



A Focus on Russia

For the last hundred years Russia has been – at different times – the enemy of the West, or its uncomfortable ally. Since the collapse of the Berlin Wall in 1989, Russia has been seeking to re-establish itself across all of its political and economic functions. The governing elites in Russia never accepted the notion that Russia had lost its great nation status, even when it was functionally bankrupt, unable to pay or maintain its military, and had lost its vast empire of satellite states to energetic independence movements. Similarly, this point was never grasped by Europe nor by the US, both of which took the opportunity to try and bring the Russian elites and political culture into line with western norms. This failure shored up some of the problems that exist in the relationship between the two blocs today. But these problems run wider than a simple difference between Russia and the West – in addition, these problems include a difference between the EU and US regarding how to deal with Russia.

The official Russian posture and stance is often aggressive, and colored by a desire to assert its “great nation” status. The retrenchment of a variant of assertive democracy (verging into autocracy) that is embodied by Vladimir Putin (and his political partner Medvedev), the aggressive control of dissenting media opinion (which is alleged to include assassinations), and the excessively opaque system of business and taxation laws lend themselves to an analysis that Russia has not gone back to the bad old days of communist autocracy, but to a new kind of “gangster state” instead. This political system is better suited to relations with the West than its communist forerunner. It wants inward investment (on its own terms) and it wants to make international investments of its own to further its foreign policy goals and internal stability. The characterization of Russia as an uncomfortable ally to the West arises because Russia can be difficult to do business with, and because it is an awkward international partner across a range of issues, including the Iranian government’s acquisition of nuclear technologies. However, there are some areas in which the West could deal usefully with Russia, including counterterrorism.

The Gangster State?

Describing Russia as a gangster state is obviously provocative. But the term should resonate deeply with the current political and economic circumstances in Russia. One of the largest challenges to European police forces (and their efforts at pan-European coordination) is presented by Russian-based organized crime gangs who specialize in people trafficking (often young women into the sex industries), money laundering, and the export and sale of pirated goods. The profitability of European markets has seen Russia exporting some of its organized criminals to the West. But this is only one

dimension of the gangster state. More significantly, the opaque system of business and tax laws (similar in nature to China) has snared western companies like BP, and also so-called oligarchs who made billions of dollars in the fire sale of Russian media, utilities, banks, and natural resource industries in the 1990s, but who have fallen foul of the Russian authorities now.

The case of Mikhail Khodorkovsky illustrates the business environment in Russia, which is tainted by violence, extra-judicial activity (including unwarranted action against companies and individuals for political reasons), and the government's nepotistic attitude towards a small number of favored business people. The unspoken rule of doing business in Russia is to not contradict (even democratically) the official line, and to be sure to attend to warnings when they are issued. At the time of his arrest in 2004, Khodorkovsky was the 16th wealthiest man in the world on the basis of his share holding in the Russian petroleum firm Yukos. He was charged and imprisoned on fraud and tax avoidance charges. Murders of local officials who had campaigned about Yukos' tax avoidance were mentioned in court, but formal suit was not brought. Khodorkovsky had been warned against engaging in his political activities, but he had continued to pursue them, which led analysts to argue that his arrest and imprisonment for nine years (in a maximum security prison) was actually a political warning to others. The highly selective prosecution of Yukos officials further entrenched this view. The other famous oligarch to fall foul of the Putin regime was Boris Berezovsky (now resident in London) over his opposition to the merger of Sibneft (an oil refining company) and Yukos. Berezovsky's security advisor and associate was the ill-fated ex-spy Alexander Litvenenko, who was allegedly poisoned by the principle Russian intelligence agency, the FSB. Berezovsky's holding in Sibneft was then sold to Roman Abramovich, who has a number of business interests in Europe, including the English soccer team, Chelsea. Khodorkovsky should have been eligible for parole in 2011, but he now faces a new raft of charges on embezzlement and fraud, which could extend his sentence by up to 27 years. The perception of a judiciary under political control is a real problem for Russia as it attempts to secure much needed inward investment and inward expertise.

There is a strong case to argue that Russian government officials effectively allocate profit, by means of allowing or preventing companies from making profits in Russia. This practice exists at the very highest level, as seen in the BP and Khodorkovsky/Berezovsky cases, down to the regional and local level, where regular bribes are necessary to secure access to markets, and large numbers of western employees have been expelled from the country on very flimsy grounds. So, while Russia should be a profitable and attractive market for western firms to operate in, there remain some profound doubts about its reliability as a business partner.

Energy Blackmail

The post-Communist Russian government has long viewed its energy exports as a key part of its foreign policy strategy. Its 1992 Energy Strategy was the first attempt to create a coherent strategy and Putin extended this principle in 2002 with a 20 year strategy to

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improve its use of energy supplies and to bolster its international position. As this brief later discusses, Russia's alliance with Iran (over nuclear technologies) is partly due to Iran's supportive role in Russia's attempts to create an unofficial "gas-OPEC" to control the price and supply of gas and to insulate Russia from fluctuating prices, and thus fluctuating influence. The realization of the potency of energy supply as a facet of foreign policy and Russia's ad-hoc alliance with Argentina, Bolivia, Venezuela, Iran, and Qatar to control gas prices are aimed at Russia's former enemies in western Europe and, of course, the US. There have been strong calls within the European Union to diversify energy supplies away from a dependency on Russia. Very little has been achieved in this regard, partly because European governments have very long term energy agreements with Russia (some stretching out to 2030, and many of which are bilateral), because credible alternative suppliers are difficult to identify, because alternative energy sources have prolonged research and design horizons, and because of the deeply embedded nature of the European dependency on Russian gas.

The former buffer states between Western Europe and the USSR (Latvia, Lithuania, Finland, and Estonia) are 100% dependent on Russian gas. This dependency is to be expected, given their respective histories and infrastructure links. More worrying, however, is that countries such as Greece obtain 76% of their gas from Russia, Germany 36%, and Italy 27%. The EU member state governments are overly dependent on this unreliable political partner for their gas supply, and it is important to note that this is not just the supply of domestic gas, but of gas for electricity generators. This is an expansion of Russian influence, which is compounded by Gazprom (currently the world's largest natural gas extractor, in which the Russian government holds a controlling share) pouring these gas profits into other types of infrastructure companies in Western Europe. Russia's theoretical ability to influence politics and economics in Europe has reached an important level, and Gazprom's subsidiary companies and sponsored research institutes are now a regular feature in the single-issue lobbying circuit in Brussels and European capital cities – again another pattern of dependency is emerging.

The dangers of allowing Russia a large amount of influence can be observed to a certain extent in its relationship with Ukraine. It is only a partial comparison, due to the complex history between Russia and Ukraine and the disputes over post-Cold War political and military legacies. In January 2009 a dispute between Russia and Ukraine (who hosts the major pipeline between Russia and Europe) resulted in Russia switching off the flow of gas through Ukraine to Europe, plunging 18 European countries into energy poverty during a particularly harsh winter. The official reasons for this dispute were a series of bills that the Ukrainian government had failed to pay, as well as accusations that the Ukrainians had been siphoning some of the gas off while it was in transit. Underlying this, however, other issues simmered: the political difficulty of then Ukrainian President Viktor Yushchenko's notably anti-Russian sentiment (there had been an attempt on his life several years earlier, blamed on the Russian government), and the looming expiration of the Russian lease on the strategically important Sevastapol military port, with seemingly no appetite from Ukraine to renew it. In April 2010, this lease was renewed, and with it a 30% drop in the price of gas sold by Russia to Ukraine. A political thaw

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between the two sides now means that the threat to the supply has dissipated a great deal, but the lesson of how far the Russians will go to secure their interests should be learned.

Iran and Nuclear Missiles

The headline threat from Russia in the Cold War era was from its nuclear arsenal. This framed the confrontations over Cuba, and other satellite countries, as well as the nuclear near misses in the early 1980s. After the collapse of the Soviet Union, widespread concern in western security circles arose about whether the USSR's nuclear materials had been contained, or whether they had been traded on the black market during the power vacuum that followed 1989.

Several touchstone issues have bubbled up since the turn of the millennium regarding nuclear policy, such as limiting the number of nuclear weapons systems held by the US and Russia, and trying to contain the proliferation of nuclear weapons to rogue states (Iran and North Korea in particular). The START process, a bilateral series of treaties between Russia and the US, reached another conclusion in April 2010. The new START treaty limits each side to 1550 strategic nuclear weapons (ready to be fired), and 700 delivery systems (which equates to missiles, submarines and airborne platforms). The treaty still needs to be approved by the US Senate and the Russian Duma (and the Russian negotiators said they would synchronize their approval process with the US Senate's timetable to avoid losing face). President Obama seems determined to move the process of nuclear disarmament along, and while he acknowledged that this would be a long process, the ease with which he and the Russian President dealt with each other seemed to demonstrate a thawing of US-Russian relations at the highest level.

The issue of Iran's nuclear ambitions, however, has not seen as much harmony between Russia and the West. Russia has historically been a stumbling block to effective international action on a number of issues, and its recent history over Iran is no different. The Russians have effectively blocked a ramping up of sanctions against Iran, arguing that sanctions should be "smart" and aimed specifically at halting nuclear proliferation rather than aimed at the whole of the Iranian population. A tentative American proposal to limit the supply of gasoline and diesel to Iran (which is oil rich, and refinery poor) was cited by the Russian negotiators as the sort which would bring the Iranian economy to its knees and thus not one they would support. As mentioned earlier, the Russians have been trying to create a gas-supply cartel – a "gas-OPEC" – involving Iran as a major international supplier of gas.

Beyond this, though, the Russians have been assisting the Iranians in establishing their civilian nuclear industry. In February 2010, the Russian government announced that it was supporting the initiation of a nuclear power plant it had helped to build in Bushehr. This was roundly criticized by the international community, as it ran in direct opposition to the efforts of the international community to try and curtail the Iranian development of these technologies. The threshold that America and the West are concerned about is that Iran will manage to produce sufficient quantity and quality of enriched uranium to make

a nuclear weapon viable. There are considerable technical and scientific barriers to being able to achieve this level of enrichment, but once a state is in possession of sufficiently enriched uranium, the barriers to creating a viable nuclear device are relatively small – the technology is widely known, and replicable. So, it is in the short term that sanctions have to work, and the Russian efforts to supply and service a civilian nuclear industry in Iran run completely contrary to this.

Missile Defense

During his term of office, President George W. Bush set in motion a series of agreements with allies to establish a missile shield that would protect America and American allies from missile attack (with the assumption that these would be nuclear missiles). The missile shield is premised on a missile interceptor system (a weapons platform that fires small missiles to destroy larger ones) and a radar system to detect enemy missiles in flight. The radar sites are based in many areas where the US has a military presence, with the main sites in the US itself (in Alaska and California). The next biggest site is in the piece of US real-estate in the UK (Fylingdales, Yorkshire). The new radar sites would be in Greenland (which is relatively uncontroversial) and in the Czech Republic, which has proved to be more controversial. The decision of the Polish government to host the interceptor silos on its soil also enraged the Russian government, who saw this as a reactivation of Cold War hostilities, rather than a response to the potential of attacks from future Iranian missiles. The rhetoric is particularly fierce now, because the negotiations about the “phased and adaptive” version of the system proposed by the Obama administration (which includes the prospect of European involvement and a limited Russian involvement in it) are ongoing. The missile defense system will go live, depending on how the Iranian nuclear program develops, in around 2012 or 2013. The Russian government is playing this diplomatic game on several fronts, including the START negotiations, and in its approach to Iranian nuclear technology. The appeal to a broader coalition of security interests across Europe and Russia may well relieve some of the unease that the Russians feel about this subject; it may also help bring more European governments into bearing some of the burden of European security.

Global Counterterrorism’s Eastern Front

One area where cooperation with Russia might be possible is the war on terrorism. The Moscow Metro bombings (March 29, 2010) were another wake-up call to the Russian authorities about their problems with Islamic terrorism. That one of the female suicide bombers was able to detonate her explosives in the Metro station directly beneath the FSB intelligence agency building was symbolic and damning. In the aftermath of the casualties, the Russian authorities issued some bellicose words – Putin vowed to destroy the terrorists, and Medvedev said they would be tracked down. The American and Russian approaches of pre-emptive counterterrorism overlap, with similar military philosophies behind their respective approaches. On the other hand, the European method has focused on prevention and winning the ideological war. It is the difference between a military approach and a policing approach. There is some geographical specificity

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between the two sets of experiences – Islamist enmity towards Russia is partly a legacy of the Afghanistan campaign during the 1980s, but also manifests itself in small scale regional disputes typified by the war in Chechnya. Nevertheless, the enemy has demonstrated many similarities with those that America and European governments have faced – similar patterns of radicalization and organization, social networks that overlap, and a similar mode of attack.

It is important to the Russian authorities that the West does not seek to help them, but does instead seek to cooperate with them, and to share intelligence in a partnership of equals. And it is this kind of high level cooperation that might result in a contagion of cooperation across many other issues.

Conclusion

Russia continues to be an awkward partner, adversary and sometime friend to the West. There is a consistency to the prevailing patterns of Russian behavior, however, which is the constant desire to expand influence and protect what the Russian government sees as its core interests, most of which seem to be intimately wrapped up in what it views as reputation and respect. This pattern spreads across all levels of political and economic activity, from funding research institutes and think-tanks, to corporate hospitality for European politicians, right up to grandstanding on the missile defense system, holding the energy security of much of Europe ransom and helping Iran acquire nuclear technologies. The legal and political uncertainties for American and European companies doing business in Russia are starkly contrasted with the openness with which Russian businesses (even state sponsored ones) are greeted in the West. While ostensibly Russia is a profitable place to do business, the failure to adopt western legal and economic norms, coupled with occasionally fierce judicial and foreign policy measures, means that Russia runs the risk of scaring away foreign investors and seeing its economic functionality restricted to its own foreign activities. If the US and especially Europe decided to restrict Russian access to western markets, then an ugly energy and diplomatic war would result; but ultimately, it would be Russia's loss.

Controlling and influencing the Russians was never easy in the Cold War. That challenge has been made much harder by the new guard of economically aware Russians seeking to control their domestic markets, while extending influence over external markets. European policy-makers need to be aware of the threat that Russia poses to them from grabbing too much of an economic stake in their core infrastructures and from buying friends in influential places. In addition, American and European policy-makers need to keep a resilient eye on the traditional security concerns presented by an emboldened Russia, along with an eye on each other's responses to avoid being divided by Russian diplomats.