

Summary of Discussions

“Russia versus the United States and Europe – or ‘Strategic Triangle’”?

2nd Colloquium, Berlin. May 27, 2005

at Stiftung Wissenschaft und Politik

This is the summary of the discussions that took place at the second of two meetings. The meeting was held in Berlin on May 27, 2005.

The meeting was co-organized by SWP and the Carnegie Endowment for International Peace and attended by representatives from the United States and Germany. These included officials of the German Bundestag and the German Foreign Office. Also participating were academic specialists, including research analysts from Carnegie’s Moscow Center.

Domestic Politics: Stability or Emerging Crisis?

Despite growing authoritarianism in Russia, the workshop agreed, Putin's second term in office has been rife with crises and failures reflective of an actual lack of control and inability to predict disadvantageous consequences of decisions. The most important examples are (1) the arrest and conviction of Mikhail *Khodorkovsky*, chief executive of the thriving Yukos oil empire, the enforced bankruptcy of the corporation, and the transfer of its major assets to state ownership; (2) the ill-conceived and counterproductive interference in the elections in *Ukraine* on behalf of Viktor Yanukovich, the representative of the “old guard”; (3) the ill-planned and poorly explained monetarization of social benefits, leading to wide-spread demonstrations in Moscow and other Russian cities; and (4) the persistent inability to achieve normalization and stabilization in *Chechnya* and beyond in the Northern Caucasus as witnessed by the tragedy in Beslan. The system has become so highly centralized that everyone is waiting for Putin to make decisions. But this makes the management of crises ineffective. In fact, a vicious cycle can be observed: the centralization of power after crises, which constrains the ability to solve them, which in turn leads to further attempts at centralization.

There was consensus in the working group about an increase in internal conflicts in the “Putin system” and that the “stability” of that system is more apparent than real. But differences pertained to the extent and the consequences of that instability. By and large, both the workshop members of the Carnegie Endowment in Washington, D.C, and of the Moscow Center were more firm in their assessment that the Putin system had ossified beyond redemption and that its demise was more or less a foregone conclusion. The opposite view was held by most of the European participants in the workshop who argued that the regime had retained sufficient flexibility and that predictions as to the disintegration of the Putin

regime were premature given that there are many weak authoritarian regimes that embody dysfunctional features but which have nevertheless endured.

Post-Soviet Space: Competitive Russian and Western Policies

As reflected in the discussion and the papers on Ukraine, Belarus, the Caucasus, and Central Asia, democratization and modernization while maintaining stability is the main challenge facing the newly independent countries of the former Soviet Union. But that process, it seems, is more helped than hindered by Putin's Russia. The president himself and large sections of the security and foreign policy establishment in Moscow still have not reconciled themselves with the loss of empire. Perceptions there are wide-spread that the post-Soviet space is essentially a Russian sphere of influence and that the country is engaged with the United States and Europe in a "zero-sum game", i.e. that the gain of one side is the loss of the other. The form which the quest for the retention or extension of control on post-Soviet space has taken is the cooperation Russia has maintained with undemocratic regimes, such as Belarus and in Central Asia; the support it has extended to separatist entities in Moldova and Georgia; and the ethnic and national conflicts it has utilized for its own purposes in Nagorno-Karabakh, Transnistria, Abkhazia, and South Ossetia.

But the net result of Russian endeavors at regaining a greater degree of influence on post-Soviet space has been quite mixed. Undoubtedly, American and European criticism of the nature of these regimes and their repressive actions, as demonstrated, for instance, by the demand for an independent inquiry into the massacres of Andijan, have allied repressive forces and regimes in Central Asia more closely with Russia. Because of its abundant resources in gas and oil and control over the pipelines, Russia has retained significant leverage, including over political developments in Ukraine. Furthermore, the United States and the EU have not been ready to play a leading role in the Caucasus and Central Asia. Up to a point, they have been willing to work together with Russia because of concerns that Islamic extremism and fundamentalism and the terrorism associated with it may be spreading.

Yet the uncritical support for authoritarian, undemocratic and even dictatorial regimes in the medium to long term is bound to undermine the Russian position. As witnessed above all by the controversies over the elections in Ukraine, it has negatively affected Moscow's relations with the West. There is no triangular cooperation, let alone a "strategic triangle" of common purpose and policy to promote genuine stability rather than its semblance. Russian policies instead have conjured up the specter of a new dividing line in Eurasia, one that runs

between a “Wider Europe,” comprising the EU and states closely associated with it, and a “Wider Russia” that is based on outdated and ineffective principles.

“Strategic” Significance of Russian Oil and Gas

The case for close triangular cooperation on energy is simple. Russia has regained its former Soviet position as one of the world’s largest oil producers. It is already the second largest oil exporter, after Saudi Arabia. It has the largest natural gas reserves in the world by a wide margin, ahead of Iran. Oil and gas represent more than a quarter of GDP and half of export earnings. The sector has been the engine of economic growth and led the modernization of business practices since the financial collapse of 1998. Russia is in need of foreign investment in the oil and gas sector, particularly in high-risk exploration or technologically challenging development. To develop offshore Sakhalin or the Shtokman field, which will require LNG technology, the Russian government needs modern Western equipment and know-how.

Conversely, the United States and Europe are the largest oil and gas consumers in the world. They import most of their oil from increasingly politically uncertain parts of the world, not only the Middle East but also more recently unstable countries in South America and West Africa. Western oil companies need to augment existing production with new oil reserves, but are largely blocked from making equity investments in the Persian Gulf due to host government policies. There is a growing shortage of domestically produced natural gas and higher gas (and oil) prices negatively affect both the American and European economies.

Yet despite all the complementary factors and enthusiastic predictions about the emergence of “strategic energy alliances”, cooperation has failed to live up to its inherent promises. Both the US-Russian and the European-Russian “energy dialogue” have borne little fruit. The Kremlin apparently sees the energy sector not just as a source of spoils and economic growth but as a lever of international political influence. Concern has thus been widespread that Moscow could use energy as a lever not only vis-à-vis weaker states on post-Soviet territory but also against EU member countries, old and new. Political considerations certainly played a role in Putin’s preference, supported by German chancellor Gerhard Schröder, for the construction of a gas pipeline under the Baltic Sea bypassing the Baltic States and Poland. Political considerations were also foremost in the decision to dismember the most innovative energy company in Russia, causing oil production to stagnate and putting the brakes on foreign direct investments. Only a revision of Russian policies is likely to change this unsatisfactory state of affairs.

How to Deal With Russia

There was consensus among the working group participants that the West does have some leverage over policies in Russia. This is because Russia wants to be a “European” power which means that its acceptance into Western dominated institutions, for instance, the G8, depends on policies that conform to European and more broadly Western norms; insulation from globalization is economically damaging; current windfall profits mean that Russia may not now be in need of finance but if modernization and diversification of the economy is to succeed, Russia needs Western know-how and access to economic processes and practices at all levels.

American and European approaches to Russia, therefore, should embody the following elements. The two Western actors should, among other things,

- *speak clearly and openly* about the risks of the current political developments in Russia and the country's policies vis-à-vis its neighboring countries for Russia's relations with the West;
- argue the case that the opportunity *costs of state capitalism* are high, including loss of economic efficiency – as the Soviet demise clearly demonstrated;
- persuade the Russian political leadership that *comprehensive reform* of the judiciary and vigorous measures against corruption must happen before there is any prospect of a major increase in foreign direct investment;
- engage in discussion about the pitfalls of supporting *undemocratic post-Soviet regimes*, including in Belarus and Uzbekistan, and make the point that it is in Russia's best interest to align itself with reformist forces in the neighboring countries;
- point out that the enhancement of political stability in neighboring countries on the basis of *democracy, a free market, the rule of law, and a lively civil society* and the solution of “frozen conflicts” are also in Russia's best interest;
- continue joint US and European efforts to improve the security of *nuclear weapons and fissionable materials* in Russia, including on decommissioned nuclear submarines and in the research and development bureaus of the widespread military-industrial complex;
- insist that the preconditions for Russian membership in *WTO* be met, that is, refuse political discounts;
- avoid *angst* about “dependence” on Russian *oil and gas* since dependency works both ways.