well, we are not going to judge by the rhetoric, we are going to judge by the actual deeds." If there will be certain things being done and implemented, then the Russian relationship to the Balts will improve. And it's not necessary related to NATO membership.

Personally – I think it's very unlikely that the relationship is going to improve exactly due to the double pressures from both sides. Not just from the side of Russia who would to like to see certain progress on certain items which Moscow considers to be essential. But also from the side of a number of capitals who would like to close certain worrying dossiers that were troubling for so long a time. So in that sense, this will be the so-called sandwich effect.

On the other hand, would the actual membership both of NATO and EU clarify certain questions till the very end? Will it close certain dossiers and stop further speculations, because it is one thing, if you are an actual NATO member as most of the Balts are, or simply a formal member. When formal membership is signed, then everything is clear, there is nothing more to talk about. Especially in the context when there is also a two-fold process in the Russia-NATO relationship. On one hand we do see the relations improving, on both the institutional and political level. One the other hand, Moscow is somehow happy, if you wish, that NATO becomes less relevant. That the United States move towards another understanding and new priorities in security policy.

It is ironic that today we can see that there is much more commonality and understanding of, say, new challenges between Washington and Moscow then between, say, Washington and some European capitals and Moscow and some European capitals.

So there are even some observers who say: "Let's forget about Europeans who talk too much, caring about and who live in excessive safety. Let's put them in our shoes and then we'll see how Europeans will talk."

It is a bit ironic. On the other hand, what's happening is basically what the liberal commentators have been advising all the time. That the more Russian relations with NATO will improve, the less relevant any controversy with any of the Baltic States will be.

And, if I would be allowed I would just perhaps to try to further provoke our panelists, especially at the end a very hard day. The question is: what do you think is the ultimate agenda of the Russian leadership? We do remember that the whole discourse about Russian change was started in the late eighties and early nineties, when expected that the Soviet Union would collapse, and it aid collapse. Nobody expected that Eastern Europe would be free, out of Soviet control. And it is free. The Baltics got their independence.

Now what should be the strategic attitude towards Russian reforms? What sort of entity is going to emerge as a result of these changes? Would it be a friendly entity? Or would it not? Who can take, say, personal responsibility, and say; O.K., go ahead, invest in Russia, help transformation, help reforms, because we know that Russia will be our friend next day. Do you think that today we have clarity? Because, the point is the following: what is the ultimate agenda?

The general philosophy tells us that the transformation process is lengthy. First it would start with economics, then economics would change the institutional environment, and the institutional environment would ultimately change the value system. In terms of conflict management, you can always find solutions between systems with compatible values. You can separate interests and positions, you can apply certain methodologies; you can always find a conflict management solution. If you have systems with incompatible values, conflict methodology doesn't give you any recipes. There are unsolvable conflicts. I am not going to repeat Huntington or anything similar, I'm just wondering what do you think about that?

Atis Lejiņš: Do you also want to reply to the issue Sørensen raised?

Marko Mihkelson: Yes, coming back to a couple quick questions about Baltic-Russian relations, I'm pretty much sure they are going to improve. Because if you look back just to the relations we had during '90s, then basically we did not have relations, we had a Cold War

between Russia and Baltic States to the very last days, basically. Especially after the Russian troops left Estonia, Latvia, Lithuania in the mid '90s.

I think that there are tendencies as far as I can see, inside Estonia for instance, and also speaking with Russian politicians and decision-makers, that there are at least some kind of possibilities, but there is a long way to go. We had during the 90's a lot of illusions even in Estonia, ministers of Foreign Affairs, but not Mr. Toomas Ilves, thought that with a few phone numbers in their address book of Russian politicians, it was enough to call to them and say; "Dima, let's do this or that" and the solutions would be there.

Of course those illusions are broken, and I think that people are more pragmatic because a lot of issues stem from history or even recent events which are to be solved. But, I think there is definitely some way to go to improve them.

The other question about citizenship and language questions. I don't know about the real situation about this in Latvia, but I can tell you about developments in Estonia.

We are close to our parliamentary elections and I'm a member of a party called Respublika, which is a new party in Estonia, a Center-right party. And I'm a foreign policy speaker of this party. We, this is why I can tell you that also we are looking at this issue a little bit proudly, we are not thinking that Estonia is a monoethnic country, in a way that we should protect by law Estonian language or citizenship.

For us the most important point is a society which in Estonia should as effective as possible. During our elections there will be a discussion without any reference to the US or European Union about how to make the system, let's say, not more liberal, but to make some changes into this system of getting citizenship easier.

Basically, this refers to those people who came to Estonia before '91 and now are more than 50 years old, and for sure will never learn the Estonian language, which I tell you, is very difficult to learn. This is why we have only less than 1 million Estonians around the world.

And one more point. I think that this the question of Russia's transformation is very important and substantial if we look at what really happened in Russia during the last 10 years. I think, that basically the elites in Russia have not changed, and this is all what it is about. We see the same people from institutions which were very strong during the Soviet Union and Soviet empire times. Their basic attitude is very mixed, but basically they belong all to the old elite. And this why there have been no basic revolution in Russia yet. I'm a little bit skeptical about change, I don't know what Russia will be, because Russia can't answer for itself, and never can actually give an answer where it is going. It is a very interesting question.

Atis Lejiņš: Let me comment. I also wondered what Mr. Sørensen meant when he said that the European Union and NATO will influence internal politics of Latvia. This is a view that is often heard in Russia because you can take the example of NATO when NATO said: "You have to change your election law or else you can't join NATO." And that actually was quite a shock in Latvia, because we thought that if you want to go into politics in Latvia and work in the Parliament, you have to know the Latvian language.

But because of NATO, Robertson himself insisted upon it, we actually did change the election law. Now you do not need to know Latvian to be elected. But at the same time we strengthened the role of the Latvian language. We strengthened the Latvian language in the Constitution, and now there is no way that you can change that, because you would need 2/3 of the vote in the Parliament.

But I think that this is what he meant, and that many Russians think that this can be carried a bit further. But what some circles in Russia mean, I don't know. I suppose they mean that there would be two languages in Latvia or Estonia, two official languages, and that Russian secondary schools will continue to have instruction in the Russian language.

The fact is neither the EU nor the OSCE nor NATO has any further agenda for us in this area. The EU has made it clear that the signing of the Convention on National Minorities is not obligatory for joining the EU. And the OSCE has not said anything. The Commissioner was here last week, and we continue the fruitful dialogue as previously agreed.

About schools, well, we have to be sensible, but there are some interesting statistics. About 60% of the Russian kids in Russian language schools, want to go over to Latvian. I mean 70% instruction in Latvian and 30% in Russian, which is what the government plans in 2004. A good number of schools have already done this.

There is a lot of obfuscation and even ignorance both in the West and in Russia about what is going on in Latvia with regard to the language and the nationalities policy.

But the road has already been traversed. We have a liberal naturalization law, which is more liberal than in many other countries in the West and in Russia. We have also a rather liberal language policy.

I don't know what Mr. Sørensen meant by that – he is not here anymore. It's not on the agenda of the EU and NATO. I think that more attention will be paid to what is happening inside Russia, especially with regard to Chechenia, than in the Baltic States, because we have, despite the heavy russification during the occupation, been quite successful in our minorities' policy.

Any more questions? I think we had a very good day, we have been busy, and I really thank you for sticking to the very end. We are almost as many as when we began. I thank you, our speakers, and our sponsors; the Friedrich Ebert Stiftung, and the Danish Foreign Ministry.