

# Russia of Challenges



Ministry of Defence  
FINLAND



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## FEARS

Fears are passing away in Russia.  
Spectres of bygone days  
like babushkas in some church vestibules  
begging for bread.

I remember when still in their prime  
they dwelled in the court of Lie, celebrating its victory.  
Fears, skulking like shadows,  
penetrated every strata.

Little by little they oppressed everyone  
leaving their mark on everything:  
when people should have been silent they made them scream,  
when screams were called for they were muffled.

It all feels so distant today.  
And it feels strange even to reflect on  
the furtive fear of denunciation,  
the secret terror when someone knocked at the door.

What, then, about the fear of talking to a foreigner?  
Or, alas, even to your wife?  
Yea, the unlimited fear of being left abandoned,  
alone with silence after the parade.

We were not afraid of building in a blizzard,  
nor did we shirk from combat in a hail of bullets,  
yet, sometimes we had a mortal fear  
of facing ourselves.

Still, we were never conquered or corrupted  
and Russia, having shed its fears,  
for good reason and, for now,  
does instil growing fear among its enemies.

I wish all men were overcome by  
the fear of passing a sentence without a fair trial;  
the fear of humbling the idea to a lie;  
the fear of exalting oneself with a lie;  
the fear of leaving a tortured soul without compassion,  
and the greatest of all fear: of being afraid  
while standing at an easel or drawing board.

As I myself compose these lines  
and, now and then unnoticeably hasten,  
I am driven onwards by my only fear:  
that I do not pen them with all my might.

*Jevgeni Jevtushenko*

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RUSSIA	
Land boundaries:	Norway, Finland, Estonia, Latvia, Lithuania (Kaliningrad), Poland (Kaliningrad), Belarus, Ukraine, Georgia, Azerbaijan, Kazakhstan, China, Mongolia and North Korea.
Area:	17 075 400 square kilometres
Population (2007):	142, 2 million, 73 % of whom are urban dwellers
Growth rate (2007):	11/ 1 000 inhabitants
Death rate (2007):	16/ 1 000 inhabitants
Life expectancy (2007):	Male: 59 years, Female: 73 years
Gender ratio (2007):	0.8 male(s) / female
Ethnic groups (2002) <sup>1)</sup> :	Russian 79.8 %, Tatar 3.8 %, Ukrainian 2.0 %, Chuvash 1.1 %, Chechen 0.9 %, Armenian 0.9 %, other or unspecified 10.3 %
Religions (2002):	Russian Orthodox 60 %, Muslim 10-15 %, New religious affiliations 1-4 %, Protestant 1 %, Roman Catholic 1 %, Old Believers 1 %, Buddhist 0,5-1 %, Jewish 0.01 %, Atheist 5-30 %
Literacy:	99,4%
Languages (2002):	Russian 142.6 million, English 7.0 mn, Tatar 5.3 mn, German 2.9 mn, Ukrainian 1.8 mn, Bashkirian 1.4 mn, Chechnyan 1.3 mn, Chuvashian 1.3 mn, Armenian 0.9 mn, Finnish 51 000
GDP/per capita (2007)	\$12 100
GDP growth rate (2007):	8,1%
Foreign exchange reserves (2007):	\$476. 4 billion (including gold reserves)
Economic growth rate:	7 % (on average) since 1988
Average monthly income (2007):	\$550
Unemployment rate (2007):	6,1%
Income tax:	Flat rate tax 13 %
Sources: CIA, The European Commission Delegation Moscow, World Bank, Russian census 2002, BOFIT Russia statistics, GKS - Goskomstat – Russian State Committee for Statistics	
1) The most recent census in Russia was conducted in 2002. It remains the official and most comprehensive set of statistics of the nationalities, languages and religions in Russia.	

# Preamble

## Russia of Challenges

In 2007 the Ministry of Defence conducted the research project Stable Russia – an evaluation of the security situation in Finland's neighbourhood. The goal of the project was to paint an all-round picture of the factors affecting stability in Russia as well as possible destabilizing developments which could alter the security situation close to the Finnish borders. The project comprehensively tapped into Finnish Russia-expertise. This publication is based on the reports written for that project.

As part of the Government the defence establishment is responsible for defence policy, military defence and coordination of total defence arrangements as well as participation in international crisis management. These activities take place in the prevailing security environment which is monitored and studied. Moreover, its effects on our national security must continually be evaluated.

Traditionally, the defence establishment has primarily been interested in our neighbour's defence and security policy as well as its armed forces. This kind of research is carried out by the Defence Forces. Security, of course, entails other things as well. Furthermore, Finland's political leaders emphasize the broadness and comprehensiveness of security. Russia is the single most important factor regarding the security of Finland's near environs and Russia's stability has a major impact on our security. It is important to compile a comprehensive picture of the factors and phenomena in Russia which are relevant from this viewpoint.

The model by which the Stable Russia project was implemented was new. The project defined the following topics relevant to the security environment: Russian society, domestic policy, economy and transport, the environment, energy and foreign policy. A "theme team" including 4-7 experts, one being the team writer, was assigned to each topic. Experts were selected on the basis of availability, albeit with great care. The teams included seasoned Russia-hands as well as keen, young researchers, principally from the academic community and state administration.

The teams convened 2-5 times, followed by the team writers compiling their reports. The reports included opinions and empirical knowledge of factors involving Russia's stability as well as potentially destabilizing phenomena. The defence establishment can use the reports as such because they contain many noteworthy indicators which can be utilized in strategic planning and as part of the Government's foreign and security policy reporting process.

Due to the stimulating subject matter and the extensive expertise of the teams a decision was taken to edit the reports for the purpose of publishing them. Researcher Hanna Smith from the Aleksanteri Institute of the University of Helsinki was selected for this task. She was responsible for the content of the publication based on the reports and the given editorial task.

Neither the editing process nor the work of the teams was altogether simple. When experts get together it is often challenging to transform their knowledge and opinions into a joint assessment. The broad tasking and the multifariousness of Russia represented further challenges. Although this publication may not be exhaustive or conclusive, it is certainly engaging. The honing of information and expertise on Russia will continue, including further research questions from the defence establishment.

We are grateful to all the experts who participated in this project. We also present our heartfelt thanks for the good cooperation and patience given us as we improved the utilization of the Finnish Russia-expertise in the Ministry of Defence.

### **Theme teams:**

#### **Society**

Team writer: Meri Kulmala

Markku Kangaspuro, Markku Kivinen, Mikko Vienonen and Ilkka Vohlonen

#### **Domestic policy**

Team writer: Christian Jokinen

Pekka Kauppala, Arto Luukkanen and Ilmari Susiluoto

#### **Economy and transport**

Team writer: Katri Pynnöniemi

Kari Liuhto, Jouko Rautava, Sampsa Saralehto and Marjukka Vihavainen-Pitkänen

#### **The environment**

Team writer: Veli-Pekka Tynkkynen

Henna Haapala, Kristiina Isokallio, Heikki Reponen and Hanna Uusitalo

#### **Energy**

Team writer: Piia Nikula

Timo Hellenberg, Mikko Palonkorpi and Jouko Varjonen as well as Matti Anttonen as commentator

#### **Foreign policy**

Team writer: Sinikukka Saari

Tuomas Forsberg, Hiski Haukkala, Pia Nordberg and Hanna Smith

Enjoy your reading!

# 1. Introduction

Hanna Smith

“Russia is like a dinosaur. A lot of time is needed for change to reach the tail from the head.”

– Alexander Lebed, Trud, 1995.

The most important task of a state is to guarantee internal and external security. A state's security challenges can be categorized, for example, as hard, soft or psychological challenges. Hard security can be construed as the state's ability to defend its independence against the armed aggression of another state. Foreign, security and defence policies have traditionally served the interests of hard security. The themes of soft security are often mainly linked to globalization. They typically include themes such as the environment, energy, the economy, crime and health. Psychological security, however, is more difficult to define. It mainly involves the manner by which citizens sense their personal security, whether they trust their leaders and how they perceive the outside world. As regards Finland, all three areas of security share a common denominator: Russia. This publication attempts to paint a picture of Russia from the various perspectives of security.

Researchers, enthusiasts, those whose jobs require paying attention to Russia as well as virtually everyone who, one way or another comes into contact with Russia will sooner or later face the question: Is Russia a normal state or an exceptional state? This question has been debated in Russia and elsewhere for centuries. Both approaches have their advocates.

Faith in the democratization and normalization of Russia was strong after the collapse of the Soviet Union. Euphoria over the foundering of the flagship of communism overshadowed an important detail in global politics. Regardless of its form of government, each state is unique: shaped by its history, culture, religion and collective memory. Paul Goble commented on the debate in Russia as follows: “One can hardly imagine a debate in France about who the French are, one in Germany about what borders the country should have, or one in Britain about whether the country should be a democracy. But those are precisely the debates that dominate the Russian political landscape”.<sup>1</sup> It was this very debate in Russia which led the West, too, to question whether Russia is exceptional in some way. Apart from the early days of the Soviet era, debate about Russia's uniqueness remained on the back burner in the Soviet Union. The basic premise was that socialism was its essence and that by analysing that one would also understand the Soviet Union as a state. When Russia inherited the legacy of the Soviet Union, debate over the Russian identity and the nature of the Russian state resumed. For Europe, Russia remained an enigma.

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1 Paul Goble of Radio Free Europe, August, 1996.

There is a desire to regard Russia as unique and mystical. The uniqueness of Russia is used to explain why Russia can do things others cannot and why some things in Russia are completed almost overnight while others are totally ignored. During the reign of Tsar Nicholas I, Russian slavophiles formed their own philosophy, according to which Russia was the exact psychological opposite of the West and Western values. At the same time Nikolai Gogol depicted Russia's uniqueness in his novel *Dead Souls*. When it comes to discourse on Russia's distinctiveness, a phrase from the Russian poet Fyodor Tyutchev, "Russia cannot be understood with the mind alone!" has almost become a mantra. The phrase comes from a short poem in which he also penned that Russia cannot be measured with an ordinary yardstick because her nature is unique and that one can only believe in Russia. Tyutchev wrote the poem in 1866. Having spent long periods in Europe he felt the need to explain the cultural differences from a national romanticist standpoint. Russia was presented as the radical "other" to Europe, as a rationale to its obviously undeveloped society and its need for autocratic government.

Mysteriousness often beats clear analysis as an explanation. Whereas philosopher Nikolai Berdyaev called Russia the unsolvable riddle in 1915, philosopher E.V. Barabov called Russia a difficult riddle.

After Tyutchev several Russian philosophers, politicians and thinkers have written on Russian mysteriousness and faith in it. In 1911 Prime Minister Pyotr Stolypin said: "I have faith in Russia. If I didn't, I could accomplish nothing". Georgy Fedotov, theologian, repeated the same "creed" in 1931: "We must have faith in Russia. If we didn't, would life be worth living?" In 1948 philosopher Ivan Il, whose work reportedly pleases President Putin, penned: "Now, more than ever, we must have faith in Russia". The book *I believe in Russia*, written by Gennady Zyuganov, the leader of Russia's Communist Party, is also an interesting example. Believing in Russia and believing that Russia cannot be understood by the mind alone has become part of the Russian psyche. To the Russian people, manhandled by history, these maxims give faith in the future and reinforce the image of Russia's unique status in global politics. Russia has also cleverly used its uniqueness and related ideologies in its external relations.

Almost as well known as Tyutchev's poem is Sir Winston Churchill's utterance: "I cannot forecast to you the action of Russia. It is a riddle, wrapped in a mystery, inside an enigma; but perhaps there is a key. That key is Russian national interests".<sup>2</sup> The most often quoted part is: "Russia is a riddle, wrapped in a mystery, inside an enigma". Less attention is paid to Churchill's message pointing to Russia's national interests as the key which unlocks the door to the soul of the nation. However, it is difficult to define national interests. The concept fell out of grace at the end of the Cold War when realism and power policy analyses played a less important role in

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2 Radio broadcast in October 1939



the discipline of international relations. Nevertheless, the analysis of national interests stems from the *raison d'être* of the state: to guarantee security and the state's continued existence. Defence of the state and its territory are the cornerstones of national interests. Axiomatically, all other policies are subordinate to security and territorial integrity. When President Vladimir Putin emphasized the importance of a well-trained and strong military, he referred to national interests: "It is vital – considering all possible scenarios – to guarantee Russia's security and territorial integrity".<sup>3</sup> Alongside the concept of national interests the term vital interests has also been used. In his book *The New Russian Diplomacy* (2002), former Foreign Minister Igor Ivanov includes the following as Russia's vital interests: credible national security, the best possible base for stable economic growth, improving national living standards, national unity, guaranteeing independence and constitutional law and order as well as defending the rights of Russian expatriates. Perhaps Sir Winston Churchill was right after all. Through the keyhole of national interests the mysterious and enigmatic Russia may just begin to open up to the foreign observer, with Russia no longer remaining a matter of faith or emotion.

National interests are often similar in otherwise dissimilar countries. Every nation lists the security of the state and its citizens as its task. Likewise, improving and guaranteeing the citizens' living standards is usually always one of the basic national interests of the state. While states share very similar features, they also possess unique characteristics. Russia is a European state and at the same time it is between east and west. Russia extends to the Pacific Ocean and borders on China in the east and on Europe in the west. Russia's southern border brings it into intimate contact with the Islamic world. Many other countries, too, are at the crossroads of different cultures, making them special. National interests can explain a country's behaviour, especially, in the international arena just as an awareness of culture, language, religion and history help open doors to a society and give insight into people's way of thinking.

This publication exposes Russia as an exceptional, enigmatic and eccentric nation as well as a normal state, burdened by huge societal problems and a gruelling past. Each chapter of this study – Society, Domestic policy, Economy and transport, The environment, Energy and Foreign policy – raises many of the typical problems experienced by states that are transforming and emerging. Simultaneously the chapters paint a picture of Russia's uniqueness, reflecting the marks left by Russia's history and culture, for better or worse. In his book *Rulers and Victims - The Russians in the Soviet Union*, historian Geoffrey Hosking depicts an interesting event when Irina Kantor, an Orthodox Jew, recalls her childhood. Her father showed her the Soviet Union on the map. This, however, was not Russia as far as she was concerned. Then her father showed her the boundaries of the Russian Federation. Still, in Irina's mind,

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3 Vladimir Putin's speech to the Duma on 10 May, 2006.

it was not Russia proper. They could not locate the real Russia on the map because it was neither a state nor a staked-out area. Instead, Russia was a state of mind, an ideal in Irina's imagination. The same happens to many who contemplate Russia. They create an ideal image of Russia, only to be disappointed because no such Russia exists. Those wanting Russia to be a democratic state, operating by the rule of law, will be let down. Likewise, those who regard Russia as a totalitarian police state also end up disillusioned. Russia simply refuses to conform to individual desires. Instead, it is constantly recreating itself. Whether Russia's development and choices are desirable from the European standpoint is another story. Once the correct points of reference are found, Russia is found to be a normal state and can be understood by invoking reason, emotion and information.

## 2. Society

### Introduction

Society, by definition, is a group of people with a common cultural and historical background along with shared interests. Many features in modern Russian society as well as future challenges can be traced to imperialist Russia and Soviet times. The Russian adage *bumaga yest bumaga*, a *praktika eto praktika* means that “documents say one thing but practice is practice”. This depicts Russian society in the past and in the present. During Soviet times this maxim was particularly apt because many things did not correspond to the official truth. For example, even though officially the Soviet Union was not a class society, in practice it was very much one. Class structures existed in societal-economic realities as well as in cultural conventions.<sup>4</sup> Theoretically the Soviet Union was based on equality, yet the *nomenklatura* were the privileged elite. No middle class was supposed to exist in a proletarian state such as the Soviet Union. Nevertheless, a large potential middle class did exist, consisting of experts, managers and certain other professionals. They had a particular interest in obtaining material things and they had the potential for political power.

Putin's Russia was vying for societal modernization and the formation of the welfare state was established as a national goal. In line with Soviet tradition, the right to work is the keystone of welfare and social services. In addition to providing work, the employer is seen as playing a considerable role in the employee's welfare, i.e. he should provide various social services gratis, such as housing, childcare and health care. While the Soviet system guaranteed social benefits to workers, the will to tackle social ills was lacking because of the risk of exposing cracks in the system. Throughout history, Russia's marginal groups have received very little social assistance. Officially, poverty did not exist in the Soviet Union. However, later estimates placed 40 million Soviet citizens in the poverty bracket. This translated into 12-13 % of the population, the largest segment being families with children. The second largest group was pensioners, followed by the working poor.

Many of the social ills of the Soviet times came into the limelight after the Soviet Union collapsed. As for the future of Russia, it is of crucial importance how the state manages to establish society's vital institutions and make them stable. Equally important is how well these institutions can meet present and future problems and challenges. Russia has the tradition of having a strong state and citizens expect the state to take care of certain matters. On the other hand, citizens have little confidence in the capability of the state to handle issues important to them. This chapter deals with the different segments of Russian society, institutions and their evolution since the 1990s.

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4 Analysis of the changing class structure is based on the article written by Markku Kivinen, Director of the Aleksanteri Institute: *Classes in the Making? The Russian Social Structure in Transition (Inequalities of the World, ed. Göran Therborn, Verso 2006).*

## Changes in social structure

In political discourse the middle class is often perceived as a stabilizing, moral force as well as an important element in the development of a civil society. Approximately 20-25 % of Russian households are estimated as belonging to the middle class, which is still in the making. Russia's present-day middle class is made up of professionals and the new managerial class of the private sector. What, then, is the role of the middle class in modern Russia and can the middle class convert Russia into a democratic welfare state?

Middle class professionals are typically poorly paid and have uncertain career expectations. However, due to their skills and status, they could make up a force for solving various societal problems. In other words, they operate as cultural capital, albeit without an established status. They can also be considered as having voted with their feet because many of them have emigrated and still continue to do so. Conversely, the new managerial class and entrepreneurs are rising in power, even though many think that they lack the cultural capital of the traditional middle class professionals. They, too, must accept the reality that high quality health care and education are only available abroad. Traditional middle class professionals, on the other hand, are dependent on the development of the state. At present it looks like there is no strong public sector or strong organizations in Russia through which the middle class could become better established. Whereas the traditional middle class and the working class remain weak in modern Russia, the new bourgeoisie are thriving.

If the present inequality continues to grow, there is the risk of a situation resembling that of developing countries; one in which the bourgeoisie are so strong that almost all profits are used for private consumption. Then again, if the middle class can be persuaded to sustain public welfare, society will migrate towards the social democratic model. In such a society the working class and the middle class, including traditional professionals and managers, will prosper. For the time being, the development of inequitable, Latin American type distribution of wealth seems to be continuing.

Even though there were poor people in the Soviet Union, poverty has skyrocketed since its collapse. If poverty<sup>5</sup> in Russia is measured by international indicators (e.g. the UN: daily earnings under \$1; the World Bank: daily earnings under \$2.15), one cannot say that there are that many abject poor (1-5 % of the population). Russia, however, measures poverty by its own indicator - the minimum income, which is approximately €60 per month.

According to official estimates approximately twenty per cent of Russians earn less than the minimum income. However, the results from a cross section survey<sup>6</sup> seem to indicate that approximately one third of Russian households live in poverty. The risk of poverty rising exists because results show that a large number of households are eking out a living close to the poverty threshold. The major reasons for the increase in poverty are

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5 More on poverty in the UNDP report Russia in 2015: Development goals and policy priorities (2005)

6 NOBUS-survey 2006

sharply decreasing income levels and the uneven distribution of wealth. After price controls were abolished incomes have decreased by 50 per cent, pensions by even more.

As in Soviet times, poverty is particularly the bane of the countryside, families with children and pensioners. Since families with children are among the underprivileged in Russia, poverty has also decreased the birth rate. It is also gender-biased. The largest group of the poor in Russia consists of single-parent families, 90 % of which involve single mothers. Pensioners living alone also constitute a large segment. These are mainly women due to premature deaths among men and the low male life expectancy. Still, country folk in a natural economy and women have proved very resourceful in seeking means of subsistence. Those living in abject poverty, such as the homeless, are often men.

In Russia there are many working poor people (50 % of all households according to estimates). For example, some wages in the public sector are either at or below the minimum income level. The government has tackled the problem by proposing that during the next three-year budget cycle public sector wages are to exceed the minimum income level and be raised by the equivalent of €90 per month at minimum. Pensions have been raised and more increases are to be expected. These increases are paid for by, among other things, priority national projects, which tap into stabilization funds financed by energy export revenues.

Up until now Russia has paid more attention to the improvement of living standards of those above the minimum income level, rather than the poor. It can be well said that programmes geared towards the poor are few and far between. While the welfare state is still a long way off, the state seems to be sticking to its responsibilities by investing in living standards. When it cannot do this alone, it calls for help from other sectors, such as organizations and the business world.

## Social protection and social services<sup>7</sup>

Russian social policy and related benefits and services underwent massive changes in the 1990s. New social policy legislation was developed (e.g. the social services system in 1995) and social work, which did not really exist in Soviet times, was created in 1991. In present-day Russia the federation, i.e. the state, bears responsibility for setting basic guidelines in social policies as well as for adopting framework legislation. The federation is also responsible for developing social service quality standards. Actual social security and social service powers, however, are presently the responsibility of the regions which create their respective regional legislation in order to disburse benefits and produce services.

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<sup>7</sup> We thank Dr Simo Mannila (STAKES) for his comments in the social protection and social services section.

The necessary and long-touted social security reform of 2005 abolished material benefits such as the pensioners' right to use public transportation free of charge. Benefits were monetarized, thus allowing everyone to use them as they saw fit. This reform caused pensioners all over Russia to take their complaints to the streets. The reason for the strong protests was the fact that people did not believe that they would actually receive any cash, or that the cash benefits would cover the actual costs. It is good to remember, however, that the most significant groups of beneficiaries were not the poor before or after the monetarization process. Benefits were also often misused, such as selling them to others.

Social benefits are not universal in Russia. Instead, they are given to particular groups that require assistance, such as people with low incomes and limited means. These benefits include, for example, a housing allowance for approximately 15 % of families, a family allowance covering 64 % of all children as well as minimum income support. The federation determines the minimum levels for the benefits, followed by the regions setting the exact sums. All things considered, benefits are very small. For an example, the monthly family allowance equals €5 per child. Russia has paid more attention to those at the poverty threshold as well as those with average incomes than to the poor. It often happens that benefits do not reach those who need them the most. This feature of Russian society where the neediest are "swept under the rug" is a telltale sign of the fact that its societal development is still very much in progress. Only stable forms of government can sustain truly universal social protection systems.

Generally speaking, social services in Russia are the responsibility of the state and the public sector. However, the actual executors of the services, regions and districts, are underfunded. Ever since the socialist welfare structure collapsed women have increasingly taken control of everyday survival and of establishing new social safety networks and services, and the third sector, as well. For example, a large number of Russian non-governmental organizations (NGOs) operate in the social sector and are increasingly female-dominated. These organizations have taken on a good deal of responsibility for generating welfare by supporting vulnerable groups and by producing services. In other words, organizations augment public services by filling in the gaps. However, no private commercial social services seem to exist in Russia, even though companies may provide financial assistance through organizations or local government. It is also noteworthy that stabilization funds accrued from energy export revenues are being used to improve living standards, such as raising the minimum income level, pensions and public sector wages. One of the key problems afflicting the Russian social protection system is bureaucracy. Legislation and various benefits do exist but the system is so cumbersome that many simply lose heart or do not know how to apply for the meagre sums to which they are entitled.

Government social programmes are common practice in OECD countries. However, proper infrastructure is needed in order to secure the required resources. This appears to be one of the greatest shortcomings in Russia. Citizens, too, seem to be urging the government to take responsibility in these matters. It remains to be seen which type of welfare model Russia will choose: liberal, conservative or social democratic. It ap-

pears that elements of the liberal and social democratic models are in use at present. Along the lines of social democracy the state is retaining the responsibility for the welfare of its citizens instead of officially yielding it to market-based solutions or organizations. Yet, since the state is incapable or unwilling to bear this responsibility, in the liberal fashion the third sector is being invited to help. Then again, the business world and the elite are participating in the creation of welfare as benefactors, typical of conservative countries.

## Education

As regards the level of education and literacy, Russia fares well in international comparisons: Russians are among the best-educated people with a literacy rate of 99.8 %. Approximately 95 % of citizens attend comprehensive school and there are no marked differences in school attendance between boys and girls or rural and urban areas. Problems are linked to preschool: particularly in rural areas some children are not able to go to preschool for the simple reason that there are no preschools. Furthermore, international comparisons have shown that while the Russian comprehensive school provides a classical education, it does not teach children how to apply their knowledge. This being the case, schoolchildren receive a good education in many subjects but doing well outside of the classroom is another matter. Russian students fare particularly well in the natural sciences according to the OECD Programme for International Student Assessment (PISA). They are well-versed on theory and are imaginative, but not so practically orientated. This has been clearly demonstrated in international education comparisons.

Responsibility over the Russian education system is shared between administrative levels so that the federation is responsible for state-run institutes of higher education; regions provide secondary education and districts run preschools and comprehensive schools. The quality of comprehensive education varies by region and is linked to the economic development of the region and to the funds earmarked for education. The state does not provide sufficient funding to the regions or districts and, on occasion, resources prove inadequate for good quality comprehensive education. The share of education in the Russian GDP has been on the rise and is approximately 3.5 % at present (6.1 % in Finland in 2004 and 5.8 % in OECD countries on average).

On average Russians are well-educated, with approximately 20 % of the population holding a university degree. This percentage is approximately the same in the EU countries. However, in reality Russian university education quite often corresponds to upper secondary education. Comparison is also hampered by the fact that admission or degrees can be bought. Traditionally, higher education in Russia has been free in principle and, therefore, available to everyone. Today, more and more are paying for their higher education even in state universities, and the number of private universities and institutes of higher education has increased. Russia also has a long tradition in polytech-

nic degrees. The goal of these tehnikums has been to merge theoretical education with professional skills. The problem of Russian higher education is that university graduates rarely find work in their field of expertise and their education does not necessarily provide them with the skills required at the workplace. Furthermore, Russian universities have not been regarded internationally competitive. The Russian Academy of Sciences has been almost solely responsible for academic research; universities have had a teaching role. After the collapse of the Soviet Union this rift has narrowed, but it still exists, complicating the university reform process.

Russians have recognized the need to reform their entire education structure - from pre-school to universities. One of the four priority national projects of the Russian Federation is an education programme. For the period of 2007-2008 the programme has earmarked €2.35 billion for, among other things, innovation and modern technology in education. As is the case with other state employees, teachers' wages are expected to be increased so as to raise them to the level of the minimum income, at the very least. The programme includes annual stipends equalling €1 700 to the 2 500 top schoolchildren or students as well as a €3 000 incentive to the 10 000 top teachers. To put this into perspective one must take into account that the minimum income level in Russia is still approximately €100 per month. Hence, this is a significant amount of money for an individual.

During Soviet times the education system was segregated: elite schools existed and the best students were in demand in order to maintain the scientific edge. This trend seems to be continuing in present-day Russia. One of the priority national projects includes the founding of two national top universities for 30 000 students as well as two international standard schools of economics for 500 students. These schools will be established in Moscow and St. Petersburg and the goal is to educate economists for the domestic need. According to the government, there are 3 MBAs per 100 000 inhabitants. The corresponding figure in the United States is 70. Only a lucky few of Russia's 140 million people will manage to gain admission. Does this all mean that Russia is educating a new and internationally attractive? After all, a degree from the new school of economy will undoubtedly be a ticket to the top. If the state fails to invest in general education, graduates of top universities and private schools will form the new elite. It is said that Russia often mimics the United States. Even though anti-Americanism is prevalent, it looks like the education system is going to be revamped in the fashion of the United States.

#### **Russia's national priority projects:**

Public health, education, agriculture and housing

- Launched in September 2005
- Person in charge: Dmitry Medvedev (2005-2007)
- Total budget for 2007 was approximately €7.4 billion



## Labour market

The Russian labour market transformed after the collapse of the Soviet Union. Full employment was the triumph of socialism, aiming to serve the production goals of the planned economy. This resulted in a large number of workers in the production sector, at the expense of the service branch. When the planned economy was abolished and markets opened the Russian labour market became part of the global economy. New vistas opened to the Russian worker now permitted to freely choose his employer.

In the 1990s the Russian labour market experienced a sharp downturn in total employment. However, because of the economic upswing this trend has reversed during recent years. The 2005 employment rate was 71.3 % (69.3 % for women and 73.3 % for men). These figures are low compared to those of Soviet times. Then again, they are low in international comparisons as well. The unemployment rate has hovered around 7 % in recent years (slightly above for women and slightly below for men) but official figures may greatly vary from the actual ones. In the countryside the situation may diverge even more from the official figures because not everyone has the opportunity to travel to employment agencies in cities. On the other hand, the unemployed are not necessarily without work; grey market jobs are common. The average wage in 2007 equalled €366 per month, but there was a very large regional variance. For example, the average monthly wage in Karelia is €100-150, while the corresponding figure in Moscow is €850.

As a result of the Soviet legacy a relatively large number of women work outside the home, representing approximately 48-49 % of the workforce. Despite this high percentage, gender inequality is endemic in the Russian labour market. During Soviet times a woman would earn 70 % of a man's salary. Later (2000-2003) the share dropped to 60 %. Women represent approximately 60 % of the workforce in the public sector, typified by low wages - even below the minimum income level. In Russia, as in Finland, professions are segregated by gender. Furthermore, whenever certain jobs attract more men, their salaries rise. Correspondingly, if more women take up any given profession, wages fall. One can also talk about vertical segregation in the Russian labour market: men occupy the highest positions. For example, women occupy 70-80 % of central government jobs but 80-90 % of the top civil servants are men. Women are almost totally excluded from political decision-making. Women occupy only 9.8 % of the seats in the State Duma (Russia's parliament) and before the administration reform of 2007 there were no women in the Cabinet. Russia has signed up to the Millennium Development Goal of the United Nations, according to which the share of women in the Duma and the Cabinet should be raised to 50 %. Still, in light of the present figures this seems quite unrealistic. The lower one descends in state administration, the higher the number of women in political decision-making. However, their status also correspondingly decreases. As a result of the recently implemented local government reform the majority of the decision-makers at the lowest, urban, level are women, ranging from municipality managers to councilpersons. Russian gender roles are extremely conservative and, therefore, talk of "an unwritten gender contract" or "women's double burden" is warranted. In addition

to earning a living in the workplace, the woman bears responsibility for the home and the family, making her less attractive in the labour market. The woman's place in Russia partly explains their unwillingness to bear children.

The retirement age in Russia is 60 for men and 55 for women. In certain regions it is even lower, as in Karelia where the ages are 55 and 50, respectively. In reality, people continue to work beyond this age because few people are able to manage on their meagre pensions alone. Hence, retirement pay is considered as a "seniority bonus" on top of one's wage. A Russian adage says that one should be fearful of old age rather than death. According to the latest promises of the Russian Cabinet the average monthly pension is going to rise to €150, representing almost a fifty percent increase. In 1997 the pension insurance system was changed and now employment pensions are earnings-related.

It is warranted to assess the impact of the shrinking population on the labour market in the present-day difficult demographic situation. Russia is about to experience a labour shortage. Depopulation is occurring among working-age people and, first and foremost, among working-age men. Industrial jobs and agriculture are male-dominated and, hence, vulnerable. Agriculture, however, is not a major employer in Russia. Instead, various branches of industry employ large numbers of people. Yet, the problem is not as serious as it may seem. Many of the problems related to a labour shortage can be solved by increasing efficiency in production and through new technological solutions. A labour shortage is one of the risk factors of the Russian economy. If the economy continues to grow at the present rate, more skilled workers will be required. Economic growth will set new challenges for the labour market. Furthermore, there has been talk of stronger trade unions for some time now. In the long run, guest workers may be the solution to Russia's labour shortage. In the near future, however, increased immigration could introduce more tensions in Russian society.

## Judicial system<sup>8</sup>

Parliamentarism in Russia is weak. The reason for this is the 1993 Constitution written during the time of Boris Yeltsin, which provides for a strong presidency. The powers of the President of Russia exceed those of, for example, the President of France or the United States.

The President is considered to be above the law and his authority is regarded as all encompassing. This flies in the face of the independence of the judicial branch. The President's right to appoint judges has been criticized but the independence of the judicial branch is theoretically ensured by the fact that the branch itself nominates the candidates for judicial appointment. Judges have judicial immunity and they cannot be fired. The President and members of the Duma have strong immunity protection. In practice this upholds corruption because they do not have to fear arrest. Furthermore, some may even seek a seat in the Duma just to obtain prosecutorial immunity. The Russian judiciary has often been criticized for being corrupt and biased. However, this is not the whole truth. During President Putin's time, much attention was paid to the judicial system: efforts have been made to raise its professional level and accountability as well as the selection process of judges, which is now stricter. In Soviet tradition, politicians may often try to advise a judge while a trial is still ongoing (the so-called telephone justice).

There are two types of courts in Russia. First, there are the general courts of jurisdiction, which settle personal disputes or disputes between individuals and the state. Second, there are arbitration courts which settle disputes between business entities or between business entities and the state. If charged with a serious offence, a defendant has the right to be tried in front of a jury in a general court. Even though this is a constitutional right, jury trials are rare and, occasionally, resisted. The Russian judicial branch also includes legality supervision authorities, the most important being the office of the Prosecutor General of the Russian Federation. He heads the state prosecutorial service and an oversight department tasked to supervise the observance of laws in courts as well as among the other authorities.

Attitudes towards the judiciary are very different in Russia than they are in Finland. This has often been explained by several historical, economic and political factors. A strong tradition of authoritarianism exists in Russia, which includes the feature of an absolute ruler who is always right. In the past the Tsar was also the representative of God on Earth. This was contrary to the Roman Catholic tradition in the West where the Pontiff holds religious power whilst sovereigns hold temporal power. The rule of law has been hampered by a widely held belief which harks back to the early days of the Soviet Union: the state is the supreme creator of justice and norms but, rules only apply to the general public, not to the rulers, who remain above the law. This is still the sin of

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8 This section and the analysis of Russia's judicial system is based on Professor Soili Nystén-Haarala's article in the book *Russlex- Russian law in Finnish* (Joensuu University Continuing Education Centre 2007, pp 83-111) as well as on her and MA Jarmo Koistinen's comments on this draft report.

Russian rulers and it, naturally, impedes the development of the rule of law. Nevertheless, Russians have never been sticklers for rules. So long as the intention is good, it will do. However, contempt for the rule of law easily leads to a vicious circle: laws are made stricter and legitimacy is sought by stiffening sentences, which often, are passed at random and, therefore, are regarded as unjust. President Putin's fight against the oligarchs serves as an example of this. One cannot build the rule of law on double standards. In principle, official institutions can be reformed overnight but it takes time to change the unofficial institutions, practices and attitudes.

Russia has adopted the principles and standards of international law and, pursuant to the Constitution, international Treaties ratified by Russia are part of the Russian legal system, even above the law of the land. Still, matters such as human rights, which Russia has ratified, are more often than not merely empty words. Since 1996 Russia has been a member of the Council of Europe. This has made it possible for ordinary Russians to file complaints about human rights violations after they have exhausted all other legal venues in their country. Consequently, large numbers of such complaints have been filed. Yet, it remains to be seen how they will affect the conduct of the Russian authorities, if at all.

The migration to a Western-style market economy, democracy and the rule of law after the collapse of the Soviet Union has not been smooth sailing. Lately, they have begun to be referred to as Russian versions of them. According to the most pessimistic evaluations the Russian variants will not develop in line with the Western models. How could they? After all, these ideals have not materialized anywhere in their purest form. Optimists could state that development is proceeding in the direction of the rule of law but more time and patience are needed. According to a report published by the Council of Europe in 2005, the Russian judicial branch has undergone many positive developments but lack of independence, corruption and inefficiency are still considered its weaknesses.

Russian legislation has been improving at a dizzying rate since the collapse of the Soviet Union. This is characterized by a large number of statutes. Notwithstanding the precise manner in which laws are written, a large number of decrees exist, contradicting the actual laws. This makes it difficult to apply and interpret legislation. In line with the court system, Russian legislation comprises three key areas: constitutional law, civil law and public law.

Crime<sup>9</sup> is a serious problem. In 2005 approximately 3.5 million crimes were registered. Almost half of them involved larceny, 10 % robbery, 6 % were terrorism-related and 5 % involved narcotics. Less than 1 % represented murders or attempted murders. The percentage of rape and bribery was only 0.3 %. The perpetrators are typically male (86 %) and roughly one third of them is in the 30-49 age bracket, without steady in-

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9 As regards the crime rate, in addition to statistics an important source was MA Jarmo Koistinen's article Criminal liability and how to avoid it in Finnish and Russian penal code in Russlex- Russian law in Finnish (Joensuu University Continuing Education Centre 2007, pp 129-154).

come. Some estimates place the real number of crimes committed as high as 12-15 million. Russian crime statistics cannot be considered reliable. For example, murders are committed more often than in the West: the risk of a Russian man being murdered is much higher compared to his European counterpart. It is typical in Russia that people increasingly consider crime to be business as usual. Little by little citizens are getting used to gradually increasing crime rates because crimes are constantly being paraded on TV and because only the have-nots get punished while the elite get away scot-free.

The so-called professional crimes, inferring crimes committed by law enforcement authorities, reduce the execution of criminal liability in Russia. Taking bribes and ignoring citizens' reports of offences are the most customary offences committed by the militsiya (police). Hence, Russians place little trust in their law enforcement authorities (the militsiya, the judicial oversight office and the courts). As many as 70 % of citizens distrust them and 75 % consider their arbitrariness a problem. In Finland, for example, 90 % of citizens consider the police either very trustworthy or fairly trustworthy. According to a comparison conducted by Transparency International, Russia placed number 95 on the list of least corrupted countries (of 146 countries studied).

Criminal justice has traditionally been a national prerogative: each country primarily applies its own criminal code to crimes committed within its territory. These days, however, cross border crime is a growing phenomenon and nations have had to concede a part of the sovereignty principle in the name of joint crime prevention. As regards Finland, fighting cross border crime and cooperating with Russia on criminal justice matters are particularly important. Common judicial instruments, such as international cooperation in criminal matters and legal assistance cooperation, have been developed to preserve safety and further economic and social well-being. Finland and Russia cooperate pursuant to agreements, using said instruments.

In the 1990s, after the Cold War ended Finns began to talk of the Russian Mafia as being a threat along with organized crime and hordes of immigrants possibly pouring into Finland<sup>10</sup>. The fear of an influx of Russians proved groundless because the actual numbers do not match the projected threat scenarios. In 2006 there were 25 326 Russian nationals living in Finland. Approximately 12 000 Russians have received Finnish citizenship since 1990. During the most recent years only a small number of Russians have moved to Finland. Furthermore, the threat of the eastern Mafia and organized crime seems to have been overblown, causing "moral panic" in Finland. It cannot be documented that Russian organized crime has become established in Finland to any greater extent. Then again, the role of Russian organized crime in the trafficking in humans or the narcotics trade cannot entirely be ruled out. The most common manifestation of this is trafficking in women, either in Finland or via Finland.

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10 More on the subject in Dr Johan Bäckman's doctoral dissertation *Eastern Mafia, the Threat, criminal phenomena and cultural significances* (Police College of Finland 2006).

## Militsiya<sup>11</sup>

The militsiya (aka militia), subordinate to the Ministry of the Interior of the Russian Federation, are divided into the criminal militsiya service and the public order militsiya service. The public order militsiya are also called local militsiya, denoting their role as a part of local government. The most important task of the criminal militsiya service is the prevention and investigation of serious crime. Regional units include, among others, units for combating economic and tax crimes, narcotics units, organized crime units as well as operational investigation units. The regional units of Interpol are part of the criminal militsiya service. The public order militsiya are responsible for the maintenance of law and order as well as for investigating administrative offences. They also conduct small-scale criminal investigations. The organization of the militsiya is divided into regional, district and local units. Militsiya departments are in charge at the local level, headed by militsiya commanders, whose powers are comparable to those of Finnish police chiefs. At the regional level, the criminal militsiya are augmented, when required, by the OMON special units (comparable to the Finnish Karhu special weapons and tactics team). The OMON are used in conjunction with arrests or searches which are considered dangerous. The OMON units were established in 1988 and their main tasks include crowd control at large gatherings, participation in crime prevention as well as counter-terrorist and counter-extremist operations.

In addition to the militsiya, the federal drug control service, the federal security service of the Russian Federation (FSB) and the border guard service, which is subordinated to the FSB, as well as the federal customs service and the state prosecutorial service participate in law enforcement. In order to comprehend the Russian law enforcement structure it is essential to realize how much their criminal investigation practices differ from Finnish legislation. Under Russian legislation, two types of investigation exist. In addition to the aforementioned organizations, rescue service authorities as well as official receivers can carry out small-scale crime and administrative offence investigations. Investigation procedures are laid down in the Russian penal code and the Russian Federation's Act on Operational Investigation. Compared to Finland, more authorities participate in investigation and the division of duties is somewhat different. The roles of the prosecutor (who, unlike in Finland, has his own crime investigation organization) and the FSB are very important from the perspective of combating crime. In addition to conducting intelligence, the FSB also participate in crime investigations.

Cross border crime investigation constitutes a problem. Mr Litvinenko's murder in London, followed by the freeze in Russian-British relations, serves as a good example of this. A great challenge in cross border crime cooperation is plugging information leaks throughout the interaction. On the one hand, the militsiya need to integrate with international cooperation but, on the other hand, high turnover among staff and manage-

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11 This section draws on Dr. Anna-Liisa Heusala's paper which was written for the Police College of Finland and the Border and Coast Guard Academy, 2004-2007. The conclusions presented here are not taken from Dr Heusala's paper.

ment as well as the strong emphasis on national sovereignty during Putin's second term make this difficult. It behoves Finland to try to establish permanent contacts among the relevant actors in our adjacent areas. Elements in this cooperation could include, among other things, increased awareness of our respective law enforcement systems and police cadet exchanges, thereby paving the way for better understanding in the future. Cooperation between the Finnish police and the Russian militsiya must be systematic, rather than dependent on the sporadic enthusiasm of individual liaison officers.

## Civil society

According to official statistics, there are approximately 360 000 registered non-governmental organizations (NGOs) in Russia. It is estimated that 80 % of these are active. By Western yardsticks the number of NGOs is fairly small, with only 2-4 % of citizens participating in civic activity. The GDP share of NGOs is estimated to be less than one per cent, which is about the same as in developing countries. Lacklustre participation is explained by saying that people are already engrossed in their own affairs and problems and that only few believe that they can make a difference through civic activity. Even though voter turnout in State Duma elections rose from 56 % (2003) to 68 % (2007), in general, Russian elections at all levels are characterized by low turnouts. Nevertheless, one can still claim that present-day Russia has a civil society, although different in nature compared to its Western counterpart. The civil society of today's Russia mainly focuses on social issues and projects. It can be well said that Russians accept the importance of NGOs that generate social welfare and services which augment the state. Conversely, NGOs critical of the state are often in dire straits. The state has a dual mindset as regards civil society organizations.

New, controversial NGO legislation was passed in April 2006. All NGOs were ordered to re-register within a period of one year. The new legislative package also required the NGOs to provide a more detailed explanation of their activities and financing. Furthermore, it made it more difficult for foreign NGOs to register in Russia. The new act is sufficiently vague so as to provide individual register authorities considerable leeway in making their own interpretations and decisions. Hence, in this fashion the act may make it more difficult for organizations non grata to become established in Russia and it may also pave the way for corruption. Whereas several human rights organizations have been extremely critical of the reform, many social services and health care organizations have not experienced the reforms as such as a threat. Rather, they feel that the new rules merely add to the red tape. This being the case, the purpose of the reform was not to do away with, for example, Finnish and EU-sponsored social services cooperation, as Finns had feared. Instead, joint projects are still welcome and necessary. Russia's civil society, on many levels, remains dependent on foreign assistance through which the activities of many Russian NGOs have been launched by furnishing them with the necessary wherewithal. Finland plays a special role in focusing on the crucially important grass

roots level contacts. Russia, too, is continually developing its own civil society funding mechanisms. Regions have various project-oriented funding programmes for which they organize competitive bidding between NGOs. In 2007 the state budget for NGOs was raised from approximately €15 million to €36 million. Furthermore, a promise was made to double the sum for 2008. The monies are disbursed through six President-certified umbrella organizations to various fields. The lion's share of the budget, like other funding programmes, is given to NGOs which focus on services for the have-nots as well as for promoting healthy lifestyles. In other words activities in fields which advance the prioritized national projects.

Russian civil society is also characterized by the fact that it is female domain.<sup>12</sup> This might be because Russian organizations often work with female-dominated administrative sectors (particularly social services). Contacts with more representative, political bodies are less frequent. In present-day Russia these are a largely male domain. Nevertheless, in order to secure civic activity, improve legislation and establish long-term policy programmes, it would be crucial to forge ties with the representative bodies. Another contributing factor is the Russian notion which regards the executive branch as stronger than the legislative branch.

The Public Chamber of the Russian Federation (*Obshestvennaya palata*) was established at the end of 2005 to promote civic activity. The task of the chamber is to coordinate the interests of citizens, NGOs and the authorities. There has been much talk of just how democratic the chamber really is. After all, the President nominates the first third of the 142 members who, in turn, nominate the second third of the members. The remaining third comprise representatives of Russia's societal umbrella organizations. Several organizations refused to participate in the chamber, claiming that it is only the government's ruse for showing that a civil society exists. At present, the chamber's members include representatives of regional and local parliaments, members of the press as well as former athletes and entertainers. The chamber has produced a list of banned literature in Russia: the list includes ten volumes considered to serve or support extremists. In 2007 the chamber concluded its first two-year term. In the autumn of 2007 President Putin nominated the members for the following term. According to polls, citizens do not make any distinction between the public chamber and government.

To recapitulate, one can say that Russian NGOs have an important role in producing welfare services as well as in many types of public education. When it comes to the present demographic crisis in Russia, NGOs could do even more in promoting healthy lifestyles (related to diet, smoking, alcohol use, and sexual health). From the perspective of a democratic civil society it would be very important to guarantee equal opportunities to all kinds of organizations, including those critical of the government.

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12 More on the issue in Salmenniemi, Suvi (2007): *Growing Flowers in the Frost: Civic Activity, Citizenship and Gender in Contemporary Russia*. Unpublished manuscript of a doctoral dissertation. Department of Sociology, University of Helsinki.



## The Internet and television – the prime sources of information in Russia

The development of an information society is of crucial importance to the modernization of Russia. While the government acknowledges this, it simultaneously tries to control the process, thereby slowing its progress. Russian growth centres are already well on the way to modernization but the hinterlands lag years, even decades, behind. The sheer size of the country inevitably results in slow progress. The Internet has become an important venue for free speech in Russia as well as a symbol of transformation. For example, many politicians regard their own web pages as important, helping to portray them as progressive and up-to-date politicians. Boris Nemtsov, a leading figure in the Russian political party Union of Right Forces, has been called the first “web-politician” in Russia. Even though the Internet is not yet a major political instrument, all parties use it, as did all candidates in the presidential election.

Members of the press use the Internet as a source. It is estimated that approximately 30 % of Internet users are journalists and representatives of advertising and financing circles. This paints a picture of information elite who can use the Internet as a reference and an instrument. Journalists, though, can spread the information found on the Internet to a wider audience. Some TV news reports are directly based on Internet sources.

Russia has squabbled a few times internationally over freedom of speech and, especially, the Internet. The Kavkaz Center web pages, run by Chechen insurgents, were maintained on a Finnish server for a while. Russia has tried to intervene in English or Russian language web pages which are sympathetic to the cause of the Chechen insurgents.

Libraries, as in Finland too, have been harnessed to support the development of the information society. Libraries in Moscow and St Petersburg have free Internet access. Many museums have also set up Internet cafes on their premises. Still, one must always remember that regional disparity is enormous. It is estimated that fewer than 20 % of Russians use the Internet.

Whereas the Internet is the most important source of uncontrolled information in Russia, television is the main, and for some the only, source of news about the country and the world. Newspapers have lost readership, particularly, among the middle class. There is no tradition of newspapers being delivered to mailboxes. Periodical sales, instead, have surged among the wealthy, young and well-educated. Readership is becoming more and more segmented and new publications have mushroomed in recent years. TV entertainment is becoming increasingly popular at the expense of talk shows, whose sinking ratings have been cited as a reason for this. The three main networks have maintained their status, but entertainment networks (STS, TNT) are growing in popularity. Even though the state-owned Rossiya channel, closest to the Kremlin and most traditional in news coverage, is not the favourite channel of Muscovites and the young, 50 % of them, too, tune on to it on a weekly basis. Ad-

vertising is steadily growing. Even so, it only amounts to \$40 per capita (approx. 10-15 % of the Finnish level). Foreign companies are the most important advertisers, concentrating almost solely on television. TV is the key advertising medium and robust growth is estimated. Citizens' trust in the media has increased during the past decade. TV is trusted slightly more than newspapers.<sup>13</sup>

## Demographics, health and health care

One of Russia's greatest problems at present is its diminishing population. Whereas in the beginning of the 1990s Russia's population almost reached 149 million, in the beginning of 2007 it had fallen to 142 million. Low birth rates and high mortality have resulted in an unprecedented peacetime depopulation of approximately 700 000 persons per year. However, the latest numbers show that the tide seems to have turned. In 2006, there were 138 000 fewer deaths in Russia compared to the previous year. Nonetheless, the most pessimistic estimates calculate Russia's population being below 130 million in 2025 and possibly falling below 100 million by 2050. Birth rates slightly increased in the beginning of 2007 (January-May) and the death rate somewhat decreased. Nevertheless, it is still expected that Russia's population will continue to diminish.

TABLE, The demographic development of Russia

Year	Born x1000	Died x1000	Natural increase / decrease (-) x1000	Infant mortality under 1 year /1000
1992	1587.6	1807.4	- 219.8	29.2
1995	1363.8	2203.8	- 840.0	24.8
2000	1266.8	2225.3	- 958.5	19.3
2001	1311.6	2254.9	- 943.3	19.1
2002	1397.0	2332.3	- 935.3	18.4
2003	1477.3	2365.8	- 888.5	18.1
2004	1502.5	2295.4	- 792.9	17.3
2005	1457.4	2303.9	- 846.5	16.1
2006	1476.3	2165.7	- 689.4	15.1
2007	1612.4	Estimate 2267.7	Estimate - 655.3	Estimate 11.06

13 Facts on the present state of Russian media are based on information from Dr Jukka Pietiläinen as well as on comments made by MA Katja Koikkalainen, and minor addenda.

Seventy-three per cent of citizens are urban dwellers and a little more than half (54 %) of them are women. Even already in the over-40 segment the proportion of women is remarkably large, growing to almost double in relation to men in the over-70 segment. Russian life expectancy is low<sup>14</sup>: For males it is 58.9 years (75.3 in Finland) and 72.4 years for females (81.9 in Finland). Mainly men die prematurely due to unhealthy lifestyles (smoking, heavy drinking, poor diet, accidents, violence) and related non-communicable chronic diseases such as cardiovascular disease, cancer, alcohol-induced illnesses and trauma, suicide and homicide. Because the abovementioned diseases are directly related to alcohol, heavy drinking can be regarded the root cause of Russia's demographic problems. Likewise, accident and violence statistics are also linked to this problem, only too familiar to Finns as well. Accidental deaths are the result of poor traffic safety and the prevalent traffic culture and attitudes. However, many accidents also occur at the workplace. Reasons for these can be found in occupational safety standards as well as – again – alcohol usage. Furthermore, the reports of the UN agency International Labour Organization show that Russian workplace accidents are poorly documented, sometimes omitting accidental deaths of illegal immigrants altogether.

Russian violent crime statistics are high even on a global scale. The victims of violent crime are mostly men (37.5 % women and 11 % children). However, from the perspective of interpersonal violence, 95 % of the victims are women. In short, men kill other men and women are killed by their male partners or relatives. Interpersonal and domestic violence is a big problem in Russia. While the authorities and citizens acknowledge and recognize the existence of the problem, it is normally shrugged off as a family affair, not the business of outsiders. This being the case, despite several attempts the required legislation has not been passed. Interpersonal violence is rarely prosecuted. In the worst case scenario the police get involved only when there is a dead body found.

HIV/AIDS is a serious problem in Russia. Whereas in the past it was considered the plague of fringe elements (such as users of intravenous drugs), it now seems to be spreading among the general public. Official statistics state that there are some 400 000 HIV-infected. However, the World Health Organization and the UN HIV/AIDS programme UNAIDS estimate the number to be closer to one million. Noteworthy for Finland is the fact that some of the areas in Russia where HIV is rampant are right across the border. Prostitution is commonplace in the very same areas and the association between prostitution and intravenous drug usage is strong. The problem is also related to a bigger phenomenon in Russia. The prevalence of venereal disease is caused by the commonness of unprotected sex. This, in turn, is caused by male attitudes (willingness for risk taking, the so-called "Russian Roulette") as well as ignorance about the way HIV and other venereal diseases are contracted. Schools do not normally provide sexual education, which is commonly opposed by families and the Orthodox Church. This facilitates

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14 More on the subject in the World Bank report: *Dying Too Young* (2005) as well as in the UNDP report *Russia in 2015: Development goals and policy priorities* (2005).

the spread of the disease among the general public. The prevailing attitudes towards the HIV/AIDS problem are a state of denial, prone to stigmatizing. The disease is still considered a problem afflicting marginal groups and, apart from appropriating relatively small sums, nobody wants to tackle it. Even senior health officials may state that HIV patients only get what they deserve.

Tuberculosis cases are tenfold compared to the rest of Europe (in 2006 80 cases/100 000 inhabitants in Russia, whereas the same figure in Finland is below 10/100 000). However, TB mainly affects risk groups, such as alcoholics, prisoners, malnourished elderly persons as well as children and AIDS patients. The positive news is that determined national and international cooperation has resulted in a downturn of TB cases. Yet, the bad news is that drug-resistant strands of tuberculosis are still common (over 10 %, 20-30 % in places). Fortunately, healthy and fit persons do not easily contract the disease.

The demographic crisis is normally linked to the premature deaths among men, which could be prevented by lifestyle changes. However, the poor health of women and children in comparison, for example, to the EU are often overlooked. When it comes to women, the relevant factors involve reproductive illnesses, the poor standard of health care and premature deaths. Deaths during pregnancy occur five times more often compared to the EU countries. They are also integrally linked to illegal abortions. Even the official abortion figures are high in global comparison. The good news is that infant mortality has decreased to the level of 11/1000 children under the age of one. The corresponding figure in Nordic countries is half of that. However, to put things into perspective, Russia's infant mortality is now at the level at which it was in the 1980s in Finland. At that time we considered it a fairly good achievement.

Russia has noticed and acknowledged the health problems of its population and the demographic crisis. One of the priority national projects<sup>15</sup>, through which the bounty of the economic growth is channelled to alleviate the worst problems, involves health issues. The health programme earmarks funds for the modernization of health care as well as higher wages for health care personnel. Plans are in place to build fifteen state-of-the-art hospital centres in the different regions of the Federation. Even though investments in health care infrastructure and higher wages are applauded, national health experts are still dubious about what their real effects on morbidity and mortality, caused by unhealthy living standards, will be. For example, cardiovascular disease mortality decreased and the life expectancy of Finnish men increased approximately by 10 years from 1970-2000, almost entirely as the result of changed diets and less smoking. Compared to this, better availability of coronary bypass operations, angioplasty and thrombolytic therapy had a marginal effect. The second best results were gained from improved treatment of hypertension, which Russia, too, could achieve due to in-

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15 In the beginning of 2007 Russia adopted four priority national projects: 1) health, 2) education, 3) housing and 4) agriculture.

creased health care funding. With regard to Finland, state-of-the-art technology and special health care could only have accomplished so much without a comprehensive basic health care structure. The same applies to Russia. While a hefty increase in health care personnel salaries is necessary, it alone will not improve the health of the population. After all, European wage levels, twice those in Russia, do not result in twice as high health status indicators.

In spite of investments in health care infrastructure it seems that most efforts are linked to increasing the birth rate by offering various financial incentives for child bearing. The national health programme proposes several significant benefits for families with children as well as funding for reproductive health care. The programme includes a €7 000 maternity bonus, introduced in 2007. As of 1 Jan 2007 this capital is allotted to mothers who give birth to their second or more children. Considering the average wage in Russia, €366 (in 2007), this is a significant sum. Even though it is not given in cash, it might be an incentive because the capital can be used towards education or a new apartment. The birth rate began to climb in 2007 and this trend is expected to continue. Although, it might be explained by the baby boomers of the 1980s who have now reached childbearing age. For now, Russia seems to believe that the demographic crisis can be tackled by inspiring women to have more babies. Still, nobody expects results overnight. The Russian birth rate is low (approximately 1.2 children per woman) and the abovementioned programmes and benefits may well have a temporary effect. Yet, it would be unrealistic to expect that the birth rate would surge so much that it alone would solve the demographic crisis. Birth rates are not rising elsewhere in Europe either. According to polls, Russians believe that rising birth rates would solve the problem. However, people want the birth rate of ethnic Russians to rise, not that of the continuously growing Muslim population.

During the administration of President Putin the Russian male lifestyle ideal has changed for the better. Particularly in larger cities there is the trend of glorifying healthier lifestyles. In the countryside it is totally different. As opportunities (education, hobbies) are fewer, teenage drinking is becoming more commonplace. Health education can only do so much to alter an individual's behaviour because information alone does not help. However, the positive effect of education may be the fact that people accept rising alcohol prices and restricted availability as attempts to improve the health of the entire nation instead of deliberate government harassment. Alcohol policy still bears the negative legacy of President Gorbachev's alcohol controls.

Compared to many other European countries it is more difficult to rejuvenate and intensify health care policies in Russia because of selective compliance with the law. For example, speed limits and seat belt laws are routinely broken. On-the-spot fines or, rather, giving bribes to the militsiya to avoid small fines, are a national tradition and a significant extra to the wages of low-paid authorities. Should the prices of alcohol and tobacco be raised, this would probably be circumvented by contraband tobacco and drink.

In order to maintain a successful health policy, there must also be a working health care system. Russia's health care structure is underfunded. The share of public health

care funding at present is a little below 3 % of the GDP. Taking into account private official and unofficial fees the GDP share is higher, estimated at 6.5-7 % (the EU average is over 8 %). Compulsory health insurance, tax revenue as well as official and unofficial patient fees presently fund public health care. The compulsory national health insurance system was created in 1991 (amended in 1993) and is divided into federal and regional health insurance funds. These funds amount to approximately 16 % of health care funding accumulated by, among other things, employers' statutory 3.6 % employee insurance premium. Regional authorities are required to pay insurance premiums for the non-working, children, unemployed and pensioners. In reality, however, the regions' share may only amount to a token (e.g. one rouble per child), thereby impacting the already underfunded health care system. In addition to insurance premiums, health care is funded from tax revenue, 5 % of which federal appropriations and 45 % regional funding. Patient fees cover the remaining 34 % of health care funding.

In theory, the system guarantees free health care for all, apart from certain fields such as dental care and ophthalmology. Unfortunately, it has to be noted that the system is often free in name only because regional and local governments do not have enough funds to provide all of the statutory services. Therefore, fees are collected even from services which, by law, should be provided gratis. The state is perfectly aware of this but, since it cannot guarantee sufficient funding to lower administrative levels, it does not interfere. According to various surveys most Russians have to pay for services which technically should be provided for free. In addition, it is commonplace to pay under the table: the patient pays the physician or nurse directly in return to treatment or services. Low wages uphold this tradition which is why the health care personnel need the extra income and why patients, too, accept the practice. This grey area is estimated to amount to 7-17 % of the entire health care costs.

Characteristic of the Russian health care system, harking back to Soviet days, is a surplus of services and a shortage of health: the number of hospital beds (9.2 for every 100 inhabitants) is the highest in Europe, double the EU average. Also the number of hospital visits is high in European comparisons. In Russia, 20 % of citizens visit hospital each year and their hospital stays are lengthy. There are plenty of doctors and other health care personnel. In spite of the high numbers, the quality of hospital care is generally low in comparison to Western standards. Although top expertise exists, it is limited to larger cities. Particularly premises, maintenance and equipment would require huge investments and remodelling. Unsurprisingly enough, only 14 % of Russians are satisfied with their health care services. Health care staff, too, is unhappy with the working conditions and wages. In Soviet times a newly graduated health care professional would be seconded to remote areas. Ever since the practice was abolished, it has been increasingly difficult to locate personnel willing to work in remote areas for low pay and insignificant perks.

The most pressing problems of the Russian health care system involve insufficient funds and the associated regional inequality. Even today, there is confusion over what actually constitutes public health care and who is responsible for what. The national

health care programme aims to improve the citizens' poor health and respond to the inadequacies in health care by earmarking funds for modernization, better efficiency and higher staff wages, among others. The new programme, adopted in 2007, also aims to improve the free maternity care services (pregnancy monitoring, deliveries and follow-ups). The health care programme taps into an external source, stabilization funds, which in turn are funded by energy export revenues. Compared to social services, the third sector and NGOs play small roles in Russian health care. Still, organizations try to fill in the gaps and supplement inadequate and substandard public services in areas like rehabilitation and prevention. The Russian health care system is still very much in flux.

The Kremlin's present economic investment in Russian health care is both proper and effectual. However, there is a long way to go until the quality gap between the West is bridged for people other than the elite. The investments are largely focused on state-of-the-art centres and specialized health care. This is an indication of the fact that the doctors who make the decisions on health care are of the elite themselves and, hence, comfortable with their style. The basic health care system, of much more importance for national health, is improving much more slowly.

In the coming years the diminishing of the population will increase. The main reason for it, now and in the future, is the fact that men die prematurely as a result of lifestyle-induced non-communicable diseases. The best way to tackle this problem would be to reassess the price and availability of alcohol and tobacco.

Increasing immigration by modifying immigration policy could be a positive development. Still, it is not known how serious a problem depopulation really will be for Russia. Demographic and societal outlooks may remain bleak for a long time but they may not necessarily affect the stability of Russia or rule out its strengthening as a nation. Social institutions will probably tackle these national health problems with increasing vigour but the changes and, especially, their effects will take time. Russia may remain internationally competitive and it may rebuild its military strength even if there are fewer people around, or even if Russia as a society is second-rate or weak. All things considered, Russia's institutional or societal development is not directly linked to the size of its population. According to estimates, in a couple of decades the "new Russia" will be a nation of 120-130 million inhabitants.

#### **Is immigration the panacea to Russia's demographic crisis?**

- 90 000 new immigrants
- 95 % of people relocating in Russia come from the area of the former Soviet Union
- Special focus on 25 million Russian expatriates
- At the same time, Russian immigration policy is strict

## Rules of society<sup>16</sup>

Russian society needs rules in order to function. Order in society disappeared after the collapse of the Soviet Union. Outsiders often experience Russia as mysterious, characterized by confusion and chaos. This makes Russia different and often even frightening. Rules of the game in Russia are usually opaque and incomprehensible. President Putin would often talk of the importance of order and stability in Russia. He would also emphasize the supremacy of law and, in many ways, tried to show how serious his government was about creating order, stability and transparency. During recent years several reforms of this kind have been made in Russia, including the associated legislation. Yet, in spite of the reforms, Russia does not appear to be any better organized than before.

There is no shortage of new legislation or launched reforms in Russia. Nevertheless, if they cannot be properly brought to completion, no laws or reforms can help. It is often the case in Russia that problems are caused by failed or impracticable legislation. New and stricter legislation is continually passed in order to close the loopholes. The crux of the matter may be that there are simply too many laws which contradict each other. For instance, federal, regional and local laws are often in conflict with each other and legislation is interpreted differently at various levels of administration and in different regions. This paves the way for corruption. In practice, it is impossible to act without breaking some statute or act and, therefore, everyone can potentially be sued for an offense. This, in turn, results in a situation where people are sued and punished at random, which makes the system look unfair and chaotic. More often than not, the elite remain above the law. Russians have traditionally had great misgivings about their institutions. This distrust goes back to Soviet times but the disappointing experiences in order and democracy of the 1990s do not help either. Public infrastructure is weak and unable to meet its responsibilities. Hence, unofficial institutions pop up and take over the responsibilities of the official ones. People have to create and maintain social networks and rely on personal contacts when the official system does not work. When the rules of the game are tacit, everyone is only looking out for their own interests, which does not facilitate the development of official structures.

In theory, Russia has understood the need to clarify anti-corruption legislation and lobbying practices. However, it is a challenge to fight corruption in a country where no person or institution is clean and uncorrupted. Unofficial and unwritten rules fill in the gaps and, thus support the establishment. It is also difficult to control and assess the viability of legislation. A number of typically Russian conventions

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16 A particularly interesting depiction of Russian "rules of the game" is to be found in Dr Alena Ledeneva's recent book *How Russia really works: the Informal Practices that Shaped Post-Soviet Politics and Business* (Cornell University Press, 2006).



throw cogs into the wheels of the rule of law, some of which originated in Soviet times, if not even earlier.

There are operators at all levels using unofficial conventions. This makes the ground rules in Russia opaque: the unwritten rules are the so-called rules for the rules, i.e. rules on how to interpret the rules of the game. Mastery of the unwritten rules enables a person to navigate the straits between the official and unofficial rules and the shoals of compliance or noncompliance with the law. In addition to the strong unwritten rules, the underdeveloped and inefficient Russian institutions have been explained by the lack of separation of powers<sup>17</sup>. For example, the executive and judicial branches still have strong ties to the legislative, political branch. This makes the operating environment unstable and difficult to comprehend. In order to develop stable institutions and a predictable operating environment for Russians and foreign actors in Russia, it would be of crucial importance to manage a transformation from the system of tacit conventions to a rules-based, transparent society. What is needed for this to happen is a change of attitude among the population towards official rules, ample political will and various strong interest groups that could freely strive towards this goal. These are not characteristic of Russia's civil society at present. It remains to be seen whether the hotchpotch of official and unwritten rules has already become permanently ingrained. All systems, naturally, use unwritten rules but as far as Russia is concerned, they are so utterly dominant that it may be impossible to understand Russia without understanding them. The challenge is how to make the operating environment of the civil society and institutions easier for ordinary Russians as well as less mysterious to outsiders.

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17 Cf. Dr Ilmari Larjavaara's doctoral dissertation *Functional transition theory: Administration, judicial system and institutions in Russia* (Kikimora Publications, 2007).

### 3. Domestic policy

Opinions vary with regard to the domestic situation and developments in Russia. As an example, there is an ongoing debate on whether Russia is a “normal” state and whether it is a democracy. Russia is often depicted as a contradiction. Different opinions reflect their apologists’ differing views on how successful Russia has become when it transformed from a planned economy to a market economy or from a communist dictatorship towards democracy. Russia’s growing self-esteem, increasingly stronger statements regarding a desire to carve its own path, stricter economic controls and weak democratic institutions make the questions on Russia’s stability and its challenges particularly relevant.

It is challenging to assess Russian domestic policy. Russia has all of the external elements required for the development and existence of a democratic society: the State Duma, a Constitution and political parties. However, Russia still applies these democratic instruments in a manner which precludes the designator “democracy”. Then again, Russia is not an authoritarian state either. This chapter presents various opinions on Russian domestic policy and aims to forecast Russia’s future development.

#### Is Russia a “normal” state?

In 2003 Andrei Schleifer, a Russian-American economist, and politologist Daniel Treisman gained attention claiming that Russia was a “normal” state. They were critical of Western assessments, according to which Russia’s transformation had failed. Schleifer and Treisman argued that the fundamental question is to what should Russia be compared. They said that Russia should not be compared to the G7 countries. Instead, parallels should be drawn between countries with comparable per capita incomes. Using the Schleifer-Treisman method, Russia was a middle-income nation in the 2006 World Bank statistics. Coming in at a comparable level with South Africa and Malaysia, Russia lagged behind Argentina. Then again, Russia placed higher than Thailand and Brazil. However, Portugal, the poorest of the old EU states, was far ahead of Russia.

Schleifer and Treisman argued that most of the countries at the same level as Russia experienced similar problems: corruption, inequality, central control, instability in the microeconomy, poor civil liberties and a government-controlled media. Hence, they did not find anything out of the ordinary regarding the situation in Russia. According to them, in spite of its failings, Russia was a typical middle-income, capitalist democracy. They underlined the relatively short time in which Russia managed to shake off communist ideology and the planned economy. Schleifer and Treisman also rejected the survey criteria used by political rights organizations, such as Freedom House, as unreliable. For example, in Freedom House’s 2002 survey Russia’s political freedoms were rated worse than those in Saudi Arabia and the freedom of the press trailed even Iran.

Comparisons with the correct control groups, as argued by Schleifer and Treisman, resemble Russia's own claims. Noteworthy in their study is also the emphasis on how difficult it really is to make accurate forecasts in the middle-income nations group due to the fact that diverging developments are always possible. According to the Schleifer-Treisman indicators, the present state of Russia points towards development. Economic growth is healthy, exemplified by a continuous 6 % growth per annum since 2003. While the economic growth has primarily served the elite, it has also trickled down to the other demographic segments. The number of families living below the poverty line has decreased by half from 30 % (1999 estimate) to approximately 14 %. However, Russia's economy is still extremely raw material dependent and skewed economic structures reduce its efficiency. Still, the economy is not built on the energy and metal industries alone. Small and medium-sized enterprises (SME) are also springing up.

Another discernible development is the tightening control of the Kremlin with regard to the economy and even society in general. The privatization of "strategic" companies has ground to a halt. The media and, particularly, the electronic media is under tight control. According to the World Bank's latest Worldwide Governance Indicators update, Russia has a declining trend in five categories (Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality and Control of Corruption). In addition, progress has stalled in the sixth category (The Rule of Law). In all, the Russian government has adopted a very negative and defensive attitude to almost all foreign assessments on progress in Russia. An exception to this rule was an estimate published by the Council of Europe in 2005 to which Russia's reaction was constructive.

## The Putin era

The role of President Vladimir Putin as a stabilizing and modernizing force in Russia has been characterized in many ways. He has been considered a democrat among conservatives, a methodical planner, a reactive bureaucrat or someone who prefers to proceed cautiously. Putin has not been regarded as a particularly dynamic person. Instead, he has been a cautious reformer.

Simultaneously, Putin was a power politician. Throughout his administration and his term as Prime Minister prior to his presidency, he concentrated power into Moscow, launched the second war in Chechnya, brought the State Duma under control, put an end to the regions' desire for more independence and put the politically active oligarchs in their place. The clearest example of defeating the oligarchs was the case involving the oil magnate Mikhail Khodorkovsky. However, as regards actual reforms, Putin's government proceeded slowly and was characterized by compromises in an attempt to reach stability. His term was a balancing act between two different political groupings: the security service-background securocrats and the business-oriented technocrats. A third, liberal policy remained on the backburner during the Putin administration.

As Putin began his presidency, it looked like he had deliberately chosen a long-term strategic policy. He began preparing for his term by consulting businessmen and experts in his inner circle. It was only natural that experts from St Petersburg who backed and championed his nomination would be planning the future reforms. These experts on economy and politics were tasked to plot the course for the new Russia. Modernization was to bridge the gap with the West.

At the same time new president put more trust in security service officers, interior ministry apparatchiks or ex-military confidants to carry out the reforms. Due to his own personal background he was familiar with them. It seems that political progress in Russia of late is proceeding by means of the tension existing between these two camps.

The friction between the camps in Putin's inner circle, i.e. the liberal experts and governance professionals vs. power policy proponents, was clearly perceptible in government policy. While experts stressed the importance of reforms, people with a security service background highlighted the significance of stability. Putin was always in a position to choose the venue he preferred. Considering President Gorbachev's Perestroika programme, this was by no means a new situation in Russian politics. The tension between the extrovert, liberal policy and the introvert and conservative line has been one of the greatest obstacles on the road to Russian reforms.

The most important economic planning tool for Putin has been the Russian Institute of Strategic Research (RISI) which he established in 1999. RISI's recommendations are used as economic guidelines for the Russian Federation. Its first task was to create a framework document for solving the long-term problems in the Russian economy and social sector. As tasked, the Institute produced the "Strategy of socio-economic development for the period till 2010". From the outset, the importance of the task was lost on no-one and all of the Institute's resources were harnessed for the production of the White Paper. The issue was debated in various fora from December 1999 to March 2000, with hundreds of experts participating. In April 2000, the editing process began under the leadership of O. Vyugin, E. Gavrilencov, A. Dvorkovich, M. Dimitriyev, S. Sinelnikov-Murylev and A. Ulyukayev, M. Krasnov and the Director of the Institute E. Nabiullina, among others. The leading authority, ultimately responsible for the White Paper, was German Gref, Putin's former Minister of Economic Development and Trade whom he knew from his St Petersburg times. The document comprises three parts: governance reform, problems related to economic modernization and social policy. The document was never officially adopted because the thinking at the time was that it would be later amended. President Putin gave a clear signal that he trusted professionals rather than ideologues in economic matters and long-term problem definitions.<sup>18</sup>

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18 Also other economists have been appointed in Putin's New Russia think tank, such as Yevgeni Yasin and Vladimir Mau, Lev Okunkov and Andrei Ilarionov, who resigned in 2006 in protest to the state-controlled trend. Sakwa 2004, 47.

The White Paper was rivalled by another expert opinion. The Council for Foreign and Defense Policy, led by Sergey Karaganov<sup>19</sup>, issued a report on the problems afflicting Russia. These included the failed reforms of 1992, the weak state, the growing chasm between the state and society, regional and local problems as well as Russia's waning international prominence. Each of these was associated with the lack of an elite which could drive the transformation through. The report stated that Russia was doomed, unless its ruling class finds the strength to lead society towards reforms. For this reason Russia needed to steadfastly keep its eyes trained on the horizon instead of looking to the past in search of some abstract "idea of Russia".

The report stressed that Russia's greatest challenges were its fight against corruption and the fog of governance past. As laws fall silent, former Stalinist mechanisms emerge in the grey zone while the state loses control. This is why Russia was still unable to manage sustainable economic development, could not rationally husband its own resources, was impotent in its foreign policy and, hence, incapable of convincing its citizens of the fact that democracy was there to stay.

However, the Council for Foreign and Defense Policy did not dare propose radical changes to the Constitution or to the President-centred manner of governance. When political stability is the guiding star of a government, bold reforms are typically buried or put on ice. An example of this is the absence of a genuine land reform in Russia.<sup>20</sup>

The sluggishness of the reforms was not only due to political prudence. In order to launch the reforms governance also had to be changed and responsibilities had to be reassigned. The road from policy paper to practical policies is a long one. It now looks like the Kasyanov government was not resolute enough in carrying out the reforms. It was not until 2006 that Mikhail Fradkov's government was able to reform governance by intensifying intersectoral cooperation among ministries and by clarifying the division of duties. The goal of reforming the structures and departments in the Russian government was to increase efficiency and to combat corruption.

For this very purpose a troika of Deputy Prime Ministers (Dmitry Medvedev, Sergei Ivanov, Alexander Zhukov), known as "super ministers" in the Russian Cabinet, was harnessed under the Prime Minister. In this setup the Prime Minister was responsible for leading the Cabinet, coordinating the roles of the Deputy Prime Ministers, controlling

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19 Unlike Gref, Karaganov was a foreign policy insider during Soviet times. He was one of the founders of the foreign and security policy council (1991) and a member in the Presidential Council (since 1992).

20 In October 2001 the upper chamber of the Federal Assembly passed the bill making it illegal to sell uncultivated land in Russia. The bill also passed the Duma. The new law did not apply to buying or selling arable land. In 2002 it was amended when the Duma was presented a bill on the right to sell arable land. For the first time since the 1917 Revolution it was now allowable to sell arable land. Previously only the state or cooperatives had such a right and it was not legal to sell cultivated land. The bill met resistance, however: Communists criticized the bill, fearing that foreigners would buy up land. Ultimately, the bill was amended by making it illegal for foreigners to buy arable land. The bill only allowed foreigners to rent land close to borders for up to 49 years. Thus, land reform was not fully achieved.

the budget and, above all, controlling "strategic" resources, such as energy. At the same time Fradkov led various state commissions and councils.

The most important assistant to the Prime Minister was First Deputy Prime Minister Medvedev who led the nucleus of the government's strategic thinking, the "Council for Implementation of the Priority National Projects". Four themes were designated as priority national projects: public health, housing, agriculture and education. These focus areas, specified by experts working for Russia's government, were assigned national priority as well as stabilization funds accrued from oil money. Many interpreted this as a signal of the importance of the projects because up until then oil revenue had mostly been left untouched. Medvedev was also tasked to control the Russian media as well as the judicial system and the state prosecutorial service of the Russian Federation. This enormous responsibility was further increased by tasking him to control businessmen as well as the state environmental policy.

The other members of the troika are influential in their respective fields. Sergey Ivanov has responsibility over the entire defence industry, the nuclear weapons industry and counter-terrorism. Alexander Zhukov augments these fields by controlling Russia's investment policy, tariffs and transport. He was also assigned the "soft areas", such as sports and culture. In addition to these, he heads extremely important areas such as WTO policy, some parts of EU relations and legislation reform.

In this fashion the vital government functions of a great power were assigned to three different persons. As reporter Tatyana Natreba stated, these are the three circles of Russian "bureaucratic hell"<sup>21</sup>. Increasing the responsibilities of the "super deputy prime ministers" seems to be the means by which Putin sought to tighten government supervision and control.

The Russian government's goals are ambitious regarding its priority national projects. Deputy Prime Minister Medvedev invited leaders of regions and ministries to Moscow and scolded them for their sluggishness. The reason for the rebuke was that regional leaders and civil servants in federal ministries had not been very cooperative. This, however, was before he was nominated as a candidate in the 2008 presidential election. Since then, national projects have only received favourable press and Putin expressly thanked Medvedev for his good work in the projects. The intention is for Russian reforms and national projects to increase societal stability.

There is also much talk in Russia about halting its "ideological collapse". As Vladislav Surkov, President Putin's Deputy Chief of Staff, said in his speech to the United Russia party in 2006, there are also mechanisms akin to the Orange revolution in Ukraine that are aiming to ideologically destroy Russia and that the remedy would be the "establishment of a nationally oriented ruling class". This is, however, not state ideology, as was the case with the Soviet Union, because the Russian Constitution does not allow for an official state ideology. Rather, it means that Russia should be led by the firm hand of the

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21 Argumenti i fakty (13/1326, March 2006).

central government. The United Russia party was also founded and strengthened on this premiss. The party nurtures a ruling elite who, within the boundaries of the democratic constitution, support the policy of the President.

One big threat to Russia's transformation is the fact that the administrative reforms launched by Putin continually increase the number of civil servants making the practical management of matters more difficult.

## The securocrats and Russia's political system

During President Putin's two terms the securocrats, people with security service backgrounds, strengthened their position in Russian politics. When Putin appointed his new government he, above all, trusted security service and military personnel. People gave them the moniker *siloviki* which is derived from the words *silovye struktury* (power structures, armed forces, intelligence services and law enforcement). So many people with intelligence or military backgrounds have been appointed to key positions in the economy, politics and administration that some researchers have begun to talk about a securocracy, militocracy or protected dictatorship (*ohrannaja diktatura*).<sup>22</sup> Russian sociologist Olga Kryshtanovskaya's study shows that twenty-five per cent of the top bureaucrats in present-day Russia are *siloviki*. Taking into account all those who are connected to the security organizations, their number rises to one third. Kryshtanovskaya claims that the *siloviki* are ideologically homogenous.

Even though many views prevail on the significance of the background of the *siloviki*, everyone agrees that the *siloviki* are a very, if not the most, influential group in Russian politics. The political elite in Russia can be roughly divided into three groups: *siloviki*, technocrats and liberals. While the *siloviki* are the most quarrelsome group, they share the following four views:<sup>23</sup>

1. The state must be centrally controlled with strong and well-funded defence and security structures. Law, order and stability take priority over democracy or an active and free civil society.
2. The state must have an important role in strategic areas of the economy.
3. Natural resources belong to the people and the state must retain complete ownership of them.
4. The United States and NATO are a threat to Russia. Russia can only be great and respected if it has a strong military.

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22 There are opposing opinions and there is no consensus in the academic community as to the significance of the *siloviki*. Particular opposition is directed at Kryshtanovskaya's assessment of their homogenous ideology Cf. Bettina Renz, *Putin's Militocracy? An alternative interpretation of siloviki in contemporary Russian Politics*, *Europe-Asia Studies*, vol.58, No.6, September 2006, pp.903-924, Sharon and David Riviera, *The Russian Elite under Putin: Militocratic or Bourgeois?*, *Post-Soviet Affairs* 22(2), 2006, pp.125-144, Renz and Thornton (authors), *Siloviki in Politics - Russian Military Reform*, *Russian analytical digest*, 17/07, <http://www.isn.ethz.ch/pubs/ph/details.cfm?lng=en&id=29428> and Ian Bremmer&Samuel Charap, *The Siloviki in Putin's Russia: Who they are and what they want*, *Washington Quarterly*, Winter 2006-2007.

23 Ian Bremmer&Samuel Charap, *The Siloviki in Putin's Russia: Who they are and what they want*, *Washington Quarterly*, Winter 2006-2007.

President Putin built Russia around his siloviki elite during his presidency, making the long-term plans by experts largely insignificant. He and his inner circle had no intention of liberalising the Russian economy to a greater fashion or to share their spoils with outsiders. They decided to maintain total control of Russia's natural resources. The energy sector and defence industry were placed under special scrutiny. Foreigners were not to even get the shares agreed to in previous business contracts and if the contracts seemed to be in conflict with national interests, they would be reviewed.<sup>24</sup>

Putin's inner circle comprised of First Deputy Chiefs of Presidential Administration Igor Sechin and Viktor Ivanov, Director of the FSB Nikolay Patruchev and the former Defence Minister Sergey Ivanov. However, Sergey Ivanov has since distanced himself from the siloviki proper. Like Putin, they all come from St Petersburg. While Putin and his inner circle held control of the FSB, they also gained a strong toehold in key industries. Igor Sechin is the chairman of the board of directors of JSC Rosneft, the largest oil company in Russia. Viktor Ivanov is the chairman of the board of directors of Aeroflot and the Almaz-Antey air defence concern. Sergey Ivanov is a leading figure in defence and aviation industries. Due to lucrative exports, Russia's defence industry is thriving. The siloviki also control the economy, infrastructure and natural resources at lower tiers. Several bureaucrats with an FSB background hold key positions. Sergey Ivanov's son is the deputy CEO of Gazprom and Gazprombank. President Putin's press secretary Aleksey Gromov is a member of the board of Russia's main TV network. Vladimir Yakunin is the head of Russian Railways. Putin's close friend Sergey Chemezov is the Director General of Rosoboronexport, the state arms exporter. Members of President Putin's inner circle have manned the country's key positions in politics and the economy.

Once he became president, Putin adopted government reform, the consolidation of his political position and neutralization of alternative political forces as his main undertakings. During his term the Kremlin turned on the oligarchs who were influential during President Yeltsin's time in office. The most politically active oligarchs, Boris Berezovsky and Vladimir Gusinsky, went into exile to avoid litigation. Mikhail Khodorkovsky, one of the wealthiest men in Russia, was sentenced to jail for tax fraud. The resources of his Yukos Oil Company were mainly transferred to Rosneft, controlled by the FSB. The anti-oligarch campaign continued into 2007. In August of that year Mikhail Gutseriyev was forced to relinquish his ownership of the robustly expanding Rosneft oil company and hand it over to the Kremlin.

Putin's government did not only confront the oligarchs, it also clipped the wings of regional governors, curtailed the freedom of the press, guaranteed 2/3 parliamentary support to the president by gerrymandering the election law and limited the possibilities of opposition parties and civic organizations. Putin's securocracy had no intention of creating an independent, politically active Russian middle class. Rather, they wanted to keep it in their tight grip. The economic and political dependency of the Russian people is beneficial for

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24 Novaya Gazeta, No 95 (1217) 14–17.12.2006. Yuliya Latinina: Kak my vhidim v Evropu.



the securocracy and is also a logical continuum to the legacy of the Soviet political culture. The securocracy spread prosperity around only enough to keep the people satisfied. They have succeeded in this because of the healthy economic growth.

The administration also vies for legitimacy by conjuring up images of external and internal threats with the securocracy protecting the people and guaranteeing stability. On the ideological side the securocrats mainly evoke nationalist sentiments through anti-Westernism as well as by maintaining the myths of Pyotr Stolypin and "the Great Patriotic War".<sup>25</sup> Domestic policy mobilization follows Soviet threat scenarios. Anti-Americanism and anti-Westernism as well as general xenophobia have returned to Russia's political agenda. Any opposition independent of the Kremlin is considered a conspiracy led by the U.S. or other malevolent forces.<sup>26</sup>

With regard to domestic policy, the siloviki's strategy is based on the premiss that the ruling elite must dominate the maximum number of political parties and their leaders. The plus side of indirect control is that no single party holds all political capital. Rather than running one dominant party the ruling elite establish their own, fictitious, parties and play them against each other. The party system imitates Western models; however, all major decisions are taken behind the scenes. The main purpose of a party is not to gain the trust or support of the people, but that of the Kremlin. Hence, the Kremlin must craft an appealing policy. One should, however, not disregard the significance of public opinion because popular support of the government is one of the still remaining democratic elements in Russia. When a political party is seeking the trust of the Kremlin, it aims to gain government backing and financial contributions from the business world. Voting, per se, is more a sign of political obedience than a genuine desire to make a difference. Therefore, voting has become ostensible and controlled.

The execution of political decisions occurs through centrally controlled processes, run by former security services. Presidential decrees or acts are not the only vehicles of executive power. Rather, the most persistent opponents can always be subdued by means of precision strikes carried out by the courts or tax officials. The downside of such an effective executive structure is the lack of doctrines, which has in turn resulted in a *Götterdämmerung*, i.e. Twilight of the Gods, type governance. In practice even high officials do not always know what the Kremlin wants or what its strategy is and, hence, they are unable to act in difficult situations without guidance from the top. The result is the *Götterdämmerung* risk factor in Russia whereby the activity of lower echelons is based on a desire to please the top leadership. This makes the authorities' actions unpredictable.

Fear of rapid political change is a strong trait in Russian domestic policy. During President Putin's terms in office, desire for stability characterized by a yen for continuity, became the centrepiece of domestic policy. The securocrat elite do not want a repeat of the Orange Revolution and they fear peaceful popular uprisings like those in Ukraine or Geor-

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25 Stalin's rehabilitation, too, seems to proceed slowly.

26 Georgi Bovt: Convenient Anti-Americanism. St Petersburg Times. 3 October 2006.

gia. The role of legislation is to provide the framework within which the state can combat threats, both internal and external. The end result is what Viktor Timchenko refers to as *democratura* - a hybrid of democracy and dictatorship. In a *democratura* the authorities try to prevent civic activity and aim to control the citizens' political activity.<sup>27</sup>

## Management by fear

The most important task of the Putin nomenklatura is to remain in control, which is impossible without a firm grip, threat scenarios and new legislation. The creation of control was begun by establishing new administrative sectors and renewed FSB activity. Threat scenarios rely on a Soviet legacy, the so-called *ressentiment* philosophy, which has been used throughout history by Russian rulers. It has often been an indication of weakening governance or slowly proceeding or failed reforms. *Ressentiment* is a philosophy which blames outsiders for stalled governance reforms or broken promises.

In addition to the bureaucratic and legal instruments used to quash the troublesome oligarchs the Kremlin, or its hangaround entities, have also resorted to new threat scenarios. These scenarios are often associated with the second war in Chechnya or the war against terrorism. A suicide car bomber assassinated Zelimkhan Yandarbiyev, the President of Chechnya from 1996-1997, in Qatar in 2004. Chechnya's President Aslan Mashadov, elected by referendum, was killed in March 2005 and the radical Chechen rebel leader Shamil Basayev lost his life in July 2006. In addition, several journalists and politicians critical of the regime in Russia have been assassinated. Especially are investigative journalists in a high-risk group. Almost all assassination cases in Russia since 1992 are put in the same category as news stories on Chechnya's central or local government corruption, human rights issues or financial crimes.

Especially have people who have been critical of the Chechen War, one way or the other, faced problems or been assassinated. In 1998, four months after Putin became the head of the FSB, Galina Starovoitova, the internationally known democrat and opposition leader in the Duma was murdered in St Petersburg. The prevailing opinion is that those convicted of the murder were not the real culprits. Starovoitova was a vocal critic of the first war in Chechnya. The assassins of the journalists killed in 2000 (Igor Domnikov, Sergey Novikov, Iskandar Hatlon, Sergey Ivanov and Adam Tepsurgayev) were never caught. Most of the murdered journalists wrote about Chechnya or questioned the operations of the security services. In 2002, the popular General Lebed was killed in an air crash and Sergey Yushenkov, Russian liberal and democrat, was shot dead near his front door in 2003. Both men came from a military background but were extremely critical of the way

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27 Timchenko 2003, 241. It is also good to bear in mind that the municipal structure and municipalities, revived during the Putin era, have been allowed democratic elections and their own budgeting.

Putin's government prosecuted the Chechen War. Yushenkov had participated in the so-called Kovalev commission which investigated the assertion that Putin was responsible for the apartment bombings in Moscow which triggered the second Chechen War. The rest of the members of the commission lost their lives or faced problems. Other assassinated people include the renowned anti-racist Professor Nikolay Girenko, killed in 2004 and Paul Hlebnikov, murdered in July 2004. Hlebnikov had investigated the misappropriation of funds earmarked for reconstruction in Chechnya. Banker Andrey Kozlov, killed in the autumn of 2006, had also looked into the same affair. The murder of reporter Anna Politkovskaya in October 2006 received the most international attention. The media presented many theories for her assassination. Anna Politkovskaya is especially remembered for keeping the Chechnya question in the public debate. After her assassination Novaya Gazeta, the newspaper for which she worked, said that she had been working on a story about Ramzan Kadryov, President of Chechnya. Her assassin or assassins have not been caught. Alexander Litvinenko, a former FSB officer who had emigrated to Britain, was murdered in November 2006 in London where he lived. He had a close relationship with the Russian businessman Boris Berezovsky, who is in open opposition with Russia's present power elite. There is some speculation on Litvinenko's murder as regards how much he really knew about the early phases of the second war in Chechnya. Some Russian researchers point to a possible power struggle inside the Kremlin. Yosef Diskin, a Russian researcher, maintains that the 2006 murders of Litvinenko, Politkovskaya and Andrey Kozlov, deputy chief of the Russian central bank, are interlinked. Diskin claims that the series of assassinations were controlled by "some group" which wanted to steer the policy of President Putin and force him to "consider his successor or force him to accept a third term".

The Chechen Wars have greatly shaped Russian domestic policy. States fighting designated (Chechen insurgents) and undesignated (terrorism) enemies can rarely implement genuine democratic reforms at the same time. Democratic progress and the creation of a form of government, primarily, require an absence of war. Russia's democratic progress sputtered to a halt in 1994, at the latest, which was when the first Chechen War began.

The key question concerning the Putin securocracy and, simultaneously, stability in Russia is whether the FSB has the requisites to act as a replacement to the abolished Communist Party of the Soviet Union (CPSU) in the long term. President Putin has tried to intensify the grip of the government by ordering various administrative reshuffles. These, however, have not increased the transparency of governance because new administrative structures have been created inside the existing ones. This, in turn, has not increased cohesion among different interest groups. As Russia readopts some of the *modi operandi* of the Soviet Union, the question remains which entity will take the place of the CPSU? After all, the CPSU controlled a chaotic state bureaucracy, the centrifugal forces of which rapidly took over as the CPSU declined and, eventually, perished. In Putin's Russia political parties such as United Russia, the party of the Kremlin, have no real authority or viable party apparatus.

The basic problem is that the FSB would very much like to remain in power, which in turn sustains resentment and hampers the execution of reforms. Hence, unlike in the

Soviet Union, the credibility of the system suffers in times of crisis. It is difficult for the FSB to mobilize any additional resources for its governance if its credibility is in question. Complex structures are needed to bear responsibility and they tend to become more independent when the administration is weakened even a little. President Putin's government had no faction which would have gladly or selflessly served the securocracy, should it run into problems.

Analysis of Russia's administration may differ from what it was in the halcyon days of Kremlinology. However, in order to comprehend the labyrinths of Russian domestic policy, one must connect the dots between different groupings and grasp the imperative significance of old loyalties. Even though Medvedev, elected President in 2008, does not have a security service background, he is still a member of the "St Petersburg family". He shares some of the values of the siloviki, technocrats and liberals. Even though the administration could possibly break into different interest groups, an external challenge from the margins of politics keeps the groups together. The Other Russia movement, Communists and the radical right have challenged the ruling coalition. The greatest threat to the stability and continuity philosophy of the Putin government securocrats is that their already shaky esprit de corps and solidarity continue to weaken or even disappear. In order to create stability in Russia, one of the president's main tasks is to unify the differing views among the power elite.

## The opposition

The Western media had the tendency of overestimating the grip of the Putin government on the entire country. The style and visibility of the securocracy only strengthened this image. No real power vertical was ever created. Even though old autonomous and opposition structures have weakened, and even some joined the grand coalition acknowledging Putin's personal authority, they still exist.

When it comes to the instability outlook of Russia's present system, the key question is how the opposition is faring today. It did not do well at all in the 2003 and 2007 State Duma elections. The fact that the opposition is split is a big problem for it. In particular the discord among the liberal right has prevented them from gaining seats in the Duma. Hence, they have lost a lot of influence.

Also the Communist Party in the opposition has clearly weakened and lost support. After having done well in the 1995 election, many parties and, especially, the Kremlin-created parties adopted communist style patriotic rhetoric into their platforms, which is still extremely popular in Russia. Still, Communist Party leader Gennady Zhuganov, repeatedly labelled as a lame duck, showed in the 2007 State Duma election that the Communist Party of the Russian Federation is still alive and kicking. The Communist Party, the second biggest party in Russia and a genuine opposition force, has been ready to cooperate with all who oppose the central government. The party's problem is the ageing of its supporters.

Liberal parties on the right have lost support, primarily as the result of improved living standards brought about by robust economic growth. Rising wages and increasing consumerism even in the present political environment have watered down the rationale of liberal parties and taken the shine off the market economy and Westernization. Their remaining supporters comprise 10-20 % of the population. They include those who either did or would benefit from a liberal market economy without strong government control. This is a relatively wealthy and politically active group, as well as increasingly critical of Putin after he steered the course towards stricter regulation of the economy and stronger Kremlin control. The best organized parties on the right are Yabloko, the "Apple" coalition, and the Union of Right Forces (SPS). Yabloko is very popular among the intelligentsia. The liberal financial elite are sympathetic to the SPS. Neither party fared well in the 2007 State Duma election.

The Great Russians are a motley group. However, some of them are extremely, even fanatically, active in politics. The spontaneously emerging national-patriotic movements have been very critical of Putin. A big reason for this is that the militsiya often rough them up, knowing perfectly well that violations of their rights are rarely noted in the Western media. The patriotic parties regard Putin as Gorbachev II, leading Russia towards the final abyss. Nevertheless, during the past two years they have become less hostile towards President Putin after he adopted a more conservative policy and became markedly more critical of the United States. Even so, Putin is seen as a provisional figure who may succeed in thwarting the worst threats but who is ultimately incapable of creating positive change.

The representatives of regions and ethnic minorities are outside politics but still influential in civil society opposition. They have suffered greatly from the apathy of their public sponsors as Putin's government has tightened the reins of regional control. Characteristic of civil society opposition is that it goes into hibernation in bad times, only to arise in more favourable times. Nevertheless, since the regional system as such is more or less the same and no great regional amalgamations have taken place, these forces still have their old funding sources and support networks. As regards domestic policy, civil society is unpredictable because it can rapidly retreat and reappear.

All active elements in these non-governmental organizations come into focus through the prism of the Other Russia coalition. For good reason, Putin's government considers it the driving force behind a potential Orange Revolution. The coalition consists of very different political factions, the most important and active being the United Civil Front, led by former chess champion Garry Kasparov and the National Bolshevik Party, led by Eduard Limonov, author. The interesting thing with the Other Russia coalition is that it represents two extremes: Western style liberalism and nearly Fascist National Bolshevism. Judging by the number of party activists held in prison, with or without conviction, the Putin camp seems to mostly worry about the National Bolsheviks. The trademark of the coalition is brutal and manifests civil disobedience. The two extremes increasingly resemble each other, their common denominator being a resolute and indefatigable fighting spirit. In Russia, suffering from political fatigue and helplessness, both of the extremes have gained significant support from spheres outside the core of their supporters.

The Other Russia coalition is led from St Petersburg and operates mainly in cities. If the police do not cordon them off with a massive presence, the coalition manages remarkable turnouts by Russian standards in demonstrations, in which they normally oppose unscrupulous and commercial city planning. For this very reason the coalition cannot promote financial liberalism and, in order to rally the troops, all of its leaders must talk of Russia as being a great power (*velikaya deržava*). A well-known author said that the Other Russia coalition can be a strong adversary to the prevailing system. The condition for this is that they continue to receive serious funding and that their zeal is not quashed before they really get going. Many also question the existence of the coalition in Russian politics in the aftermath of State Duma and presidential elections. In the long run the open question is how well Kasparov and Limonov, both ambitious and furnished with large egos, can cooperate. Since even the liberal parties could not unite their strength, there are strong doubts whether a coalition comprised of two very different factions can sing the same tune in the long run. One of the leading figures, Garry Kasparov, received plenty of press coverage in the Western media during 2007. It remains to be seen whether Kasparov, full time politician for only a couple of years, is experienced enough to accept a visible public role as the opposition leader in Russian civil society.

Russian expatriates form an opposition group but they alone cannot radically impact developments within Russia. They, however, have given Putin's government the pretext for resentment. One of the external threats which the present government must combat is foreign financing. One of the most vocal expatriate critics of the Putin administration is Boris Berezovsky, operating in London. In the summer of 2007 he went so far as to adopt a revolutionary role. In Russia, Berezovsky's statements only reinforced resentment, already cultivated by the Putin government.

Russia's controlled democracy also contains a controlled opposition. Vladimir Zhirinovskiy's Liberal Democratic Party of Russia has a unique role among Putin's cohorts. Zhirinovskiy and Putin have agreed on a well-functioning pact. Because the Liberal Democrats are fairly large, tightly controlled and well-organized, they are in fact indispensable supporters to Putin. As such, they continually push him in the direction of state ownership of natural resources, anti-Americanism and strict central control. However, Zhirinovskiy is not under the thumb of Putin and the continuance of their pact in all situations is by no means guaranteed. Another interesting and significant political party in the controlled opposition is Fair Russia, amalgamated from an electoral coalition between Rodina (Motherland), the Russian Pensioners' Party and the Russian Party of Life. The roots of Fair Russia are in the conservative-patriotic Rodina which made it into the Duma in 2003. However, the party soon became independent and began a metamorphosis from pseudo-opposition into a genuine opposition force. The Putinists only managed to block this by manoeuvres which demonstrated that Russia has a long way to go towards an open and free party system. The leader of Rodina was Dmitry Rogozin, the "precision-guided weapon" of Russian foreign policy. President Putin used Rogozin when Russia locked horns with the Council of Europe on the referendum on Chechnya's constitution and when Russia argued with the EU regarding the status of Kaliningrad. The Kremlin found Rogozin too unpredictable as a party leader, yet useful in the Foreign Service. In 2008 he was appointed the Head of the Mission of the Russian Federation to NATO. Rodina's successor, Fair Russia, was successful in the 2007 State Duma elections, becoming the fourth biggest party. Fair Russia might well be the party that challenges United Russia in the future, provided that the extreme factions in the party are kept under control.

Parties in State Duma	Leading figures	Share of votes in State Duma elections (%), Seats, Membership	Ideologies
1. Agrarian Party of Russia www.agroparty.ru	Vladimir Plotnikov (chair) Nina Brusnikova Vasilii Shandybin	2, 3 % - no seats  164 089	Russian countryside and agriculture. Russia's potential still untapped. National security as foreign policy guide.
2. Grazhdanskaya Sila (Citizens' Force) www.gr-sila.ru	Alexander Ryavkin (chair) Mikhail Barshsevskii Viktor Pohmelnik	1, 05 % - no seats  55 000	Young members. Future. Russia as part of the globalizing world. Time of decision in Russia, European democracy and liberal economic policy.
3. Democratic Party of Russia www.democrats.ru	Andrey Bogdanov(chair) Vjatseslav Smirnov, Oleg Gimazov	0,13 % - no seats  71 903	EU fans. Russia is a European country. Twelve steps to unification. Exemption from the visa requirement.
4. Communist Party of the Russian Federation www.kprf.ru	Zhores Alfiorov Nikolai Kharitonov, Gennady Zyuganov (chair) 1993	11,57 % - 57 seats  164 546	Russia in crisis, especially, industry and agriculture. NATO is the enemy. Great power ideology, patriotism.
5. Union of Right Forces www.sps.ru	Nikita Belykh (party leader) Boris Nemtsov (former deputy prime minister) Marietta Chudakova	0,96 % - no seats  57 410	"Freedom", "Humanity". Russian modernization, Europe, based on Russian liberalism.
6. Russian Social Justice Party www.pp-pss.ru	Alexey Podberezkin (chair) Maksim Leskov Valerii Borotnikov (ex member of the Duma)	0,22 % - no seats  50 789	Putin hangarounds regard themselves as a supporting party.
7. Liberal Democratic Party of Russia www.ldpr.ru	Vladimir Zhirinovskiy (chair) Andrei Lugovoi, Alexander Lebedev	8,14 % - 40 seats  146 235	Solidarity, united eastern and European state (historical borders/geopolitics) national interests, threat of foreign dependence.
8. Fair Russia (Rodina, Pensioners, Life) www.spravedlivo.ru	Sergei Mironov, Svetlana Goryacheva, Sergei Shargunov	7,74 % - 38 seats  309 005	Strong grip on societal ills, strict immigration policy, nationalistic.
9. Patriots of Russia www-patriot-rus.ru	Gennadi Semigin (chair), entinen Rodina Gennadii Seleznev	0, 89 % - no seats  81 414	Strong Russia and global superpower, national identity, no clear future strategy, pro-CIS, anti-hegemonistic in global politics.
10. United Russia www.edinros.ru	Vladimir Putin, Boris Gryzlov (chair)	64, 30 % - 315 seats  1 256 578	Sovereign democracy. Putin way. Russia is unique. Russian unity. Party aims to offer something to everyone. Russia is a great power. NATO is not a threat per se but its enlargement is a threat. Opposition to the USA.
11. Yabloko www.yabloko.ru	Grigory Yavlinsky (chair) Sergei Kovalev. Sergei Ivanenko	1, 59 % - no seats  60 778	First liberal party in Russia. Quarrels with other "liberal" parties. European democracy.

## Moscow versus regions

An important domestic policy issue is the challenge regions pose for Moscow. Even though the regions are dependent on the Kremlin and are within its political rein, they are invaluable as regards raw material production. Regions vary greatly in terms of wealth and the relative importance bestowed on them by Moscow determines their relationship with the Kremlin as well as their ability to make their own decisions. After the collapse of the Soviet Union, as the new Russia was being invented, a federalist system was appealing to the Kremlin because it was utterly incapable of solving regional problems at the time. In theory, it would help with the running of the country if regions were autonomous and responsible for their own development. The theoretical model, however, does not suit the local bosses or the ruling elite. The problems of regions, especially those far away from Moscow, are big and no administrative level has the answers. Fearing failure, local governments do not want to assume responsibility for development. Culprits can always hide in the thicket of bureaucracy. Central government blames the middlemen and local governments complain about insufficient funds and inadequate powers. Thus, the system is mutually beneficial. Even by this measure Russia is not a democracy because well-functioning, independent local government is a hallmark of a democratic state.

In the 1990s President Yeltsin was forced to hand over power to the regions. After all, they had given him the sword with which he slew the Soviet Union and defeated Gorbachev in the power struggle. Nevertheless, very soon the central government began to lose control. The first Chechen War was perhaps the best indication of this. However, the signing of Federal Treaties with Tatarstan and, subsequently, with 45 other regions from 1994-1998 explains how tenable the relationship between Moscow and the regions was in the mid-1990s. Local leaders constituted a significant force of dissonance in Yeltsin's Russia, of which he was well aware when he took office. No later than 1998 Putin put an end to signing any more Federal Treaties. His famous statement of the "dictatorship of law"<sup>28</sup> in 2000 referred to the interrelationship between Moscow and the regions. Apart from the ones signed with Tatarstan and Chechnya, Federal Treaties were altogether abolished during the Putin period.

Due to the complex relationship between the Kremlin and the regions, one of the first reforms of the Putin administration was to create seven federal districts, super regions, which were placed between the central government and the regions, thus diminishing their power. The next big change took place in 2003. This involved legal reform on local government, now subordinated to the central government. Professor Vladimir Gelman at the European University at St Petersburg says that the reform has resulted in the stateification of local government. Local government is now "public political power controlled by Moscow, which must solve local problems within a uniform system togeth-

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28 Putin used this phrase as soon as he entered office, promising to stabilize Russia after the Yeltsin years. Later the phrase has been linked to Putin administration's pressure on the oligarchs.



er with the executive branch".<sup>29</sup> The next conspicuous reform was carried out in 2004 by abolishing the direct gubernatorial elections of 89 regions. A number of smaller changes were also made in the wake of the biggest reforms. They, too, aimed to curtail the autonomy that the regions gained in the 1990s. It is noteworthy that one of Putin's grand designs, regional amalgamation, has largely failed. After the enabling bill was passed in 2001, only one regional amalgamation was accomplished. This demonstrates how difficult it really is for the Kremlin to control the regions or force their hand.

Another spanner in the works between Moscow and the regions is the fact that regionally operating companies are international business entities. Examples include Severstal, which processes aluminium and nickel, Russian oil production in Khanty-Mansi as well as the defence industry giants. The problems of Russia's energy industry are also directly associated with this. Gazprom, the leading energy conglomerate, has signed deals with the neighbouring countries which has forced it to limit gas deliveries within the domestic market. Then again, this has compelled Gazprom to intensify energy exploration. Thus far there has been no great success, partly due to the amateurishness of Gazprom's present management. Nevertheless, the significance of cooperation with the regions has risen.

In its own way the possible opening up of Russia's closed cities will become a domestic policy challenge. There are still approximately 40-50 closed cities which are under the administration of the Ministry of Defence and about ten cities administered by the Federal Atomic Energy Agency. These cities are the legacy of the Soviet Union, completely passé in the 21st Century. Some branches of industry are guarded elsewhere in the world, too, for security or sensitivity concerns. However, in Russia these installations still comprise entire towns. Several generations have inhabited them and opening them up will be quite a challenge, especially, to the social sector because of rising unemployment and the possibility of increasing crime.<sup>30</sup>

## The North Caucasus

The most problematic internal instability factor involves separatism in the North Caucasus where Muslims are in the majority. In his book *Russia's Islamic Threat* Gordon M. Hahn does not augur well for Russia. Rebellion, increasingly inspired by Jihadism, is not only limited to Chechnya. It is mushrooming in five other Muslim republics in the North Caucasus: Ingushetia, Dagestan, Kabardino-Balkaria, Karachay-Cherkessia and Adygea. Rebellion gets the wind beneath its wings from the internal radicalization of the Muslim community in the Russian North Caucasus, largely the result of Russia's own action in the region and

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29 October 1, 2007, *Getting Engaged* By Marina Yakutova, Special to Russia Profile.

30 October 1, 2007, *Life Inside the Fence* By Maxim Sergeyev, Special to Russia Profile.

the wars in Chechnya. The area is the poorest region in Russia. Infrastructure is underdeveloped and one of the worst afflictions is rampant unemployment.

Russia pronounced that the Chechen War has ended and declared victory in the North Caucasus. This is as plausible as President George W. Bush's "Mission Accomplished" proclamation in 2003 with regard to victory in Iraq. Even if the intensity of separatist rebellion has somewhat subsided, it is probably only a temporary lull while the insurgents prepare for the next phase. Russia's strategy has been to "Chechenize" the conflict by first supporting the puppet President Akhmad Kadyrov and then by backing the friendly towards Moscow private militia of Ramzan Kadyrov. Unlike his father, Ramzan Kadyrov has no legitimacy among the population. He is a very controversial person and, even if he pays lip service to the Kremlin's policies, practice does not fully comply with the line desired by Moscow. Kadyrov often portrays himself as a strong Islamist. For example, he has decreed that all female civil servants must wear headdresses. This is in derogation of the Constitution of Russia, which provides for separation of church and state as well as gender equality. Furthermore, the headdress directive is an example of the fact that Russia's ally is more Islamist than any of his independence-minded predecessors.

Led by Doku Umarov<sup>31</sup>, the First Emir of the present-day Caucasus Emirate, the separatists have escalated the conflict by supporting separatist factions in neighbouring republics. The common denominators of these republics include Moscow-friendly leaders suffering from a lack of legitimacy, poverty and long-term dissatisfaction with the prevailing conditions.

As regards separatism, the North Caucasus will probably remain a sore point for Moscow. Rapid deterioration of the situation is entirely possible, even probable. In order to prevent the "Balkanization" of the North Caucasus, Russia does not want to increase autonomy in the region. Correspondingly, it has no means by which to bolster the legitimacy of its allies.

For the Russian ruling elite, instability in the North Caucasus and associated terrorism in Russia serve as painful reminders of failed Kremlin policies in the area. This failure, however, is not a great burden for them. Voices critical of the war do not get their message heard and, hence, cannot benefit from Moscow's mistakes. Simultaneously, the scars of the Chechen Wars and the volatility of the region are fertile ground for securocracy to grow in and flourish. Ever since the Moscow apartment bombings in 1999 public opinion in Russia has either been passive or backed the Kremlin in its strict policies vis-à-vis conflicts in the North Caucasus. Until the conflict in Chechnya receives a sensible solution, domestic reforms and genuine democratic development will not take off.

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31 Elected President of Chechnya in June 2006. Changed his title in October 2007.

## Islam in Russia

Islam and Muslims in Russia pose a serious challenge to Russia's internal stability and domestic policy. After the collapse of the Soviet Union the self-esteem and sense of identity of Russia's 20 million Muslims have been bolstered. In 1991 there were approximately 300 mosques in Russia; the present number approaches 8 000. Half of the new mosques have been built with foreign financing, mainly from Turkey, Iran and Saudi Arabia. In 1991 there were no Islamic schools in the Russian Federation. Now there are approximately 60 madrassas, attended by some 50 000 students. Percentagewise, the largest Muslim populations are in the Volga-Ural region, Bashkortan, Tatarstan, the North Caucasus and the Karelian Republic. In the Karelian Republic there are some 20 000 Muslims (3 % of the population).<sup>32</sup>

Another striking statistic is related to the growth of Russia's Muslim population. Russia is about to face big demographic challenges. Russia's population is diminishing by approximately 400 000 persons per year; yet, the population in 15 Russian regions increased in 2005. Each of them, such as Chechnya, Dagestan and Ingushetia in the North Caucasus has sizeable Muslim populations. The life expectancy among Muslim males is far greater than that of ethnic Russians.<sup>33</sup> Paul Goble, an expert of Islam and the Muslim population in Russia, estimates that the majority of Russian military recruits will be Muslims in 2015. In 2020 twenty per cent of the citizens will be Muslims, provided that the current demographic trends continue. If no changes occur, within three decades the majority of the citizens of the Russian Federation will be Muslims. Russian Muslims are a very heterogeneous group, ranging from Volga Tatars and multiethnic groupings in the North Caucasus to the new immigrants from the former Soviet republics in Central Asia. Yet, they share one common denominator: their birth rates exceed that of the Slavic population.<sup>34</sup> Looking at the statistics it becomes perfectly clear that Russian Muslims are going to play an important role in the future. This will not affect domestic policy only, but will also have an effect on foreign policy. Although Russia is an observer at the Congress of Islamic Organisation, its Iran policy also reflects Russia's internal differences of opinion. On the one hand Russia seeks cooperation and shared interests but, on the other hand, it is wary of the Islamic world and sees itself, first and foremost, as a European state.

The status of Islam and Muslims has greatly suffered because of the Chechen Wars. Most Russians equate Islam with terrorism, which is also an impression partially sustained by the government-controlled media. The growing xenophobia among ethnic Russians may result in local tensions with the Muslim population. The position of Muslims in predominantly ethnic Russian areas is not enviable. Especially the Caucasians, re-

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32 Mart Helme: Islam Venemaal, Maaailma vaade 4/2008.

33 In 2005, 68 in Dagestan, 58 in Russia.

34 San Francisco Chronicle, Russia has a Muslim dilemma Ethnic Russians hostile to Muslims. Followers of Islam say they have been citizens a long time, by Michael Mainville, Chronicle Foreign Service, Sunday, November 9, 2006.

ardless of their religious affiliation, face discrimination and persecution. Demographic changes and higher birth rates in Muslim areas instil fear in Russia, causing people to believe that Russia is gradually becoming an Islamic country. This has resulted in problems with obtaining building permits for mosques as well as in racist aggression. The most worrisome feature is the increasing violence towards the Muslim population. Vandalism against mosques has increased throughout this decade. In 2006, an Imam was shot dead at his doorstep in the city of Kyslovodsk. Among other things, the increasing role of Islam in society was thought to be a motive for the murder. These types of ethnic tensions also caused the Kondopoga riots in the Karelian Republic in 2006.

In spite of all this, Russia's Muslim community is convinced that Muslims and Islam are part of the Russian identity and that they have a place in Russia. After all, as early as 922 Russia had its first Muslim nation, the Volga Bulgars. Umar Idrisov, head of the Muslim Religious Directorate in the Nizhniy Novgorod region, was asked whether a future President of the Russian Federation could be Muslim. He replied, "I may not live long enough to witness the wonderful miracle but I hope that, sooner or later, it will happen. Russia emerged from two civilizations - the Turkish and the Slavic, Islamic and Christian. The first state religion in the area of Russia was Islam, so why couldn't Russia have a Muslim president?"

## The "generation of great changes" and the middle class

One of the key results of Russia's robust economic growth is the emergence of a middle class, the members of which are able to consume more than they require for their basic needs. Most Russians were able to gain ownership of their Soviet apartments for a token. Utilities and health care (theoretically free) are inexpensive, taxes are low and thus far people do not invest in insurance. Therefore, it is possible to rise to the middle class with a relatively modest income. However, the problem is that people do not accumulate savings, which makes the population vulnerable to economic swings and price increases.

It is hard to find an unequivocal answer to the question "who belongs to the middle class?" According to the Ministry of Finance one out of every five households has a monthly income of \$600-700, owns at least one apartment and a summer cottage and can afford a holiday abroad. At the same time, since 2001 the percentage of the population living below the poverty threshold has fallen from 30 % to 14 %. In 2006, the institute of sociology of the Russian Academy of Sciences conducted a survey, funded by the German Friedrich Ebert foundation. At that time, 72 % of the respondents considered themselves middle class, whereas in 2003 the corresponding figure was 57 %.

People get renewed faith in the future once they join the ranks of the middle class. The Russian *Itogi* magazine, together with the German ARD TV network, conducted a survey in which the opinions of the "generation of great changes" were polled. The focus group involved people in the 25-34-year age bracket, i.e. those having grown up in the Soviet Union but who entered the workforce after the system changed. A remark-

ably large segment of them, 39 %, believed that their quality of life would improve during 2007, 40 % were confident that they would manage to have a good career and 69 % said that they had fully adapted to the new system. One fifth of them felt that they had taken advantage of the new opportunities to achieve something greater in life. A little less than one third said that they had taken control of their life and accepted the new state of affairs. Nevertheless, 25 % of the respondents were still struggling with the new times and ten per cent were pining for the bygone days. The question "What is the most important thing in life?" received a uniform answer: 97 % replied that the most important thing was to provide for the material well-being of their family.

The lion's share, 83 %, of the respondents in the generation of change replied that they thought highly of President Putin's achievements. Still, it is noteworthy that 58 % were either not all interested or only somewhat interested in politics. In the Friedrich Ebert foundation survey 53 % of the respondents replied that they lacked any deep political conviction. In light of the research, this generation and the new middle class appear to be politically apathetic and primarily interested in improving their own living standards.

According to the Youth of New Russia survey, conducted by the Institute of Sociology of the Russian Academy of Sciences, only 1-2 % of young Russians are politically active, with 14 % expressing some interest in politics. One half of the young respondents had a completely indifferent attitude towards politics.

Even if the great majority of Russian youth and the generation of change seem apolitical and primarily interested in their own well-being, the political youth cadre, mobilized with the Kremlin's money, must be noted. The "fighting vanguard", in line with Lenin's doctrine, has primarily been organized under the Nashi youth organization, led by Vasily Yakemenko. The ambition of the organization is to educate new political and financial elite, while supporting the Kremlin as counter-revolutionaries and young trailblazers of the new system. The organization is extremely popular in the European side of Russia and the growing number of supporters is explained by the fact that membership brings several benefits, such as apprenticeships in government institutions and state bureaus. The Nashi are in close contact with the Kremlin through Vladislav Surkov, the main ideologue of the Kremlin and the organization itself. The following text is characteristic of Nashi ideology, distributed at the Tvery summer camp in 2007: "The new generation of leaders shall launch a revolution in people's attitudes and the ways of governing. In the future, they will rely on patriotism, historical optimism, social responsibility and professional skills". The Nashi ideology, however, is not limited to politics only. It is more comprehensive. They espouse reactionary social conservatism and their publications, especially *Nashe vremya* (Our Time), advocate conservative family values and the role of woman as the guardian of the home, defended by a conscientious Nashist. Alcohol use is frowned upon; punctuality and total commitment are encouraged. Russia's past is sugar-coated and the uniqueness of Russian society and culture are emphasized. The Nashi ideology finds common ground with the Russian Orthodox Church. The greatest driving forces, however, are the glorification of militarism and the cult of the Great Patriotic War. At the same time the Nashi conveniently sidestep Stalin's victims

because their world view and notion of history exclude any evil originating in Russia. The Nashi, like other youth movements close to the Kremlin such as the Young Guard, the youth wing of United Russia, typically project threats against Russia as coming from abroad. Mirroring the fears of the Kremlin, the youth movements close to the government were apprehensive about the recent elections. For example, the Nashi feared that foreign entities could use the elections to destabilize the country. The youth movements close to the administration regard the defence of Russian sovereignty, democracy and Putin's policies as their missions. According to Vasily Yakemenko, the Nashi are a "tremendous instrument for stability".

For its domestic policy the Kremlin has used and will use the Nashi youth organization and other youth movements close to it, in pressure and smear campaigns against its political enemies, domestic or foreign. Any genuine opposition independent of the Kremlin is considered dangerous, foreign-led and foreign-financed. In a defamation campaign the Other Russia party was accused of Fascism and opposition politicians were called Western prostitutes and agents. This paints a clear picture of the worldview of the Kremlin youth.

## Summary

Up until now Russia's development has been inconsistent and the present domestic policy challenges are substantial. Taking these into account three different scenarios for the near future can be conceived: the Argentina-Chile scenario, Business as usual or the National dictatorship scenario.

In the end of the 1980s and the beginning of the 90s the Argentine military had to gradually include civilians in the country's administration and, finally, relinquish control altogether. The same happened in Chile. The military had to step aside because, at the end of the day, its structure did not allow it to become a new form of government. Foreign pressure, combined with structural reasons, made civilian administration ultimately victorious. This was made possible by free elections in which the people expressed their desire for the military rule to end. In the 1988 election 55 % of Chilean voters called for an end to the Pinochet regime. Voter turnout was 97 % and Patricio Aylwin, a Christian Democrat, was elected and the conservatives were defeated. According to this scenario, Russian voters would abandon the securocracy and Russia would again build trust with the West and reduce military tension at its borders, as was the case in the 1990s.

In the Business as usual scenario the securocracy continues to rule and dominate the domestic debate. Foreign and domestic policies remain interrelated, making it possible to drum up foreign policy crises or sudden special effects to draw attention away from Russia's internal problems. Sovereignty is the mainstay of governing. When it comes to the Baltic countries or other neighbours, Russia attempts to weaken their Western-oriented governments, by testing the waters to find out how the West or the United States react to vio-

lations of the status of Georgia or Estonia. In this scenario the Putin securocracy tries to manipulate elections (free but not fair), establishes its own quasi-parties and controls the present parties. Russia builds up its military and prepares to project its military power by demonstrations of force or, in the worst cases, by limited military action (economic sanctions, provoking minorities to revolt against their governments, providing military support to them, terrorism, disturbances, special forces' action, and a strategic strike).

In the third, National dictatorship, scenario the securocracy creates strong alliances with national extremists. Simultaneously, the securocracy shares its power or accepts some ideology or faction as part of its power structures. This kind of situation could emerge during a crisis, such as if the price of oil suddenly tumbled. Then, Russia could accentuate its position to the West by a show of force. In a climate of military hype this alternative would be sold as "preemptive action" or "active peacekeeping".

## 4. Economy and transport

### Introduction

Russia's economic and transport policies are key factors as far as future development is concerned. However, Russia's status as a great power has never been based on economic variables. Since Peter the Great Russian leaders have been set on modernizing the country. The leitmotif of modernization has been the desire to bridge the wealth gap between Europe and, later, the West. Turns in economic cycles have been caused by wars or complete changes in the system, with downswings following upswings. The Crimean War in the 1850s revealed Russia's weakness after which Russia began to particularly focus on its economic policy. In the 1890s economic growth paralleled that of today. The business boom ended with the October Revolution in 1917, leaving Russia in a shambles and its economy at rock bottom. Vigorous industrialization in the 1920s and 1930s created the image of a successful socialist society, spurring talk about socialist consumer frenzy. The worker could feast on champagne and chocolate. After World War II the challenge of the planned economy was how to convert economic growth into productivity. Khrushchev invested heavily in decentralizing the economy and in new technology. During Brezhnev's time the leadership pondered how factories should be run and awarded financial incentives so as to improve efficiency. It was not until the time of Gorbachev when changes in economic structures were sought. The goal was to introduce market economy indicators in assessing the state of the economy.<sup>35</sup> However, the collapse of the Soviet Union posed new challenges to Russia and recovery policies were seen as a way to turn the economy around. In spite of this, growth was sluggish prior to the economic crisis of 1988, which separated the wheat from the chaff and paved the way for a healthier economy.

A Russian folk song goes: "the road is long and bumpy but business can always be done". Along with the economy, transport strategy and transport infrastructure are very important for Russia's development. Throughout time this has been a big problem in Russia. Long distances, rough terrain and an inclement climate as well as relatively few inland waterways have left their mark on Russia's economy and its foreign policy. Russia has enormous natural resources but they are in the back of beyond. The main emphasis in Russia's early transport strategies in the 1800s was on state security. One of the most important reforms implemented after the Crimean War involved the railway network. In 1862 Mikhail Reutern, Russia's Minister of Finance, said, "without railways or the metal industry Russia could not even imagine defending her borders". Railways had primarily security policy significance until Rus-

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35 Jeremy Smith, *The Fall of Soviet Communism*, Palgrave 2005, p.39.



sia was again humiliated by losing the Japan War (1904-05). After that war Minister of Finance Sergey Witte considered that railways should principally be regarded as a financial investment. He said, "I have worked for 40 years with the railways and I have now come to the conclusion that strategic thinking with regard to railways is foolishness. The state would benefit much more if we built railways on economic grounds. I cannot even imagine how much money we have wasted during the past three decades by building railways on the premise that war would be fought in the west, when in the end, we began fighting in the east." Transport infrastructure is still a great challenge and, barring sufficient investments, also a hindrance to economic growth. This chapter analyses the present state of the economy and the challenges of transport infrastructure.

## Russia's Janus-faced economy

Economic growth has been vigorous, continuing already for nine years with no end in sight. The reason behind such growth is the modest level from which the economy started growing after the rouble was devalued in 1998, at which time raw materials prices began to increase. Also figuring in are the dynamics of bridging the gap with developed countries. Competitiveness is estimated as being poor. Lately growth has been spurred on by consumer demand and an increase in real investments. Nonetheless, Russia is still extremely vulnerable to the fluctuations of world market prices of raw materials, especially oil and natural gas.

Economic growth continues to depend on the fluctuations of world market prices of oil and natural gas, even though consumer demand and real investments are also important. A temporary dip in the price of oil or some other change in external and internal factors alone will not send the economy into a tailspin.

Despite the respective differences in their economies, Russia faces challenges similar to Finland and other highly developed European economies. Populations are ageing, the share of the working age population is diminishing and industrial production is either going or has already gone to countries where the cost of production is lower. These factors force governments to seek growth through innovation and education.

The role of the state in the economy spawns uncertainty. It looks like the present trend in Russian economic policy is that of tighter state control. Russia is clearly migrating towards a state-run economy. President Putin's candidacy in the 2007 State Duma election and the fact that he became Prime Minister signifies the consolidation of the present-day political system for the coming years. The central government's bigger role in various areas of society can hardly solve the inefficiency of the economy, nor will it eliminate corruption and bureaucracy. According to present economic and foreign policy thinking, Russian companies must operate within the boundaries of the nation's strategic interests and serve them.

It is of key importance how well the present surplus in the economy can be utilized by investing it correctly in areas which are relevant to Russia's competitiveness. Investing in both infrastructure and in human capital is of vital importance.

**Agriculture, industry and services. Percentage of the GDP**

	1990	2005
Agriculture	16,6 %	5,6 %
Industry	48,4 %	38,1 %
Services	35,0 %	56,4 %

Source: World Bank.

A central goal of Russia's economic policy is to reduce dependency on raw materials and to diversify industrial production by raising the degree of processing. This requires investments in high technology outside of the defence sector as well. At present, Russia's export structure is extremely unbalanced and vulnerable to economic fluctuations.

The European Union is still Russia's main trading partner. In 2005 the combined share of the EU countries amounted to 52 % of its trade, followed by Ukraine with 10 % and China with a 7 % share. At present, Russia's share of world trade is approximately 2 %.

Economic indicators												
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	period
GDP, %-change	-5.3	6.4	10.0	5.1	4.7	7.3	7.2	6.4	7.4	8.1		
Industrial production, %-change	-5.2	11.0	11.9	2.9	3.1	8.9	7.3	4.0	3.9	6.3	4.8	1/08
Fixed investments, %-change	-12.0	5.3	17.4	10.0	2.8	12.5	11.7	10.7	13.5	21.1	19.0	1/08
Export, \$ bn	74.4	75.6	105.0	101.9	107.3	135.9	183.2	243.6	304.5	355.2		
Import, \$ bn	58.0	39.5	44.9	53.8	61.0	76.1	97.4	125.3	163.9	223.1		
Trade balance, \$ bn	0.2	24.6	46.8	33.9	29.1	35.4	59.5	84.4	96.1	54.5		1-9/07
Unemployment, % (end of period)	13.2	12.4	9.9	8.7	9.0	8.7	7.6	7.7	6.9	6.1	5.8	1/08
Population, million												
Beginning of year	147.8	147.5	146.9	146.3	145.6	145.0	144.2	143.5	142.8	142.2	142.0	

- 1) New statistics criteria adopted on 1.1.2005; years 2001-04 corrected accordingly.  
 Figures are not comparable with previous years.

Sources: Rosstat, Central Bank of Russia.

Public economy indicators of the Federal government (% of GDP unless otherwise indicated; debt at the end of the year)												
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	period
Revenue <sup>1)</sup>	11.4	12.6	15.4	17.8	20.3	19.5	20.1	23.7	23.4	23.6 <sup>e)</sup>		
Appropriations <sup>1)</sup>	17.4	16.8	14.6	14.8	19.0	17.8	15.8	16.3	16.0	18.1 <sup>e)</sup>		
Balance	-6.0	-4.2	0.8	3.0	1.4	1.7	4.4	7.5	7.4	5.4 <sup>e)</sup>		
Foreign debt		66.8	44.5	33.3	27.7	22.4	16.1	9.2	4.4	3.1		9/07
Foreign debt, \$ bn		130.8	115.5	102.0	95.7	96.9	95.7	70.1	43.2	38.1		9/07
Stabilization fund, \$ bn							18.9	43.0	89.1	156.8	157.4	1/08

1) Since 2002 a part of the social tax has been included in the federal budget.

e) Advance information.

Sources: Budget: IMF 1998-2000, Rosstat 2001-2005, Ministry of Finance 2006.

Debt: Central Bank of Russia

Stabilization fund: MinFin.

Source: BOFIT Russia statistics, <http://www.bof.fi/bofit/seuranta/venajatilastot/>

Monetary indicators												
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	period
Inflation (CPI), 12-mo, %1	84.4	36.5	20.2	18.6	15.1	12.0	11.7	10.9	9.0	11.9	12.6	1/08
M2, 12-mo growth, %1	21.3	57.5	61.5	39.7	32.4	50.5	35.8	36.8	48.8	47.5		
Medium wage, \$ 2	108	62	79	111	142	180	237	301	408	550	615	1/08
Interest on deposits, % 1	17.1	13.7	6.5	4.9	5.0	4.5	3.8	4.0	4.0	5.2		
Lainakorko, % 1	41.8	39.7	24.4	17.9	15.7	13.0	11.4	10.7	10.5	10.8		
Foreign currency reserves, \$ bn (incl. gold)	12.2	12.5	27.9	36.6	47.8	76.9	124.5	168.4	303.0	476.4	483.2	1/08
RUB/USD Exchange rate 1	20.65	27.00	28.16	30.14	31.78	29.45	27.75	28.78	26.33	24.55	24.48	1/08
RUB/EUR Exchange rate 1		27.23	26.14	26.49	33.11	36.82	37.81	33.94	34.70	35.93	36.17	1/08

1) End of period

2) Average of period

Sources: Rosstat, Central Bank of Russia.

Source: BOFIT Russia statistics, <http://www.bof.fi/bofit/seuranta/venajatilastot/>

The Russian economy is extremely bipolar because positive development is counterbalanced by many problems which seem ingrained or will even worsen in the future. The following table lists the plus sides and the downsides of the economy.

<b>VOLUME AND GROWTH</b>	
<ul style="list-style-type: none"> <li>+ Rapid growth continues</li> <li>+ Measured by GDP, Russia is the 11th largest economy in the world</li> <li>+ By 2020, Russia is estimated as being among the six largest economies</li> </ul>	<ul style="list-style-type: none"> <li>- Relatively low wages and an uneven distribution of income</li> <li>- Extraordinary regional differentiation</li> <li>- The state of agriculture is poor</li> <li>- Growth is largely based on rising raw material prices</li> <li>- The energy sector is responsible for 1/3 of production</li> </ul>
<b>ECONOMIC POLICY</b>	
<ul style="list-style-type: none"> <li>+ Well-managed financial and monetary policies have created stability</li> <li>+ Russia is paying off its debts and liquidity is very good</li> <li>+ The stabilization fund, valued at over \$140 bn at present, helps coping with sudden oil price fluctuations</li> </ul>	<ul style="list-style-type: none"> <li>- The rising role of the state in the business sector is resulting in excesses and protectionism</li> <li>- Campaign-thinking has returned to economic policy</li> <li>- Public sector expenses will continue to grow in the future years</li> </ul>
<b>ENERGY</b>	
<ul style="list-style-type: none"> <li>+ Russia's role in the world energy market is continuing to grow and Russia has enormous energy sources</li> </ul>	<ul style="list-style-type: none"> <li>- Domestic energy consumption is rapidly on the rise</li> <li>- Present investments are inadequate for an increase in energy production</li> <li>- Additional investments in the electric grid and pipelines are necessary for securing energy exports</li> <li>- Blackouts in winter are commonplace</li> </ul>
<b>FOREIGN TRADE</b>	
<ul style="list-style-type: none"> <li>+ Foreign trade, especially import, is rapidly growing</li> <li>+ In 2005 the combined share of the EU countries in Russia's foreign trade amounted to 52 %</li> </ul>	<ul style="list-style-type: none"> <li>- Russia has not been able to produce new export items</li> <li>- Export is unbalanced and vulnerable to big economic fluctuations</li> <li>- The export share of natural gas and oil was 63 % in 2006</li> <li>- Imports grow three times as fast as exports and if the price of oil sinks rapidly trade surplus will be soon spent</li> </ul>

<b>HUMAN CAPITAL</b>	
<ul style="list-style-type: none"> <li>+ Basic education is relatively good, reaching almost everyone</li> <li>+ National Priority Projects allocate funds to the well-being of families, housing and education</li> </ul>	<ul style="list-style-type: none"> <li>- Based on OECD PISA studies, the level of education is insufficient because it is too theoretical; the level and coverage of continued education is worrying</li> <li>- Basic research is at the level of 1 % of the GDP</li> <li>- Alcoholism and other health related problems reduce the availability of the workforce</li> <li>- By 2050 the population is estimated to shrink from the present 140 million to 108 million</li> <li>- The lack of skilled labour increases production costs</li> <li>- The prosperity gap is continuing to rise and regional differences between remote areas and growth centres have been exacerbated</li> </ul>
<b>INVESTMENTS</b>	
<ul style="list-style-type: none"> <li>+ Investments are on the rise (22 % increase 6/2007)</li> <li>+ The highest investor potential is in St Petersburg, Moscow and the Moscow region</li> <li>+ Direct investments have increased lately (to 2.5 % of the GDP)</li> </ul>	<ul style="list-style-type: none"> <li>- The rate of investments still lags below 20 % of the GDP, which is lower than many other rapidly growing economies</li> <li>- The investment climate is somewhat worse due to the strengthening public sector and corruption</li> <li>- Enterprises do not invest in R&amp;D</li> </ul>

Table 4. The Janus-faced economy.

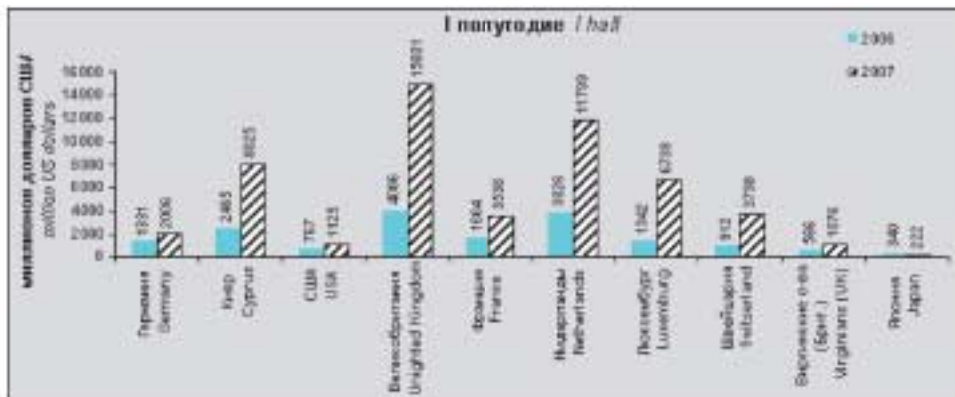
In addition to the factors mentioned in the table the key economic variables and risk factors include the expected price hikes in electricity, the ongoing process of defining the "strategic areas of the economy" and Russia's possible WTO membership.

By 2011-12 the price of electricity is expected to rise by 50-100 %. Hopes are that this will generate better energy efficiency and increase the desperately needed investments in domestic energy production. Without big investments in new power plants and the electric grid, it is feared a shortage of power will become the key obstacle to economic growth already in the near term. Gazprom, fighting public opinion, has especially championed the gradual increase of prices in the domestic market. The key question involves the way in which the electricity market is liberated. Will the reforms generate competition or will the whole branch end up in the hands of the state, via intermediaries?

The next risk factor involves, in particular, foreign investments in Russia. A government bill on the "strategic areas of the economy", given to the Duma in July 2007, defines five sectors of the economy (special areas of technology like encryption software and biotechnology, the defence industry, aerospace and the aviation industry, nuclear energy and raw materials). It also comprises 39 fields of industry in which the share of foreign investors can be limited, in accordance with the provisions issued by a select state commission. Even though this legislation is expected to make the rules more understandable to foreign investors, it still does not eliminate the possibility of arbitrary decisions. The proposed law is only entirely clear with regard to industries in the defence sector. Numerous ambiguities in the law regarding, for example, energy and natural resources (including forests) remain, which means that it should not be expected that the new rules will be entirely clear even after they are adopted. Nonetheless, foreign investments are essential in helping Russia diversify its economy and meet the challenges of its energy policy. So far, in spite of Russia's domestic situation and cooled relations with the West, foreign investments have increased. Simultaneously, as foreign investments in Russia have increased, Russian companies have made investments in the world market. A joint study conducted by the Skolkovo Moscow School of Management and Columbia University was published in December 2007. It confirmed that Russian investments abroad have skyrocketed. The study showed that 25 leading Russian corporations own foreign assets totalling \$59 billion.<sup>36</sup> According to sceptics this is how the Russians compensate for the lack of foreign investments in Russia. Most Russian investments are made in oil, natural gas and metal industries.

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36 Guardian, Study: Russian Foreign Investment Soars, December 11, 2007.



The biggest foreign investors in Russia 2006 - 2007

Source: Rosstat

The third risk, often included in reports describing Russian economic policy, is Russia's potential WTO membership. This is not, however, expected to essentially alter the logic under which Russia's economy works. Protectionism will continue in external economic relations, while at the same time Russian industrial giants try to move into the EU market, for example, in railway transports, electricity markets and port services. Even if the short-term effect of WTO membership remained negligible, the long-term impact is thought will be positive. Russia applied for membership already in 1993 but the process has been long and arduous. During President Yeltsin's time negotiations never really took off. Putin championed the membership from 2000-2003, but when the goal was not achieved Russia's attitude changed. The biggest Russian opponents of WTO membership include: the automobile and aviation industries led by Oleg Deripaska, the conservative Chamber of Commerce and Industries of the Russian Federation under Yevgeni Primakov, the strong agricultural lobby supported by the Minister of Agriculture Alexey Gordeyev as well as many small and agile segments in the service sector, such as banking and insurance. In addition to Putin, Minister of Finance Kudrin and Minister of Commerce Gref were strong proponents of WTO membership. Gref was left without a post in the 2007 government shakeup but Kudrin remained in the cabinet. In Davos in January 2008 Kudrin stated that Russian WTO membership negotiations are very near the end. However, the fact remains that Georgia reopened negotiations in 2006 because of border disputes between Russia and Georgia, and it is very unclear whether, even if Russia solves all the other obstacles, the problems with Georgia will be resolved. For Russia, the WTO talks have represented a learning curve. It could not gain membership by bending the rules and it had to negotiate even with small states. At present, Russia finds itself in a difficult situation. It would be embarrassing if the 15-year negotiations did not result in membership. Russians, not known for their ability to cope with disappointments, have found the talks difficult. During his time in office President Putin has

consistently nurtured the idea of an unwavering Russia with an independent global policy. This was also visible in Putin's economic policy. WTO membership will be a litmus test as regards Russia's genuine desire to be integrated into the world economy and to comply with common rules.

### **Russia's "Janus-faced" economy and Finland**

Russia's long-lasting, consumer-driven economic growth has been the most important reason for the growth in export transit traffic through Finland. The annual increase has been 15-20 %. One third of the trucks crossing the eastern border carry Finnish exports and two thirds transit freight.

In 2006 Russia was Finland's third biggest export partner (a 10 % share of foreign trade valued at €602 million), right after Germany and Sweden. The combined employment effect of business associated with the trade with Russia is estimated at 50 000 people, i.e. 2 % of all employees. This corresponds to the employment effect of a medium-sized sector of Finnish industry. Russian transit traffic employs almost 4 000 people in Finland. The drawbacks of the increasing eastern trade are traffic jams and an increased risk of traffic accidents. Police resources are also tied up in traffic police duties, clearing up long lines of trucks at border crossings.

Russian protectionist measures also impact Finnish companies and investments in Russia. Over the past years, the share of Finnish companies in Finnish-Russian road freight has nosedived to 10 %. It is still Russia's aim to concentrate its foreign trade transports on its own ports. Even though the volume of the Russian trade is expected to grow in the reference period, so are the risks of bad investments.

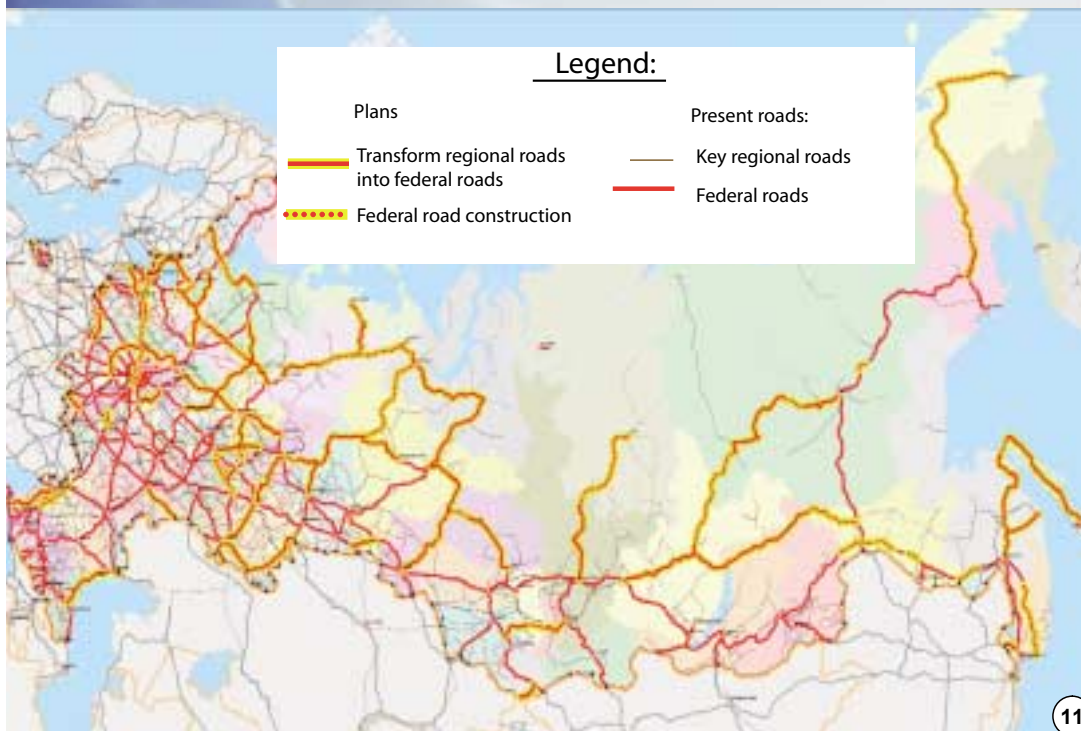
The general worsening of the investment climate in Russia (e.g. increasing corruption, labour shortages and the high labour costs) also affects Finnish companies.

## **Russia's transport strategy**

Russia's brutal climate in the north and the structure of its production industry are key features of the transport system and the way it is being developed. Whereas Russia's natural resources are in Siberia and in the northern parts of the country, the industries processing these resources are concentrated in the European corner of Russia. The general rule is that the transport infrastructure is well developed in South Siberia and in the European side of Russia and, conversely, poor in the north as well as in Central and East Siberia.



## Federal road network outlook until 2020



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Map 1. Federal road network plans.

Over the past few years the transport structure has been in the spotlight. Reasons include the opening of new export corridors and the change in the volume and class of imports. Increasing traffic volumes will continue to impede the smooth flow of cross border transport.

Important transport infrastructure, from the standpoint of Russia's present-day economic system, is situated in Finland's near environs. In northwestern Russia the seaports in the St Petersburg and Leningrad districts and in the Murmansk district are the most important foreign trade (oil export) transport hubs. Furthermore, the road and the railway from the border of Finland to Moscow, running through St Petersburg, are the most important transport corridors of the country. Investments in infrastructure have focused on these regions and the aforementioned corridors during recent years.

The most interesting changes from Finland's viewpoint involve seaports in northwestern Russia as well as the improvement of road transports and logistics in general. Furthermore, Russia's dilapidated transport structure negatively affects the nation's political and economic landscape and, thus, the stability of Russia.

### Transport Strategy of the Russian Federation until 2020: performance targets

The Transport Development Strategy 2020, adopted in 2005, includes the following concrete targets:

- The construction of a continuous, free-flowing trunk network has been completed;
- The average annual traffic volume is increased by 50 % from its present level (4 100 km/person/yr);
- Most population centres are reachable year-round;
- Eight out of ten Russian families have cars (in 2003 every other family had a car, whereas the corresponding number in Western Europe is 1.5 cars/family);
- Port infrastructure can handle 90-95 % of Russia's foreign trade (75 % in 2003);
- Freight intensity per unit of GDP is decreased by 8-10 % and the general speed of freight transport is improved by 15-20 % and up to 20-30 % for international transport corridors;
- Transit traffic volume is 90-100 million tons per annum;
- Traffic deaths have been cut in half (1.2 persons/1000 cars in 2003. The corresponding ratio in developed countries is ca. 0.3).

Source: Ministry of Transport (2005): *Transportnaya Strategiya Rossiiskoi Federatsii na period do 2020 goda.* (Transport strategy of the Russian Federation until 2020.).

**Russia's road network** is sparse and in poor shape. The total length of paved roads in Russia is 722 000 km, 47 300 km of which are federal highways. More than 40 % of freight transport occurs on federal roads which also form the backbone of all international cargo transport. There are 527 200 km of regional roads and 544 300 km of municipal roads.

Russia's Ministry of Transport estimates that 60 % of the road network will be either completely or almost completely unusable by 2010. At present, only 38 % of federal highways and 24 % of regional roads meet the standards.

At the same time, increasing traffic volumes, especially in the largest cities, will result in total gridlock. The continuously increasing number of cars tripled from 1995-2003. Whereas the number of traffic accidents is estimated to rise by almost 40-45 % from the already high incidence, the average flow of traffic will decline by approximately 20 %. The poor shape of the transport infrastructure, particularly that of the road network, will only add to rural depopulation and agricultural problems.

The Russian Ministry of Transport has calculated that transport funding should be raised to 2.5-2.7 % of the GDP in order to improve the shape of the road network. At present, the GDP share is 1 %. Increased funding could facilitate an overhaul of the most important transport corridors, guaranteeing the functioning of the system. The average transport-funding share in the EU and in Finland is approximately 0.8 % of the GDP. Finland spends approximately €700 million per annum on road construction and repair.

**Russia's railway network** consists of 85 000 km of railways, half of which are electrified. The most important railways close to Finland are the St Petersburg – Moscow line and the Murmansk line. The most important improvements are being carried out on the lines leading to seaports (at the bottom of the Gulf of Finland) as well as on the St

Petersburg – Moscow fast line, including a new line of tracks. Construction of the Ledmozero-Kochkoma connecting line (to the Murmansk line) in the Republic of Karelia has been completed.

It is estimated that construction and repair of the railway network will amount to \$560 billion by 2030. Significant investments in addition to the abovementioned ones are focused on the lines south of Moscow (with the 2014 Sochi Winter Olympics in mind). Other priorities include the overhaul of the present railway network and the construction of new lines to China (oil transports) and North Siberia in the Yakutian Republic.

Barring significant investments in new rolling stock in the next 3-5 years economic growth could be hampered.

**Inland waterway** transport has traditionally been an important alternative to rail transport. The most significant routes are the Volga-Baltics Waterway as well as the system of rivers connecting the Baltic Sea with the Black Sea and Caspian Sea. Many rivers flowing into the Arctic Sea act as inland waterways for industry, raw materials production and populations in northern Russia and inner Siberia.

The plan is to open inland waterways to international transport by 2011. Because of less severe conditions in the Arctic areas due to global warming, the question of using the Northwest Passage for international transport is gaining new importance. The topical issue for Finland involves the Saimaa Canal between Finland and Russia. Negotiations to extend the lease are presently in progress between the two countries. Two million tons of cargo is annually transported through the canal. New goods will compensate for the declining transports of unprocessed forest products.

**Seaports** can only be built on some 600 km of Russia's shoreline. There are 44 civilian trade ports in the country. Most of them are small, handling less than 2 million tons of goods per year. From the standpoint of foreign trade, Russia's most important seaports are in Finland's adjacent areas: Primorsk, in the future Ust-Luga, Murmansk, Vysotsk and the major port of St Petersburg. According to plans, the export capacity of Primorsk is to be doubled to 150 million tons. By 2010 it is estimated that the handling volume of the Ust-Luga harbour will have grown from the present (2006) 4.5 million tons to 36 million tons. The first phase of the container terminal should be finished by the end of this year. When complete the terminal will be able to accommodate one million containers.

As regards exports, the Novorossiysk Port in the Black Sea is among the most important. As for imports, the ports of Vladivostok and Vostochny rank highly. Nevertheless, the import of goods through Russian seaports still does not flow smoothly, which has facilitated transit transport via Russia's neighbours, such as Finland.

**Air transport** has changed dramatically during the past 15 years. The number of aerodromes and aircraft has significantly decreased. Still, aviation plays a significant role in the northernmost regions. There are 70 international airports in Russia at present. Plans are to make Kaliningrad a major hub in northwestern Russia. However, inter-regional air traffic in northwestern Russia, such as from Murmansk to Arkhangelsk, is infrequent. International air traffic will be funnelled to selected main airports.

## Russian transport strategy interest vis-à-vis Finland

The Baltic Sea and the Gulf of Finland are logistically more and more important to Russia, both for import and export. The lion's share of Russian energy exports to Europe go via present pipelines or through seaports in the Gulf of Finland. If the Nordstream pipeline project proceeds as planned, the Gulf of Finland's role may rapidly become even more significant. The region of Murmansk will be increasingly important as an export corridor in the future. Growing energy transports to Asia (Japan and China) will not fundamentally alter the picture within the next 5-10 years.

Approximately 30 % of Russia's road freight goes through Finland. Road transport is very important to Russia. Finland's competitive edge includes safety, access to storage facilities and optional services as well as predictable shipping times.

When it comes to imports, the Ust-Luga port may amount to a new "Primorsk phenomenon". Russian Railways advocate the improvement of the port so as to be able to ship imported cars and containers directly to Russian ports. At present, poor throughput (long waiting times, uncertainty and corruption) at Russia's ports and lack of direct connections to the trunk network hold up the plan.

It is in Russia's strategic interest to secure the throughput and growth potential of the foreign trade transport corridors. At the same time the goal is to reduce dependency on neighbouring countries and foreign cargo services. Today, the biggest obstacles for this goal are the substandard infrastructure and insufficient transport services.

It is also in Russia's interest to sustain the viable import corridors (also the one via Finland) until the day when domestic ports and logistics services can take over. Internal administrative duplication in Russia impedes the execution of reforms (e.g. the question of reducing the number of different authorities at border checkpoints).

From the Finnish standpoint, Russia's diversifying trade and the fact that it is securing its growth potential mean that it behoves Finland to guarantee free-flowing transports to Russia. The EU's decision to deregulate rail freight transports has introduced a new element in the debate. Russian hauliers will probably try to raise their cabotage rights in the area of the EU, including Finland.

## Cargo volume trends in Finland's near environs

Annual cargo volumes decreased by approximately 10 % from 1990-1995. Along with the economic growth of 2000-2004, volumes have increased by 4 % and passenger transport by 7 %. The table below indicates the growth of freight transport by mode of transport.

Growing export and import can be seen in the increased number of cargo ships in the Gulf of Finland as well as in more freight on roads and railroads leading to ports. Increasing oil transports constitute an environmental hazard. As regards oil shipments,

Russia will use its open water ports in Kaliningrad and Murmansk once their logistics environment matures. The availability of the Northwest Passage may alter international transport routes in the long term.

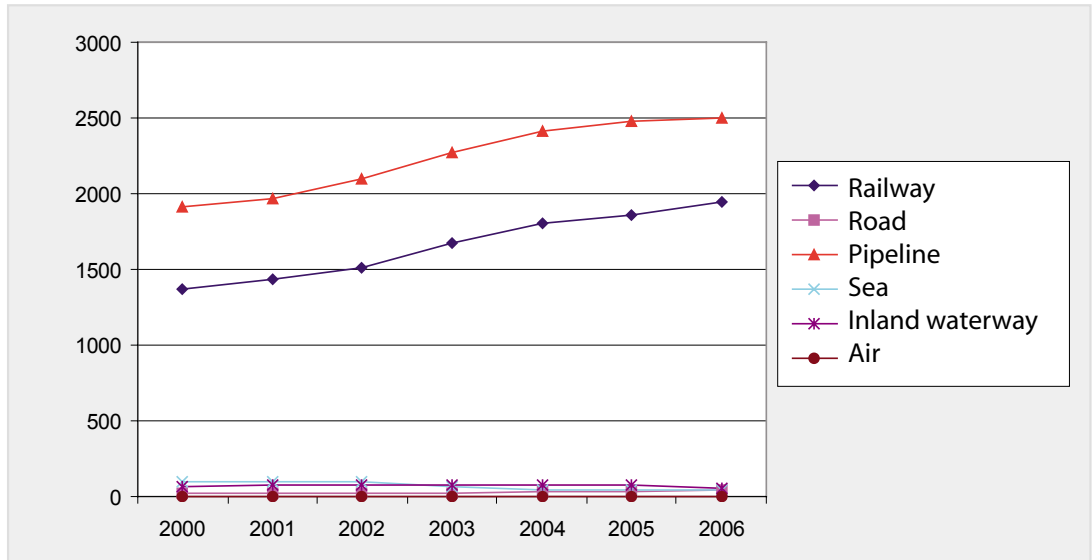


Table 5. Freight (thousand tons/kilometre) 1992 -2006. Goskomstat, 2006.

The growth in Russia's export is visible in the increased number of lorries on Southern Finland's east-west highways. Most of the increase in imported goods is transported by rail, but also increasingly by road as well. The relative share of freight modes in transit transport will probably remain the same. Various inland terminals may increase the share on railways in eastern transit traffic.

If the Berlin-Warsaw-Moscow transport corridor becomes more competitive, the route through Finland may become less attractive. Extending the Via Baltica and Rail Baltica to St Petersburg will create an entirely new route for freight and passenger traffic, which will impact Finland's transit traffic.

Apart from the St Petersburg-Moscow and St Petersburg-Murmansk federal highways, most of the roads in Finland's near environs are regional roads. The Russian Ministry of Transport will upgrade some of them into federal highways, which means that they will become eligible for direct federal funding. As regards areas close to Finland, the so-called logging roads are an important target for improvement. They are vital for the increasing utilization of Russia's timber resources. According to Russian estimates, 70 % of the country's timber resources are inaccessible by road.

Another reason for the possible decrease in importance of the Finnish corridor is the fact that Russia's transport policy aims to minimize dependency on the infrastructure of

neighbouring countries. Russia's goal is to conduct foreign trade from its own seaports. At present, 75 % of foreign trade transports go through Russian ports and the goal is to raise this figure to 90 %. This, especially, applies to export transport, as indicated by the construction of ports specialized in oil transports in the Gulf of Finland such as Primorsk, among others. Russians estimate that when the required infrastructure (logistic centres and container terminals, such as the Ust-Luga) is finished, import transports will also gradually use Russian ports, albeit not completely.

When the EU and Russia start using electronic customs documents, from 2011 onwards, customs processing at border crossings will become faster and the possibility of double invoicing will be eliminated. Still, if the number of different kinds of authorities at checkpoints is not reduced, border-crossing reforms will not be as effective.

### **Car imports via Finland to Russia**

Today, approximately 2/3 of all cars imported to Russia are transported via Finland. The car sales boom is estimated to continue for several years. During the first quarter of 2007 more than one million cars (1 165 000) were sold, more than half of which were imports. Plans exist to build several car terminals close to St Petersburg. These would increase the imported car handling capacity of Russian ports to almost one million (945 000) units per year.

In 2006, 530 000 new cars were transported to Russia via Finland. In 2007 the January-September total had already reached 450 000. As car imports grow, the flow of cars through Finland to Russia will continue. Even though Russian Railways could theoretically introduce the possibility of transporting imported cars by rail through Finland, this would not alleviate the situation. One freight train can transport 350 cars but the Moscow terminal can only accommodate 1 500 cars at a time.

## Summary

Russian economic indicators show that economic growth is continuing. An irreversible structural change has taken place in Russia's economy. However, there are still many problems ahead and the growing role of the state in the economy is worrying. President Medvedev has many crucial decisions ahead of him. Russia cannot modernize unless it opens up to the world market. If the present policy of centralized decision-making continues, Russia faces the danger of isolation, thus becoming increasingly vulnerable to the fluctuations of energy prices in the world market.

Russia's transport strategy strongly supports integration into the world market. Russia aims to centralize foreign trade transports into its own seaports. If their throughput is insufficient for coping with growing volumes of goods and if investments lag behind, transports via Finland could keep on growing. In the short term this may cause traffic chaos on Finland's eastern border where, already, the situation is approaching critical. Without Finnish investments in infrastructure in future years, the situation might only be exacerbated. Russian transport strategy and energy infrastructure construction projects are heavily affected by Russia's desire to become an independent actor.

The EU's dependency on Russian raw materials and, conversely, Russia's economic dependency on export revenues constitute the cornerstone of EU-Russia cooperation. However, it cannot be ruled out that cooling relations could result in a trade conflict. Trade disputes between Russia and the EU have normally snowballed, managing to make a mountain out of a molehill.

Russia is quite well protected against sudden turbulences in the world market. A short-term dip in the price of oil will not topple its economy. Nevertheless, lower long-term prices may cause serious damage to its economy and, hence, to the stability of the entire nation. Unless Russia makes the required investments in energy and industrial infrastructure, confidence in Russia as a reliable energy supplier will be jeopardized and its economy will become less diverse.

Russia's vulnerability to the fluctuations of world market energy prices, as well as uncertainty as regards investments, directly and implicitly impact Finland. On the one hand the reliability of Russia's energy delivery is at stake and on the other hand the significance of the growing trade with Russia on the Finnish economy is.

Russia's potential WTO membership will not essentially alter its economic decision-making practices. This means, among other things, that the WTO is of little use when negotiating difficult trade policy or economic policy questions with Russia. The WTO's dispute settlement system is virtually toothless against Russia because Russia does not produce any such export items which would fall under its sanction regime.

Changes in the Russian economy should be analysed as elements of domestic and foreign policy, with special attention paid to the interface between the economy and politics. It is vital to understand the logic by which Russia operates as well as its new economic policy.

## 5. The environment

### Introduction

Nature and environmental problems recognize no boundaries. Environmental changes are often interpreted in different ways, depending on the society and the natural environment. Likewise, social tolerance varies from country to country. Russia's positions, opinions and environmental policies often diverge substantially from the way the EU acknowledges and interprets environmental problems. While Russia has know-how in environmental issues, its approach is different. Furthermore, Russia has a higher tolerance of pollution and will rarely alter its policies or practices because of environmental problems or pollution. Then again, Russia has lately invested in nature conservation and forest protection. Therefore, one should not consider Russian attitudes vis-à-vis the environment as merely simplistic or black and white. Many examples tell a tale of contradiction. For example, Russia has some of the world's cleanest natural enclaves, but also three of the ten most polluted areas in the world. Whilst organic food grows in popularity, organic labelling criteria and controls are only in the making. Even though Russia has signed the Kyoto Treaty, it relies on old emission figures and will not promise to automatically extend the Treaty. Russians have only recently begun to talk about energy efficiency, even though enormous amounts of energy are being wasted there.

Russia and Finland share many of Russia's environmental problems and challenges: the risk of oil spills in the Gulf of Finland, eutrophication of the Gulf of Finland as a result of nutrient loads, degraded air quality in northwestern Russia caused by forest fires, traffic and industrial emissions as well as continuing shortcomings in Russian nuclear safety.

#### **Water in Russia**

- There are 2.5 million rivers in Russia
- Russia's 3 million lakes contain 26 000 cubic kilometres of water
- Lake Baikal alone could provide the water for the entire world for the next 40 years
- Half of Russia's population is exposed to poor quality water
- Half of the water pipes in the Russian Federation are obsolete and decrepit
- Russia has no water resources management policy

#### **Forests in Russia**

- Russia has 22 % of the world's timber resources
- The forests total 17.2 million square kilometres
- The first Russian language forestry management manual was published in 1830
- Investments in the wood processing industry have significantly increased since 2007 and are estimated to continue growing



## Russian environmental awareness

Russia and Russians have a close relationship with nature. They respect nature and the land. Concepts of Mother Russia and the Russian soul are closely linked with nature. Russia's huge natural resources and its geography increase the importance of the environment. Perhaps shockingly, even in spite of Russia's close relationship with and respect for nature, there are serious environmental problems which already impact national health.

Before the Russian Revolution in 1917, when industrialization was already underway, nature and the environment were closely associated with the Russian identity. The Orthodox Church as well as harmony between nature and humans were considered the pillars of this identity. During Soviet times, people put faith in the power of science and technology, through which they thought all problems could be solved. Modern-day Russia now bears the consequences of this belief.

In Russia, the environmental movement is mainly regarded as political activity, largely the legacy of environmental movements during the time of Glasnost. Environmental activists were permitted to network internationally in the end of the 1980s. At that time, the central government designated environmental issues as "harmless". The environmental movements, later becoming NGOs, are regarded as the first channels of democratic association of the last years of the Soviet Union. Hence, they were partially blamed for the collapse of the Soviet Union.

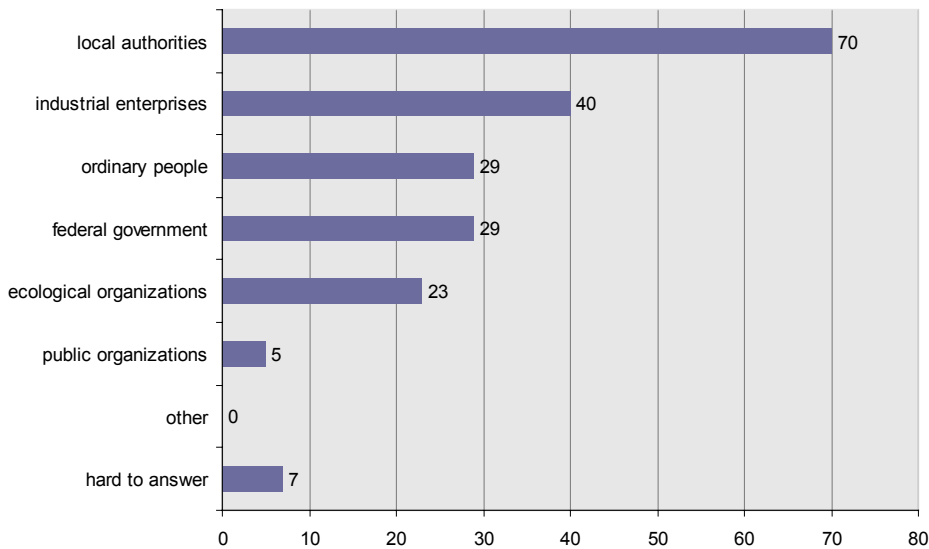
Environmental protection did not top the agenda in President Putin's Russia. Official rhetoric, of course, stated the importance of the environment. Environmental issues were blamed for being the reason why the Sakhalin-2 agreements from the 1990s had to be abolished and why the Moscow-St Petersburg fast train line took so long to complete. However, according to Viktor Danilov-Danilyan, Russia's latest Minister of the Environment and Natural Resources, environmental awareness was not the culprit for the setbacks. The Sakhalin-2 case is only an expression of the dominant trait in Russia's foreign, domestic and economic policies of the 21st century: agreements from the 1990s are amended so as to be more favourable to Russia. The delays in the fast rail line were caused by poor administrative coordination, which Moscow was reluctant to admit. According to Danilov-Danilyan, anti-environmental developments began in 1999 in Russia.<sup>37</sup> He maintains that Russia's government has not grasped the importance of environmental protection and Russia's significance in the world's ecosystem. Responsible attitudes towards environmental issues would help boost Russia's image in the world, thus commanding international respect. It is often the case that the government appears weak in comparison to the strong energy lobby, especially the oil lobby. One example of this is that, in 2003, Putin tasked the government to prepare a bill which would criminalise activity harmful to the environment and asked the government to send it to

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37 Russia Profile, interview, 30 November 2007.

the Duma for approval. However, the bill disappeared and the matter was never revisited.<sup>38</sup> The ecological expert survey mechanism, which previously operated in Russia, was abolished in January 2007.

The Russian Public Opinion Foundation conducted an extensive survey in August 2007 regarding Russian views on environmental issues (table below). Approximately 2/3 of the respondents (72 %), 79 % of high-paid Russians and 83 % of Muscovites expressed concern about the state of the ecology in Russia. The figures are lower than the ones in the 2005 survey. This is probably caused by decreasing interest in environmental issues, rather than an improved state of the environment. According to studies, 21 % of Russians are not at all concerned about the state of the environment. The same survey demonstrated that 60 % of Russians believe that the state of the environment will continue to worsen and that 70 % of the respondents blame local governments, in particular, for this. This being the case, the brunt of public opinion or pressure to change is not focused on the environmental policy of the Federation.



Survey: Russian opinions of environmental issues. Russian Public Foundation 2007, Source: FOM ([www.fom.ru](http://www.fom.ru))

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38 Ibid.

## Weak environmental protection administration and the development of environmental legislation

Hans Bruyninckx has divided the post-Soviet environmental policy into three periods. During the first period old structures were torn down and the idea of modernizing environmental policies was born. The second period saw the decentralization of environmental policy, which resulted in very dissimilar policies among Russian regions and republics. Bruyninckx calls the third period an epoch of institutional decentralization: environmental policy is the purview of top leaders, or more precisely energy companies.<sup>39</sup> Russia's environmental protection administration has been scaled down since 1996, culminating in the abolishment of the independent Environmental Protection Committee in the 2000 administrative shakeup. Its functions were delegated to an environmental protection department in the Natural Resources Ministry, the primary function of which is to promote the exploitation of natural resources. This being the case, the environmental protection department has been weak in relation to the other departments and the top leadership of the Ministry. During recent years Russia has thusly pursued a policy of gradually abolishing the environmental policy.

Irrespective of this running down of environmental administration, Russia is developing environmental protection legislation to combat air pollution, among other things, in its largest cities. Air pollution legislation has existed since the 1950s, although largely ineffectually. For decades the main problems of Russia's environmental protection legislation and policies have been the gap between the fairly strict statutes and actual practice as well as the lack of cooperation between the federation and local governments.

## Weak non-governmental organizations

Russian environmental NGOs have their origins in the 1980s when environmental protection was the first issue on which free speech was permitted. As early as the 1960s there were environmental protection cadres in universities. These NGOs primarily protested against existing problems. They managed to prevent many outlandish and even environmentally hazardous projects in the Soviet Union, such as altering the direction in which rivers flow, raising the water level in the Cheboksary reservoir as well as the construction of the Katu hydroelectric power plant and several new nuclear plants. After the collapse of the Soviet Union NGOs were able to operate more freely and several new organizations were founded. Many international environmental movements, such

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<sup>39</sup> Based on a presentation at the annual meeting of the International Studies Association, Honolulu, Hawaii, 3/2005).

as Rainbow Keepers and Greenpeace, set up offices in Russia. Environmental NGOs had problems similar to almost all other NGOs in Russia: lack of active members and funding. President Putin's period divided the field of civic activity in two. Whereas some organizations critical of the regime and desiring free action have found the situation very difficult after NGO-controlling legislation entered into force a couple of years ago, other, spontaneously founded or state-created, organizations closely cooperate with the central government. These NGOs are supported by the government and it is obvious that they will not bite the hand that feeds them.

#### Five different environmental NGO types in Russia<sup>40</sup>

- Conservatives: biologists, educated experts and professionals engaged in environmental issues. Mainly interested in environmental protection.
- Alternativists: new generation eco-anarchists and fringe groups. Direct action. Theories and ideologies for an ecologically oriented society.
- Deep ecologists (traditional): Russian intelligentsia. Quest for harmony between man and nature.
- Initiativists: a group of activists concerned about the local environment. Employ all means available, ranging from protests to cooperation with the local authorities.
- Pragmatists: mainly urban activity, aiming to make a difference in politics. Change in environmental awareness is only possible if ecologists reach key positions in central government.

## International cooperation

Environmental issues are not only internal affairs; air and water recognize no national borders. Therefore, cross border environmental cooperation is vital. Russia conducts extensive international cooperation in environmental issues. For example, the World Bank works with Russia in combating air pollution. Only a few years ago Russia was among the biggest producers of substances depleting the ozone layer. The World Bank, together with Global Environmental Facility, funded a programme which disbursed compensation to seven Russian companies when they ceased to produce 140 000 tons of substances that deplete the ozone layer. Since 1994, the World Bank has sponsored environmental projects in Russia worth \$300 billion.

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<sup>40</sup> The Role of Environmental NGOs - Russian Challenges, American lessons: Proceedings of a workshop, 2001, I.A.Haliy, Institute of Sociology, Moscow.

It is a challenge to get Russia committed to international cooperation and common standards. Russia has not ratified the Convention on Environmental Impact Assessment (EIA) in a Transboundary Context, adopted with the "Espoo Convention" in 1991. Pursuant to the Convention, states which have major projects under consideration that are likely to have an adverse environmental impact across boundaries shall assess the environmental impact, notify and consult the authorities of their neighbouring countries and include them at an early stage of planning. As an example, Finns have had very little information on major projects across the border because of lack of Russian involvement. Finland has only been informed of the oil export seaport projects in the Karelian Isthmus and, in some cases, only after projects have been launched. Nevertheless, the EIA process has been taken seriously in northwestern Russia with regard to certain industrial projects for which foreign entities provide partial funding. In these cases, the Finnish Ministry of the Environment has also participated in the EIA process. When projects have been completely Russian, requests for participation have been sporadic. There have been many disconnects in environmental cooperation. They are caused, at least partly, by the fact that turnover among the Russian authorities has been great since the 1990s. This is analogous to the problems encountered in energy cooperation. Russia has said that it shall abide by the EIA Convention, but only when it chooses to. Moscow is not even considering ratification. However, having common rules and compliance to them is the basis of sustainable environmental cooperation.

Economic cooperation, one of the four EU-Russia cooperation roadmaps, involves the environment, nuclear safety and the implementation of the Kyoto Protocol. Environmental issues have a bigger role in the Northern Dimension framework compared to general EU-Russia cooperation. The Northern Dimension policy, participated in by the EU, Russia, Norway and Iceland as equal partners, includes an environmental priority sector which has been very successful. Thanks to this a sewage treatment plant was built in St Petersburg, reducing the city's sewage load into the Gulf of Finland. Russia has taken a positive attitude towards the Northern Dimension framework. Environmental partnership has witnessed progress in joint funding questions, traditionally the stumbling block of many other Northern Dimension issues.

In the end of 2005 the EU and Russia launched an Environmental Dialogue, the policies of which include questions related to climate change, environmental protection, water management, marine environment, forest management, waste management and pollution control as well as assessments of the state of the environment. The EU-Russia dialogue attempts to achieve better harmony between the respective environmental policies. There are high hopes for the success of the dialogue because Russia, at present, is interested in the EU's environmental legislation. In this way, cooperation might even extend to finding joint instruments for bridging the gap between statutes and practice.

Russia's WTO membership will create some kind of normative framework between Russia and the international community. WTO membership will increase the predictability of Russia's governance as membership requires certain reforms which increase constancy in the political system and society. This will also benefit the environmental sector.

However, the positive effect may remain marginal if Russia does not gain membership or if it does not want to commit to the WTO's agenda. The WTO can only establish a framework. The most important catalysts affecting public attitudes and Russian environmental policy include international market pressure and Western investments. The biggest impact is caused when the market is totally or partially in the West, where consumers' environmental demands are stricter than those in Russia. This being the case the best environmental expertise in present-day Russia resides in Western-oriented companies. This creates hope of a more environmentally positive future in Russia's domestic market as well. Many Western-owned hotels have already adopted environmentally sound practices.

## The state of the environment in northwestern Russia and risks thereof

The state of the environment in Finland's adjacent areas is better than the many industrialized regions of central Russia and southern Siberia. Hence, whilst there are many problem spots in northwestern Russia, it is not the worst polluted region of the entire country. The specific problems include water pollution in wood processing settlements in the Karelian and Komi Republics as well as the sewage and air pollutant emissions of the biggest cities and industries, with St Petersburg, naturally, being the biggest polluter. Marine life hazards include numerous garbage dumps and, especially, industrial hazardous waste dumps, such as the Krasnyi Bor Polygon hazardous waste treatment plant near St Petersburg. After the economic nadir of the 1990s ever-growing agriculture is a big polluter of the Gulf of Finland, in addition to St Petersburg's sewage load.

When it comes to traditional pollution, some locations and areas in northwestern Russia are considerably more polluted than Finland. Then again, there are vast wilderness areas which are cleaner and in better ecological shape than many areas in Finland, particularly from the standpoint of biodiversity. There are ecological enclaves in northwestern Russia, as elsewhere in northern Russia, which also contribute to biodiversity in Finland. However, even these areas suffer from airborne fallout, consisting of the emissions from industry, energy production, traffic and agriculture and result in fine particle and heavy metal deposits as well as acidification and eutrophication. There are many reasons why these areas have been preserved, the biggest one perhaps being their remoteness. Determined nature conservation policies over the last years, the targets of which often involve strongly conflicting interests, have also borne fruit in northwestern Russia.

## Air pollution

As regards air emissions, the metal industry in the Kola Peninsula is one of the biggest sources of point loading in our adjacent areas. Its effect extends to Finland, polluting and acidifying eastern Lapland, in particular. The issue is mainly ecological, not one of environmental health. Increasing air pollution is primarily the problem of urban dwellers in the largest cities of northwestern Russia, like the inhabitants of St Petersburg and, on a smaller scale, Arkhangelsk, Murmansk, Petrozavodsk, Syktyvkar and Vyborg. The biggest source of air emissions is the skyrocketing number of motor vehicles. This development is reversing the positive trend on point loading. The positive trend, continuing now for two decades, began when the largest cities and industries in northwestern Russia increasingly converted from oil and coal to natural gas. The rapidly growing number of cars exacerbates the air pollution problem, especially in St Petersburg. This problem has been noticed only recently. In other words, the detected change in the environment was redefined as an environmental problem on federal and local levels. This has resulted in, among other things, the Russian Ministry of Natural Resources becoming interested in the EU's air quality control measures. Environmental policies which aim to improve air quality may be adopted. Still, there is a way to go before any practical measures are implemented.

Deteriorating air quality is a serious near term environmental problem in northwestern Russia. Even though air pollution mainly affects the inhabitants of St Petersburg, it is also a problem for many industrial settlements. The air quality problem mostly concerns the health of the environment. St Petersburg and the Russian Federation are now more serious about health risks caused by motor vehicle emissions. In spite of this, little has been done to combat the problem. In practice, the only solution offered has been the completion of St Petersburg's beltway, which would only move some of the traffic a little farther away from residential areas. The beltway can only be considered a solution to traffic jams in the city centre, rather than a panacea to the air pollution problem. Public information on air quality, important from the Finnish point of view, is insufficient. The authorities and politicians seem to think that air quality information should not be provided, "lest the citizens become unnecessarily worried".

## Water pollution

Due to its large population and environmental load St Petersburg is sui generis, both to Finland and Russia. The city has improved its sewage treatment during the last years, thanks to long-term cross-border environmental cooperation. Again, the Northern Dimension environmental partnership deserves mentioning. As a result of it, suitable funding arrangements for the completion of St Petersburg's southwestern water treatment plant were identified. Sewers and sewage treatment are now more efficient. The

next target of cooperation involves the completion of the northern sewer main of the River Neva as well as piping the still raw sewage of half a million people to a water treatment plant. Compared to the other major cities in Russia the water management situation of St Petersburg is quite good.

Even though the sewage load has decreased, the nutrients which have leached into the Baltic Sea and the Gulf of Finland for decades may switch the ecosystem into a new state: anaerobic and toxic. This kind of long-term ecological change would also have a social and economic impact on all of the countries around the Baltic Rim. This would not only affect fishing and the recreational water use, and thus tourism, but also national economies in a larger sense.

Once the St Petersburg flood prevention dam is finished, the water flow regime off St Petersburg will change. It is difficult to estimate the effects of this physical barrier on water quality and eutrophication, but most probably sedimentation of the River Neva's silt (pollution and nutrients) will increase in volume inside the dam. In practice, this means more of the pollutants in St Petersburg's wastewater would become sedimented closer to the city than before.

The decades-long eutrophication of the Baltic Sea, caused by agriculture and increasing urban sewage, may become a persistent and difficult problem for Finland, and for the entire Baltic Sea. This holds true irrespective of St Petersburg's aim to achieve the EU's wastewater treatment goals by 2015. The water quality problem of the Gulf of Finland is only aggravated by ever increasing agricultural discharges in northwestern Russia and, especially, around St Petersburg. In spite of the fact that the biggest single polluter around the Baltic Rim is Poland, the significance of St Petersburg will only increase with regard to the water quality of the Gulf of Finland.

## Hazardous waste and waste management problems

The single most important environmental problem close to Finland is the Krasnyi Bor hazardous waste treatment area. Finland has tried to support the Russians in improving the situation of the poorly insulated hazardous waste pool. The Russian government has a lackadaisical approach to the environmental impact of this problem as well. Most probably the sludge pool has a very large negative impact on the health of people in the vicinity; however, so far nobody has been willing to study the issue. Judging by the way the authorities regard St Petersburg's air quality problems as well as Krasnyi Bor's hazardous waste, one can conclude that Western-style environmental health questions are not high on the agenda of Russian politics.

Another problem affecting St Petersburg, in particular, involves contaminated soil at former industrial sites as well as industrial dumps. The latter are primarily outside of the city but contaminated soil will increasingly become a hot topic inside city limits. One reason for this is that St Petersburg, led by Governor Valentina Matviyenko, has launched



an ambitious zoning programme. Land development will be zoned so that industrial real estate is reduced, which means that former industrial lots close to the city centre will be transformed into housing and office space.

The continuously growing volume of municipal waste is also a major problem in St Petersburg as well as in other cities in northwestern Russia. There are no hazardous waste incineration plants per se in Russia. Economic growth has significantly increased the waste problem. Finland, too, may be affected by the way Russia manages to solve its entire municipal and hazardous waste management problem. If no suitable landfill sites are found or if municipal dump investments are too expensive, incineration may be a lucrative option. The incineration technique, however, is crucial from the standpoint of emissions. Poorly functioning future incineration plants and their ashes may result in a two-fold problem: air pollution and waste management.

## Climate change

The greenhouse effect is still a relatively new issue in Russia. According to a BBC World Service survey in 2007, 50 % of Russians did not know what the concept meant. Even those who knew did not consider it a serious phenomenon. In the public debate, global warming has largely been presented in a favourable light. Conclusions, however, have been fairly simplistic and mainly positive consequences for Russia have been raised, such as the availability of the Northwest Passage as sea ice conditions become less severe as well as the benefits for the wood processing industry when the climate of Siberia becomes warmer. Conversely, potential problems for Russia have been mostly ignored in the public debate. These include a decrease in the fertility of the Black Earth region as the climate becomes drier as well as the increased vulnerability of the Taiga Boreal forests to warmer climate plant diseases and parasites. The thawing of the permafrost will be an enormous problem because existing infrastructure, such as buildings, roads and oil pipelines, may shift if the permafrost melts.

Global warming may increase summer temperatures and decrease rainfall in northwestern Russia, thereby increasing the number of forest fires. Smoke from forest fires has been a significant air quality problem for some years already. In eastern and southern Finland this problem may begin occurring repeatedly, persisting for months, and in some areas in southeastern Finland becoming the worst air pollution problem. From this perspective, Finns cannot be complacent about the way forest fires are put out in northwestern Russia, or how the Russian administration deals with the problem. Problems caused by forest fires threaten to become a more permanent phenomenon in a warming climate.

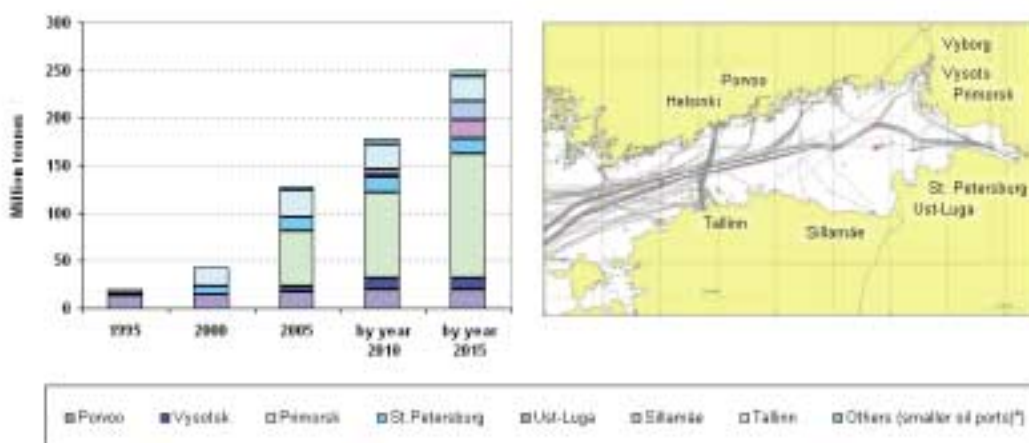
## Energy transports by sea

Even though Finland, Estonia and Russia are jointly improving the Vessel Traffic Service (VTS) system, the continuously growing oil tanker and passenger traffic (Estonia-Finland) constitutes a major risk in the Gulf of Finland. At present, the biggest cargo vessels and all passenger ships are identified by the Automatic Identification System (AIS) and the system obligates vessels to provide route and cargo information in the Gulf of Finland Reporting (GOFREP) area. The present safety level does not equal that of air traffic control. VTS operators cannot control the movement of vessels in international waters (GOFREP area). In other words, the system merely provides a sea-lane which oil tankers should follow in the Gulf of Finland. For the time being, VTS and GOFREP together do not facilitate real time traffic monitoring, meaning that potential collision course information for the next few minutes is not provided. Maritime authorities estimate that the present, inadequate, monitoring system increases the risk of oil spills. Furthermore, one must always remember that even if the warning system were perfect, human error is always a significant risk factor.

An oil spill in the Gulf of Finland would be a major environmental problem because large quantities of crude oil or other petroleum products would pollute the coastline and the archipelago. Such a disaster would not only cause ecological destruction, it would also generate extensive political and socioeconomic impacts. Today, the annual volume of oil transports in the Gulf of Finland is slightly less than 150 million tons. However, it is estimated to be over 250 million tons by 2015. If the pipelines to Central Europe via Belarus are shut down, oil transports from the terminals in Primorsk and Vysotsk will increase.

19th of Feb 2007

**OIL TRANSPORTATION IN THE GULF OF FINLAND THROUGH MAIN OIL PORTS**  
Oil transportation in years 1995-2005 and estimated development by year 2015



Sources: [www.transneft.ru](http://www.transneft.ru), [www.oilnews.ru](http://www.oilnews.ru), [www.rzd-gatnor.com](http://www.rzd-gatnor.com)  
Main oil ports of the Gulf of Finland, HELCOM AIS Database, [www.cmh.se/Seatrack](http://www.cmh.se/Seatrack)



Source: Finnish Environment Institute, 2007

## The Baltic Sea gas pipeline and oil ports in the Karelian Isthmus

Russia and Germany are in the process of constructing a natural gas pipeline network, comprising 2-4 pipelines, from northwestern Russia to northern Germany. The network will go through the Gulf of Finland and the Baltic Sea. Once it is complete, the bottom of the Gulf of Finland will become one of Russia's most strategically important areas. The capacity of the pipeline and the expanded oil ports is huge. In the present situation it is hardly imaginable that such infrastructure would be used below full capacity. Nevertheless, estimates on Russia's oil and natural gas production capacity for the next two decades are only sketchy. It is, of course, possible that the oil and natural gas transporting infrastructure concentrated in the Gulf of Finland would be used below full capacity because of a fuel shortage.

For years Russia has not been investing enough in its known oil and natural gas fields, while, at the same time, Western investors are increasingly being driven out of Russia's fossil fuel production. The lack of investments may cause a resource shortage, which would markedly affect Russia as, after all, the country is highly dependent on energy export revenues. A resource shortage could also generate widespread socio-economic and political waves. These would also affect the state of the environment of the Gulf of Finland because in a strained domestic and international situation Russia would do everything in its power to guarantee the uninterrupted flow of fuel to the world market. In a situation such as this, environmental risk prevention (storage, port operations, loading and oil tanker shipping) may fall even lower on the political agenda.

## Nuclear safety

After the collapse of the Soviet Union the West was very concerned about Russia's nuclear safety, namely, its nuclear weapons, nuclear power plants and nuclear waste. The United States and Russia have cooperated extensively, lest Russia's nuclear material fall into the wrong hands. Just as progress has been made on fissionable material, it is also a topic, which strains Russia's foreign relations, especially, with the United States and the United Kingdom. Consensus was reached on North Korea but mutual understanding has not been reached with regard to Iran. Russia has built a nuclear reactor in Bushehr, Iran. Despite protests from the United States and other Western countries it also supplied uranium to the facility. Furthermore, the murder of Alexander Litvinenko in London in the autumn of 2006 only increased US and British concerns over Russia's approach. One of the threat scenarios in the war against terrorism includes the use of fissionable material for criminal purposes. Therefore, a situation in which weapons-grade fissile material is not strictly under government control generates extensive international attention. As long as Litvinenko's murder remains unsolved, Russian-British relations will remain icy.

### **Cooperative Threat Reduction Programme (CTR)**

- The mostly US-funded programme was launched in 1992

#### **The programme has accomplished the following:**

- 6 382 nuclear warheads and 27 submarine-launched ballistic missiles (SLBM) have been dismantled
- 130 strategic bombers have been destroyed
- 408 SLBMs and 498 SLMB launchers have been deactivated
- Hundreds of missile silos, nuclear test tunnels and deep test pits have been sealed

Only 37 % of fissionable material has been secured during the programme

Source: Bellona Report 4 volume- 2004, Russian Nuclear Industry - The need for reform.

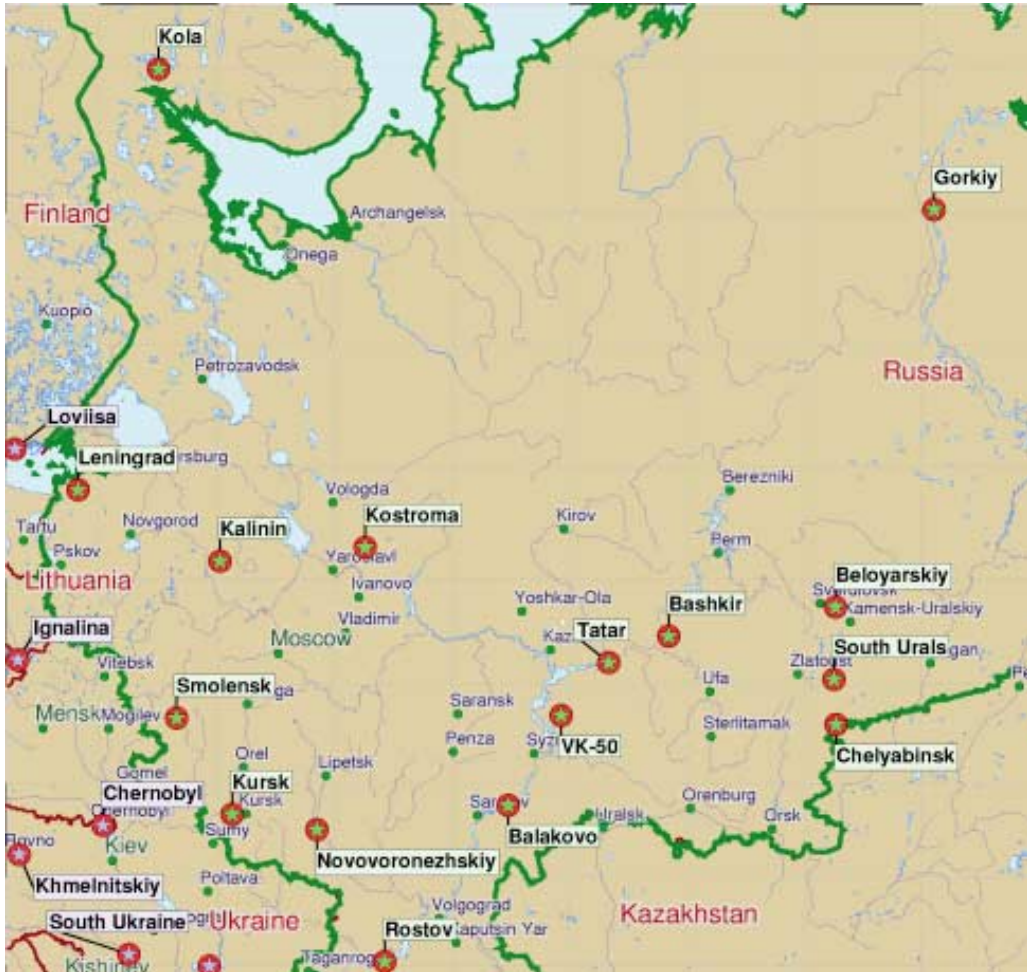
The Nordic countries have attempted to cooperate with Russia, particularly with regard to nuclear power plant safety and nuclear waste. For example, Norway has made a difference in the nuclear safety of the Kola Peninsula and Murmansk. It has invested considerable sums towards converting the nuclear-powered lighthouses in the Kola Peninsula into solar-powered ones.<sup>41</sup> A notable fact is that 40 % of the total energy consumption of northwestern Russia comes from nuclear energy. The corresponding figure for the entire country is 12-14 %. Furthermore, nuclear waste stores and ageing nuclear submarines increase the already high risk of releasing fissile material into the environment.

There are three major factors in nuclear and radiation safety, which are of special importance to Russia's stability. The first is the reliability of nuclear production, i.e. safe practices in nuclear plants. The radiation effects of a possible accident at a nuclear plant would impact humans and nature far and wide. Accidents which do not generate fallout could also have a major impact.

The second issue related to Russia's stability is nuclear waste management. Poorly stored waste or substandard final depositories have obvious direct environmental effects. If radioactive waste and "orphan source" material falls into the wrong hands, it could be used for criminal purposes. The third challenge involves the proper control of weapons-grade fissile material. It is absolutely vital that such material be kept in the right hands. This kind of material is not only available at nuclear plants, it can also be found in the early phases of the enrichment chain and, especially, at research and test reactors. Their safety arrangements have traditionally been more lax than those of large nuclear power plants.

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41 Barents Observer, Russia, 15 January 2008.



Existing and planned nuclear reactors in northwestern Russia

Concern over nuclear safety is not only limited to the West. Russians, both on their own and with international support, have markedly improved the safety features of their nuclear plants. The present nuclear power plants (10 plants, totalling 31 reactors) release negligible amounts of radioactivity into the environment during normal operations and the risk of a major accident is at an acceptable level. The situation has dramatically improved during the past two decades because today the Chernobyl-type reactors are 100 times safer compared to the 1980s (risk has decreased from 1:100 to 1:10 000). Nuclear safety culture has improved due to growing political interest. The future prospects of nuclear energy are bright and this development has raised the confidence and motivation of personnel in the field. It is noteworthy that it is in the interest of nuclear power plants to properly manage their waste and spent fuel. These days, there are also funds available for this task.

Waste generated during nuclear weapons production has received less attention. In addition, waste and debris from submarines, built during the Cold War and since decommissioned, has been poorly managed. Hence, international funding has been earmarked for solving this problem in northwestern Russia. One reason for the lack of attention paid to waste and debris from decommissioned submarines is the fact that they are the purview of the Ministry of Defence. It therefore seems that civil society has taken over the management of radioactive waste. Depending on how active NGOs are and how much financial wiggle room economic growth brings along, the government may permit action even in this sector. A positive example from recent times involves the evacuation of the population from the radioactively polluted village of Muslyumova, located in Chelyabinsk on the banks of the River Techa. Funding for this purpose was reportedly found in the budget of Rosatom Nuclear Energy State Corporation (formerly Minatom, the Ministry for Atomic Energy). Likewise, nuclear waste sites in northwestern Russia seem to be dealt with in an expedited manner.

Mr Litvinenko's murder resurrected the debate over the proper control of fissionable material, formerly discussed when the Soviet Union collapsed. Increased uncertainty over the safety of Russia's nuclear material stems from Russia's internal development, occasional questions over the administration's full control over the state and the ability of semi-criminal elements to operate freely. In order to keep nuclear material in the proper hands, there needs to be a stable and orderly society.

Favourable economic development allows the government to earmark significant resources for nuclear power safety and for the construction of new and improved nuclear power plants. Nevertheless, electricity shortages, associated with an overheated economy, may result in maximising production at the expense of safety. This could be happen by shortening the length of maintenance outages, i.e. by skipping over inspections and preventive maintenance.

## Summary

Since the year 2000, Russia's environmental policy has been subordinated to the energy policy and Russia's growing attempts to place all natural resources under state control. Environmental movements still feel the political legacy of the late 1980s, making it more difficult for them to operate in Russia. There are great challenges ahead as regards environmental protection. However, there is also a tremendous potential. Some of the world's largest fresh water reservoirs are in Russia, its vast forests constitute a significant air filter and the diversity of its flora and fauna is among the richest in the world. Then again, there are also cities in which it is hazardous to dwell for environmental health reasons. The poor management and storage of nuclear material is a specific danger.

### **Lake Baikal is Russia's Galapagos**

- Lake Baikal contains 20 % of the world's fresh water
- 17 000 plants and animals, 2/3 of which indigenous to the region
- UNESCO World Heritage site since 1996
- The deepest lake in the world: 1 637 m
- Total area 31 500 km<sup>2</sup>
- The ecosystem of Lake Baikal is jeopardized because of energy policy decisions

When it comes to environmental and nuclear safety issues, the incompleteness of Russian society and its institutions can clearly be seen. The authorities are constantly trying to curb outside influence, when at the same time it is obvious that environmental and nuclear safety issues are global questions that are impossible to solve with domestic policy alone. It is in the interest of the Russian authorities to secure the uninterrupted operation of nuclear power, as is maintaining proper control over fissionable materials. Hence, the government has appropriated increasing funds for these purposes. However, increasing investments and growing interest alone cannot solve environmental and nuclear safety problems. A key link in the nuclear safety chain would be an independent national nuclear safety authority. In Russia, as was the case in Soviet times, the nuclear energy sector is a strategic production branch, largely immune to outside supervision. Despite international efforts the situation is still unacceptable. Poor wages among civil servants and bureaucratic corruption play their own part. As if corruption and questionable work ethics were not enough, division of labour and accountability are still nebulous concepts in the Russian environmental and nuclear safety administration. A good example of the continuously changing responsibilities involves Atomenergoprom, a holding company established in January 2008. The company is to be in charge of all nuclear power production related to peaceful purposes. Furthermore, the nuclear power station operator Rosenergoatom will be merged into this entirety. It remains to be seen how influential and visible Atomenergoprom will ultimately be, especially, in relation to the nuclear safety authorities as Russia's nuclear safety is improved.

The management of Russia's environment and nuclear safety issues will herald the direction into which the Russian state develops. Adoption of good governance, recognition of the global nature of environmental issues as well as the proper funding of environmental safety will show whether Russia is a great power, not only responsible for its own citizens but for global security as well. In global politics, environmental safety provides Russia with a window of opportunity to gain respect.

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## 6. Energy

### Introduction

Increasing energy consumption, climate change and the high price of energy caused by limited resources have highlighted the role of energy in the global economy and global politics. Countries possessing abundant natural resources, such as Russia, have emerged as key actors in global energy politics. The manner by which energy transports are guaranteed tops the agenda in international politics.

This chapter analyses risk and safety factors in the Russian energy sector, the way energy affects the stability and development of Russian society, and whether decisions taken in the energy sector impact the security of Russia's adjacent areas. It is very important to the EU and Finland to monitor Russia's development. As energy production and consumption increase our near environs, such as the Gulf of Finland and the Baltic Sea as well as the Kola and Barents Sea regions, become increasingly important.

### The present state of the energy sector

Russia's vast and still largely untapped raw material resources are of crucial importance to the world and to the EU. They give Russia a strategic role in energy policy and international relations. Russia has the world's largest natural gas resources, the second largest coal deposits and the eighth largest oil reserves.<sup>42</sup>

Proven	2006	Global share
Oil	79.5 billion barrels	6,6%
Natural gas	47.65 trillion cubic metres	26,3%
Coal	157 010 billion short tons	17,3%

Source: BP Statistical Review of World Energy June 2007

Russia's annual economic growth has averaged nearly 7 % during this decade, mostly thanks to export revenue from the energy and raw materials sectors. Higher prices of crude oil and metal have also bolstered the upswing.<sup>43</sup> The energy sector (oil, natural gas, coal) brings in approximately 60 % of Russia's export revenues and taxes levied on export and production comprise one half of the estimated revenue in the budget of

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42 <http://www.eia.doe.gov/emeu/cabs/Russia/Background.html>

43 Kuusi et al. (2007, 15).

the Russian Federation. Even though energy brings a lot of money into the state budget, mining, energy production and distribution employ only 2-3 % of the labour force. In comparison, industry employs 17.7 %. The energy sector can positively influence the rest of the national economy by making investments which employ, for example, ship-builders as well as producers of rolling stock and drilling equipment. Without additional investments the energy sector alone cannot sustain Russia's development.

An analysis of the energy sector inevitably overlaps and intersects the other sectors of society. Today, the energy sector is often seen as the cornerstone on which the other sectors of Russian society are built. Economic policy and foreign and domestic policies are heavily influenced by the decisions taken in energy policy. When the price of energy is raised in the domestic market, it will shape the development of Russian society in many ways.

It remains to be seen how Russians will react to rising domestic energy prices. The prevailing opinion is that Russia uses energy as an instrument of foreign policy; a view which Russia denies. From the Russian point of view market economy rules prevail in the energy market, which Russia aims to fully exploit in its national interests. Even though the West and Russia have different opinions about the importance of energy in Russian foreign policy, energy clearly plays an important role in Russia's foreign relations. Challenges in upcoming years will include Russian energy policy inside the area of the former Soviet Union as well as energy transport issues.

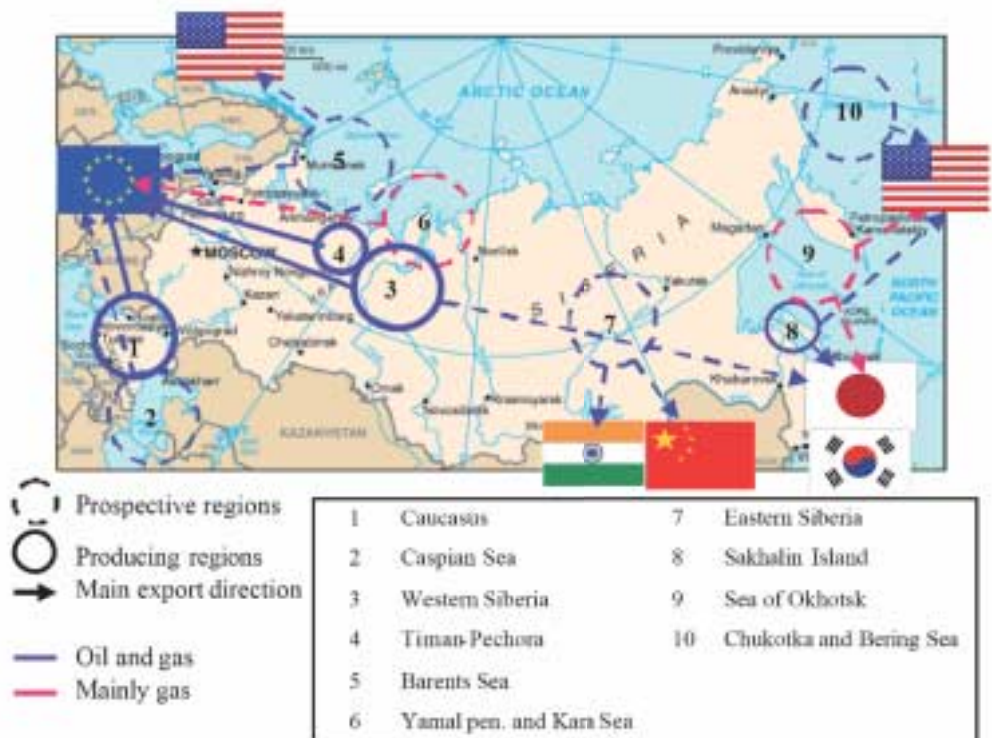
## Oil

Russia's biggest oil fields are in western Siberia, where the known oil reserves amount to approximately 79.5 billion barrels. After Saudi Arabia Russia is the world's second largest oil producer. In 2008 Russia produced 9.8 million barrels per day (bpd). Whereas Russia's share of global production was 12.3 %, Saudi Arabia's share was 13.1 %.<sup>44</sup>

<b>Russia and oil</b>	<b>1996</b> 1000 bpd	<b>2006</b> 1000 bpd	<b>Trend 2005-2006</b> 1000 bpd	<b>Share of global production</b>
Production	6 114	9 769	+2,2 %	12,3 %
Consumption	2 686	2 735	+4,2 %	3,3 %
Refining capacity	6 098	5 491	No change	6,3 %

Source: BP Statistical Review of World Energy, June 2007

<sup>44</sup> BP Statistical Review of World Energy, June 2007.



Source: Bjorn Brunstadt, Econ Pöyry (Presentation on 17.1.2008 in St Petersburg: The Northern Dimension: Regional Co-operation, Business and Energy-seminar)

Oil production is growing annually by 2-3 %, in other words considerably slower than in the beginning of this decade. Any marked increase in oil production would require relocating to East Siberia and the Russian Far East, where oil fields, like those in the Sakhalin continental shelf, are still mostly unexploited. Many companies believe that copious quantities of oil can be produced by employing new technology, but the required investments are high and technical challenges enormous. In the long run the sustainability of production would also incur expenses. This being the case, western Siberia will probably retain its prominence for a long time.

In 2006 Russia exported approximately 7 million bpd, 4 million of which were crude oil. The Druzhba pipeline carried 1.3 million bpd to Belarus, Ukraine, Germany, Poland and elsewhere in the EU. Shipping from Primorsk seaport amounted to 1.3 million bpd and 900 000 bpd from the Black Sea, respectively.<sup>45</sup> Russia also exports some oil to the United States and aims to increase its Asian share.

<sup>45</sup> [http://www.eia.doe.gov/emeu/cabs/Russia/Oil\\_exports.html](http://www.eia.doe.gov/emeu/cabs/Russia/Oil_exports.html)

Russia's oil market was opened for privatization in the end of the 1990s. However, international oil companies did not express any serious interest in Russia until the price of oil began to rise in the beginning of this decade and Russia's potential for bringing new reserves to the market was considered better than other alternatives. State ownership of oil companies has grown dramatically. The state is a majority shareholder in Rosneft which became the country's biggest oil company when it took over the most important production unit of Yukos, which itself was forced into liquidation. The state's oil pipeline company Transneft has a monopoly over the pipeline transport of crude oil and has made major investments in its oil transport capacity (e.g. the Primorsk seaport and the East Siberia - Pacific Ocean pipeline). Transneft and Transnefteprodukt merged in 2007.

## Natural gas

Russia's natural gas reserves total approximately 47.65 trillion cubic metres, which are nearly twice that of Iran with the next largest reserves. At the present rate of consumption, Russia's reserves are estimated to last approximately 80 years.<sup>46</sup> The Yamal Peninsula contains at least 10 000 billion cubic metres of gas and the Shtokman Field alone, located off Murmansk in the Barents Sea, is estimated at yielding 3 200 – 3 700 billion cubic metres. This could provide enough natural gas for the world for one year. The field's location and its severe climate make its development particularly challenging and, due to lack of investments, it has yet to come online. Many experts take it for granted that Gazprom positively needs foreign expertise in order to exploit the Shtokman Field, which is roughly 500 kilometres miles north of the Russian mainland in deep water.

Being the world's largest natural gas producer and exporter, Russia has a strategic role in global energy politics. In 2006 Russia produced 612 billion cubic metres of gas.<sup>47</sup> Unlike oil production, natural gas production was not privatized in the 1990s. Hence, it did not experience the slump the oil business encountered. Then again, it also missed the upswing in the beginning of this decade. The Ministry of the Oil and Gas Industry of the USSR was transformed into Gazprom, a public/stock company. The state is the majority shareholder in Gazprom, which also owns the gas pipelines and is responsible for 85 % of the nation's natural gas production.

Gas production increased a little in the beginning of this decade. However, the present growth rate is not expected to exceed one per cent per year. The main reasons for such modest growth are ageing fields, government control, inadequate export

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46 British Petroleum 2006.

47 Ibid.

pipelines and the Gazprom monopoly.<sup>48</sup> Production in Gazprom's main fields (Medvezhye, Urengoyskoye and Yamburgskoye) in the Yamalo-Nenets autonomous region decrease annually by 20 billion cubic metres. In spite of everything, Gazprom maintains that even if production is not growing, it is not decreasing either. This "official state optimism" is rhetoric used to sustain production but barring new major investments will hardly be credible in the long run. In the next few years, the company aims to sustain gas production by developing the satellite fields, Yamburgskoye and Zapol'nyoye. In order to sustain production even at present levels in the long term, investments are desperately needed to develop the already existing fields as well as for opening new ones.

<b>Russia and gas</b>	<b>1996</b> (billion cubic metres)	<b>2006</b> (billion cubic metres)	<b>Trend 2005-2006</b>	<b>Share of global production</b>
Production	561,1	612,1	+2,4%	21,3%
Consumption	379,9	432,1	+6,7%	15,1%

Source: BP Statistical Review of World Energy June 2007

Central Asia is a potential source of more natural gas. At present, its gas can be transported to the EU countries only via Russian pipelines. By signing long-term contracts with Kazakhstan and Turkmenistan, Russia has attempted to secure its role as the only option for gas transports from Central Asia to Europe. Without these contracts Russia could hardly meet all of its export obligations.

In all, Russia exports natural gas to 32 countries. Its most important customers are the EU countries. Two thirds of Gazprom's revenue comes from gas exported to the EU, which comprises a quarter of Gazprom's total production. Gazprom is as dependent on the EU's market as the EU is on Russian energy. This can be seen, for instance, in Gazprom's continual efforts to increase its gas transport routes to the EU countries. Together with the German E.ON energy company, Gazprom is building two gas pipelines in the Baltic Sea. Their combined capacity will be approximately 55 billion cubic metres per year and their aim is to increase the reliability of gas exports to the EU countries.<sup>49</sup> Likewise, Europe will remain Russia's most important gas market in the next few years. However, by hoping to increase its gas export shares in Asia and the United States, Russia is already looking over the horizon towards new gas projects.

48 <http://www.eia.doe.gov/emeu/cabs/Russia/NaturalGas.html>

49 Nord Stream Facts, Issue 0, 04-2007.

## Nuclear power and electricity

Russia produces 8 % of the world's uranium. The uranium mines in the Krasnokamensk area are among the world's largest. The mines in Priargunsk produce 95 % of Russian uranium ore. In addition, Russia imports uranium from Australia.

At present, Russia has 10 nuclear power plants which include 31 reactors. Their total output is approximately 23 242 MW, accounting for 15 % of Russia's electricity requirement.<sup>50</sup> The nuclear power equivalent of Gazprom is the state-owned Rosenergoatom, which owns the plants, produces their fuel, handles the processing of spent fuel and builds new power plants.

In comparison to Europe Russia has relatively few nuclear plants, but its construction plans are ambitious. Rosenergoatom has stated that it aims to generate 23 % of Russia's electricity with nuclear power by 2020. This would require the construction of 30 new plants. It is likely that only five or six plants, at most, will be finished by 2015. The plan's underlying cause is Russia's long-term strategy to replace oil and gas with nuclear power in electricity generation so as to be able to export more gas and oil.<sup>51</sup> Russia also plans to increase the proportion of coal and hydropower. However, any larger scale shift to coal in electricity production is unrealistic, at least in the next few years.

The electricity sector is presently undergoing a huge structural change as well as partial privatization. By the end of 2008 the RAO-ESS electric monopoly will have been split into separate companies: a main grid operator, a systems operator and distribution and production companies. Apart from the state-owned nuclear power and the government's 50 % share in hydropower, several private entities will gain ownership in electricity generation through market liberalization. Through this process, Gazprom will become the largest company in Russia's electricity sector. Russia feels that electricity generation is more valuable than natural gas or oil export and, therefore, there is some political pressure to increase exports of electric energy. Even though gas-powered electricity generation is profitable at present prices, economic realities do not support any large-scale exports of electricity. The main reasons are the required investments in transmission lines as well as transmission losses. Furthermore, the price of electricity is not sufficiently high to justify the required investments in overhauling and renewing the dilapidated production capacity.

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50 <http://www.rosenergoatom.com/en/concern/>

51 Iran also has the same public strategy to increase export revenue

### Consumption of electricity in Russia

In 2003 the electricity consumption grew by 2.3 %

Total consumption was 985.2 billion kWh

Unified Energy Systems (UES), led by Anatoly Chubais, produced 705.8 billion kWh of the total consumption

In January 2008, the Russian government estimated that consumption will increase by 5 % annually until 2011

Source: St. Petersburg Times, January 15, 2008

## Risk factors in Russia's energy sector

Russia's energy sector and Russian energy policy are riddled with contradictions, questions, challenges and opportunities. Russia's energy and energy policy have given it more self-confidence in domestic and foreign policy. However, this has also raised questions in the West as regards Russia's reliability as an energy provider and a trading partner. Several of the problems in Russia's energy sector emanate from the past and more time is needed to rectify the shortcomings. Other challenges occur irrespective of Russia itself. The following is an analysis of potential risk factors in Russia's energy sector and energy policy.

## The global market for oil and natural gas

The world's energy reserves are being depleted which is why everyone is ready to pay higher energy prices. If the present price level continues, Russia's energy export revenue is the single most important safety factor for the energy sector and Russia's development. Nevertheless, price fluctuations are endemic in the oil and gas sector and they may become a destabilizing factor for Russia, hungry for export revenues.

Whereas oil export revenues depend on world market prices, gas price policy is more complex. The price of gas exported to the EU countries largely depends on the price of oil, while in Russia prices are still heavily subsidized. Price subsidies are also still employed with some CIS countries. On the whole, Russia's gas price policy with the CIS countries is opaque. Since 2004, the price of gas has risen for Georgia, Ukraine, Moldova, Armenia and Belarus. Gazprom has stated that it wants to raise the price of gas in

the area of the former Soviet Union to the same level as the EU countries.<sup>52</sup> If this happens, Gazprom's revenues will increase even without any additional production.

The key question is how high the global demand for energy will rise in the future. Several estimates believe that the demand for fossil fuels in industrialized countries will begin to decrease around 2015. As diesel-powered cars become more popular oil will no longer play such a key role in traffic. Liquefied Natural Gas (LNG) will be available. Russia plans to produce LNG but it is still uncertain whether it can overcome the technical hurdles associated with LNG production. Further challenges on the global market include the use of renewables as well as biofuels. Russia will not be able to cope with these changes without transfers of expertise and technology with the West. From the standpoint of energy, the integration of Russia's economy into the global market will not in the long term transform Russia into a great power able to flex its energy muscle. Instead, Russia will be a strong country operating under market economy principles, interdependent particularly with the West but also with emerging great powers, such as China. In the short term, Russia's gas price policies with the CIS countries as well as its diverse pipeline schemes make the situation look like a zero-sum game.

## Investments and infrastructure

The greatest risk factors in exploiting Russia's tapped and untapped natural resources are inadequate investments as well as ageing or nonexistent infrastructure. The present level of investments does not enable Russia to bring new, technically challenging finds online (e.g. those in the Barents Sea and East Siberia) or even sustain production with the existing infrastructure. It is likely that oil production cannot be increased because most of Russia's refineries are obsolete and inefficient. It would take billions to upgrade them for the production of modern fuels. In general, oil-producing countries have only made meagre investments in the oil sector, fearing a price crunch. This applies to Russia, too. Neither can the gas sector sustain production alone in the long term. The technical challenges of the new gas fields require enormous investments. Russia's leadership has stated in no uncertain terms that the state shall retain ownership of natural resources. This being the case, foreign investors cannot own oil or gas, but outside investments are being sought in the form of subcontractors or partners. As a rule, all companies aim to retain at least 51 % of the ownership in Russian hands. The Shtokman Field case was a prime example of the fickle rules of the Russian energy policy. Even though Russia can develop its energy sector without large foreign ownership, it will take much more time and investors will get lower returns on their investments.

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52 N.B. There are price differences inside the EU as well.



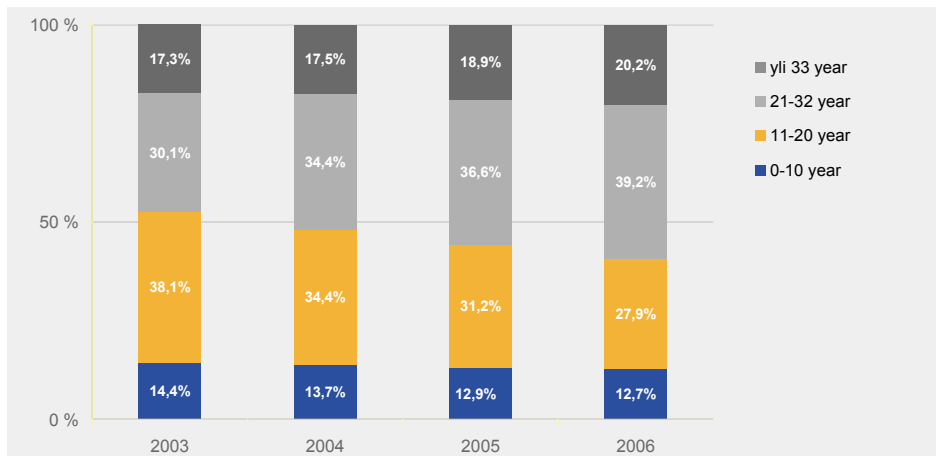
Russia's energy policy is short-sighted, devoid of long-term objectives. Still in the same frame of mind, it is trying to gain maximal profits from minimal investments. What's more, state control does not provide for real competition between foreign and domestic investments. The increasing share of state ownership demonstrates the government's tightening stranglehold over the energy sector. If Russia created a more favourable investment climate for domestic and foreign investors alike, the new oil fields could be brought online and oil delivery problems could be solved. This could help stabilize the global oil market. Key questions include the efficiency of the increasingly state-owned oil companies and whether foreign companies would be allowed to participate in new projects. The most important features of the investment climate are transparency and ownership rights in Russia.

Another encumbrance to Russia's energy sector is the sorry state of its infrastructure. It is still mostly Soviet era technology and has been neglected for decades. Despite the desperate need to build new production fields and transport routes as well as electricity and heat distribution networks, investments began to lag as early as the 1980s. The shape of its infrastructure is of crucial importance if Russia aims to fully exploit its natural resources and thereby improve living standards.

If Russia wants to maintain production and exports at present levels, investments in upgrading and developing the infrastructure will require hundreds of billions of roubles in the near future. Transport routes are also expensive to build because of Russia's sheer size. Due to the central role of the government, future decisions will be increasingly political. Because of political foot dragging, less and less information is provided on the condition of infrastructure. There are also transparency problems related to the regular maintenance and inspection of gas pipelines.

The infrastructure's poor condition increases safety risks in Russia and in its adjacent areas. Particularly the gas pipeline network is difficult to manage. Due to insufficient investments, breakdowns and malfunctions will probably increase. An example of this is the gas pipeline explosion in southern Russia in January 2006. The pipeline went to Georgia and Armenia. Whereas the President of Georgia accused Russia for deliberate sabotage, Russia put the blame on terrorists. The most probable cause was that the decaying pipeline simply ruptured. Even though the entire pipeline network will not collapse, ageing pipes constitute a large risk for the reliability of supply as well as a major environmental risk. From the standpoint of the EU countries, the biggest risks involve the Ukraine pipeline and its condition because the lion's share of natural gas to Europe goes through Ukraine. Since the pipes in the EU countries are fairly robust, the risk is mainly related to who will guarantee the safety of the Ukraine pipeline and sustain gas deliveries in a situation where cooperation between Russia, the supplier, and Ukraine, the owner of the pipeline leaves much to be desired.

The age of Gazprom pipelines, %



Source: Vladimir Milov, Institute of Energy Policy, Moscow, FT Gas for Europe Conference, Budapest September 2007

## Russia's internal problems

Russian domestic policy is still full of surprises. The developments in domestic policy during the Putin presidency have affected Russia's energy policy. One of the guiding principles in Putin's domestic, economic and foreign policy was the abolishment of decisions taken during the "feeble Russia" of the 1990s. BP's experiences in East Siberia serve as an example of this in the field of energy policy. The central government has also strengthened its domestic policy role during the Putin presidency. A reflection of this in energy policy is the increase of state ownership. Internal disputes among the power elite are also seen in the energy sector, the most visible of these being the Yukos case and the Khodorkovsky trial. The energy sector is also mired in age-old Russian problems: burgeoning bureaucracy, nonexistent interagency cooperation, corruption, lack of transparency, nonexistent rules of the game and government capriciousness. These make it difficult for anyone to operate in Russia. Ownership rights are still fuzzy and unsettled in Russia, making the country less attractive to investors.<sup>53</sup>

In addition to direct domestic and administrative problems Russia faces other challenges. Energy consumption, proportioned to the GDP, is three times that of the EU countries. Because consumer prices are subsidized, Russian households and production facilities routinely waste energy. The major questions for the gas sector are whether higher prices would result in energy savings and whether gas sector operators, espe-

53 Kuusi et al, 2007, 12-13.

cially natural gas users, could be forced and also cajoled into embracing innovation. This would reduce the willingness of the industry to invest in wasteful production.

Russia's climate has always been a challenge for Russians and visitors alike. In the globalizing world, even Russia will not escape the effects of climate change. In the energy sector visible signs include corroding pipes and the thawing of the permafrost which may result in pipeline ruptures. Furthermore, extreme cold spells will increase, skyrocketing the power demand. In such a case, peak power periods may result in blackouts in Russia and subsequently rolling blackouts in other countries as well. These may also occur due to technical problems caused by the severe climate and cold winters. Because of weather conditions, storage and maintenance is only possible in the summer, whereas maximum output is required in the wintertime. This, combined with substandard pipes, may result in exceeding the pressure limits.

Gazprom has been trying to raise the domestic price of gas for a long time. The state has said that it will raise the price by 2011. By that time it is estimated the price will be comparable to the price the EU countries pay, making an allowance for export tax and transport. At present, the goal seems unrealistic. Citizens do not want to pay the high world market prices and industry, too, will fight the price hikes. Then again, if the price of gas goes up as predicted, it may be a positive incentive for smaller suppliers to increase their production, thus eliminating the overarching role of subsidized gas in domestic policy. The domestic price of gas will also be influenced by the status of the power elite, how bad their internal disputes are, how strong the president is and the overall growth of the economy.

Because of uncertainty with regard to private and foreign investment and higher taxes, oil production has decreased since 2005. Even though oil demand in Russia will continue to grow because of the higher number of cars and gas shortages caused by electricity production, oil production in the near future is not estimated to grow from the present 2-3 % rate. Oil brings in huge amounts of profits and, for example, the revenue surplus is by international standards at the top level.<sup>54</sup> In 2004, oil export monies were channelled into a stabilization fund, intended to act as a buffer against world market price fluctuations. If the world market price of oil suddenly tumbled, even with the stabilization fund in place, it would dramatically impact Russia's economy. After all, almost 50 % of the state budget relies on energy revenue. Thus far a very modest amount of oil revenue has been allocated to the development of society. This is partially because Russians do not yet believe that the present government can soundly invest stabilization funds in societal projects. Russia did tap into the funds in paying off its foreign debt.<sup>55</sup> Furthermore, since the autumn of 2005 oil monies have been allocated to the four priority projects: education, public health, agriculture and housing.

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54 OECD 2006.

55 Despite paying back national debt, the stabilization fund has doubled within a year. Funds are almost totally invested in foreign currency: 45 % in dollars, 45 % in euros and 10 % in pounds. Bofit weekly 3/2007.

The prosperity gap in Russia is growing, the major reason for this being energy revenue. Inequality cannot only be seen in Russian society, it also exists between regions. The most prosperous areas include Moscow, other large growth centres as well as the area of Tyumen, the hub of gas and oil production. Throughout most of the land, however, people still live in poverty without running water or electricity.

Hand in hand with the oil sector boom, Russia runs the risk of being exposed to the "raw materials curse" phenomenon, commonplace among raw material producers. This phenomenon is used to explain the sluggish diversification of their economies. Given that importing goods is cheaper than domestic production, export revenues from raw materials do not result in a flourishing domestic industry. Therefore, Russia's booming oil sector asphyxiates the country's indigenous industry by upholding downward trends in industrial production, even in spite of the large export revenues from raw materials.<sup>56</sup>

## Problems with transit countries

Russia's energy sector is still very much tied to the CIS countries. Most energy transports to the EU countries go through Ukraine and Belarus. This has made Russia dependent on them and, simultaneously, increased the relative importance of the transit countries. Russia has not taken this amicably, as is demonstrated by the increasing energy disputes with Ukraine, Georgia, Belarus and the Baltic countries.

Russia, provoked by the actions of the transit countries, has begun to follow an energy policy reminiscent of its traditional spheres of interests and a zero-sum game. Consequently, Russia will avoid recalcitrant transit countries by, for example, refusing to construct new gas pipelines through the Baltics, Poland, Ukraine or Belarus. Furthermore, Russia will try to reduce its dependency on transit countries by creating new export corridors on its own soil or on the seabed. Examples of this include the joint projects between Gazprom and the German E.ON and Wintershall on the Baltic Sea pipeline, the Bluestream Pipeline in the Black Sea and the Southstream Pipeline, planned to go from Russia to Italy via Bulgaria.<sup>57</sup>

As regards oil exports, there are plans to increase the share of shipping by doubling the capacity of the Primorsk terminal to almost 150 million tons. This is being done in response to the measures implemented on Russian oil transit transports by the government of Belarus. It is also probable that more refining capacity and petrochemical industries will be built in Primorsk or in its surroundings. The export of refined products could significantly increase if the quality of these products is improved. Transport via the Baltic Sea is politically advantageous to Russia as it makes it independent from transit coun-

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56 Latsis 2005.

57 Kuusi et al 2007.

tries. Instead, oil can be shipped directly to the customer. Whereas this option is also the most profitable for Russia, it is potentially the most hazardous to its surroundings, such as Finland. Increasing cargo shipping in the Baltic Sea as well as narrow corridors in the Gulf of Finland and the Danish straits aggravates the accident risk.

NORD STREAM	SOUTH STREAM
Partners: Gazprom, BASF, E.ON	Partners: Gazprom, Eni
Construction began on 12/2005	Construction is planned to begin in 2009
Estimated price: €12 billion	Estimated price: €7-10 billion
Route: In Russia: Babayevo - Vyborg – Baltic Sea - Greifswald, Germany- to Olbernhau and Achim (Germany)	Route: Bergovay (Russia) - Varna (Bulgaria), branching off to southern and northern Italy (via Bulgaria, Romania, Hungary, Czech Republic, Austria, Serbia and Greece)
Water depth: 210 m at maximum	Water depth: 2 000 m at maximum
Planned length: 917 km in Russia, 1 196 km under water, 850 km in Germany	Planned length: 900 km under water
Capacity: 55 billion cubic metres per annum	Capacity 312 billion cubic metres per annum
First deliveries: Spring 2011	First deliveries in 2013

## The absence of a normative framework in EU-Russia relations

EU-Russian energy relations are built on a partnership that is mutually beneficial from the economic and political perspective. The EU countries and Russia are close neighbours and the existing pipeline network has promoted the stabilization of their energy relations as well as increased their interdependency. The EU countries are dependent on energy imports and Russia has been a reliable supplier. The EU has also preferred Russia to North African and Middle Eastern gas suppliers as a more stable and “more democratic” alternative. Consequently, the EU countries’ dependency on energy imports has created the most important societal development and economic safety factor for Russia. The EU pays Russia five times as much for energy than what Russia gets from other customers. Therefore, Russia has tried to increase energy deliveries and sustain reliability.

The Ukraine-Russia gas dispute cast doubt on Russia’s reliability as a supplier for the very first time. Furthermore, it raised the issue of absent normative economics, especially regarding energy. Russia has not yet gained membership in the WTO. The current Partnership and Cooperation Agreement (PCA) between Russia and the EU is wide-rang-

ing and its rules are vague, including those on energy cooperation. Moreover, Russia is not willing to ratify the Energy Charter Treaty (ECT). A specific point of contention in the treaty is the transit article. Should it enter into force, the article would allow outsiders to own the pipelines which carry Russian gas. Russia has reported that it will abide by the de facto treaty. However, it will not ratify the treaty as it is. When it comes to energy issues, Russia is outside the multilateral framework. In its G8 Presidency declaration in 2006 Russia emphasized its role as an independent actor in the world energy market. Russia appears as a "normal" energy supplier. However, due to the absence of commonly adopted rules there are points of contention between it and energy consuming countries, especially the EU.

The absence of a common energy cooperation framework causes bilateral tensions in the energy sector between Russia and individual EU countries. For example, the Estonian war memorial clash, the Polish meat export dispute, the Lithuanian oil refinery row and port arguments in Ventspils, Latvia, have raised suspicions as regards Russia's motives in its EU relations. Furthermore, the disputes have again raised old-fashioned fears about the Russian threat. The problems in EU-Russian energy relations are embodied in the Baltic Sea gas pipeline project. Whilst the EU's internal cohesion works sporadically, the EU has failed to create a common external energy policy. This strengthens the role of bilateral relations, favoured by Russia, eradicating the Union's own goals on harmonizing its energy policy with regard to energy security and reliability of supply. This being the case, the absence of an EU common energy policy only plays into the hands of Russia's short-sighted and utilitarian energy policy. The rules of industrial logic, i.e. synergy, also operate in EU-Russian energy relations. Whereas Gazprom aims to penetrate downstream and participate in delivery, storage and sales of gas in Europe, the EU countries' gas companies try to integrate upstream in Russian gas production and break the monopoly of Gazprom. Moscow, however, has chosen to operate alone. This means that Gazprom deals directly with its biggest customers. It is expected that Gazprom will become more prominent in the open European market, preventing genuine competition sought by the EU countries.

The most important goal of the EU countries in the present energy relations is to increase reliability and transparency which, in addition to accountability, have eroded. Moreover, the EU aims to intensify energy cooperation and persuade Russia to ratify the Energy Charter Treaty which it has already signed.<sup>58</sup> Should Russia fail to do so, the EU will try to include the content of the Treaty into the new EU-Russian PCA.<sup>59</sup> It is problematic, however, when Russia tends to view the Commission's energy initiatives<sup>60</sup> only from its own perspective and as provocatively anti-Russian. Yet, almost all official Russian statements emphasize that while, in principle, Russia accepts the ECT and abides by

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58 <http://www.encharter.org/>

59 Partnership and cooperation agreement between EU and Russia 1997. [http://ec.europa.eu/external\\_relations/ceeca/pca/index.htm](http://ec.europa.eu/external_relations/ceeca/pca/index.htm)

60 Cf. European Commission (2007): Energising Europe: A real market with secure supply.

it, it will not ratify the Treaty in its present form. However, Russia, too, needs common rules and Russian companies do try to follow them. Russian companies fully understand that unless they follow the rules of the world market, they will not ultimately make it in the global competition.

## Diversification of oil and natural gas exports

At present, Russia has no economic incentive to transfer its oil and gas exports away from the EU. China is interested in purchasing Russian gas, but the present Chinese offer is only half of what the Europeans pay. Moreover, whereas the distances from Russia to the EU countries and to China are almost identical, Western infrastructure is almost complete and the Chinese one still very much in the works. The United States, too, would be interested in importing Liquefied Natural Gas (LNG) from Russia but Russia does not yet have the required infrastructure on the Atlantic side. The construction of pipelines to China as well as building new LNG terminals will take time and money. Therefore, Russia can expect to diversify its energy exports from the EU to China and Asia no earlier than 2020.

The long-term motivation for Russia to diversify its energy exports is the prospect of higher return and knowledge of the fact that its untapped finds in relation to the world's continuously depleting energy resources guarantee its energy production and secure export markets outside the EU as well. By bringing new resources online and by channelling the surplus revenue and profits accrued from energy exports into societal development, Russia could eventually challenge the global supremacy of the United States.

Transneft aims to complete the first phase of the East Siberia pipeline to Skovordyno by the end of 2008, thereby gradually increasing the importance of Asia. The completion of the second phase, the segment to the Pacific Ocean, may be delayed. This is due to the fact that it will take time to develop the East Siberian oil fields and oil transport from western Siberia to the Pacific Ocean is very expensive (at least \$12 per barrel). Gazprom has already spent a decade developing the Prirazlomnoye oil field in the Barents Sea, both with and without partners. The intention is to export 12 million tons of the Komi-Nenets region's oil from the Varandey terminal, built by LUKoil and ConocoPhillips. Slow construction, however, will delay Russia's opportunities to diversify its customer base into China, East Asia, the United States and Japan. No significant energy diversification is expected in the coming 5-10 years. The EU will retain its present customer status. However, even though progress is slow, there is no doubt about the direction in which energy diversification is going.

## The near future of Russia's energy sector

Russia's political and macroeconomic stability largely depend on the energy policy decision taken in the next few years. Then again, factors outside Russia also affect the situation, such as the development of energy prices in the world market, global demand and the decisions of its key competitors and customers, like the EU and China.

Whilst the demand for Russian energy is on the rise, production lags behind. According to its official energy strategy, Russia aims to increase the importance of its energy sector by intensifying production and bringing new energy resources online.<sup>61</sup> Nevertheless, it is not known how Russia actually intends to achieve these goals. Should Russian gas production suddenly decrease while other countries increase consumption, this would have dramatic consequences. On the one hand, Russia tries to increase foreign trade and conducts its energy relations on the principles of the market economy and utilitarianism. On the other hand, Russia's approach to its energy resources is politico-strategic, manifested in increasing state control and ownership and the use of energy as political leverage. This being the case, the policy is more conflict-oriented than based on cooperation with, for instance, transit countries.

In the coming years it is possible that the price of gas in Russia will approach the world market price.<sup>62</sup> This was one of the requirements of the EU concerning Russia's WTO membership. It will likely materialize even faster than the schedule set by the EU. Price controls will also be abolished during 2008 for a small supply of gas. The liberalization of the price of electricity is probably only a question of time or change of guard. The common denominator in the near future of Russia's energy sector is most likely the determination to retain domestic control over energy resources by offering others, such as foreign investors, only minority partnerships.

It is difficult to foresee the politically induced risk factors of Russia's energy sector. According to Andrew Monaghan, energy disputes and EU-Russian energy relations display an energy security dilemma<sup>63</sup> in which one party, suspicious of preparations by another, begins to make its own preparations in case the other intends to threaten it. This results in a vicious circle which increases tension in energy relations and which may provoke undesirable action from the perspective of either party.

Rhetoric on resource depletion will probably increase. At present, its consequences are mainly considered negative, exemplified in rhetoric related to energy sector threat scenarios. Optimistically thinking, this rhetoric could also have a plus side, materialized as energy savings. However, the rhetoric also concretizes the dilemma in Russia's energy policy. Russia's energy policy is still built on selfish and immature thinking where energy is mainly viewed through the following dichotomy: energy policy can ei-

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61 Ministry of Energy of the Russian Federation: The Summary of the Energy Strategy of Russia for the Period of up to 2020.

62 No global price for natural gas exists because, unlike oil, there is no global gas market.

63 Monaghan, 2006.



ther be conducted within the framework of the market economy, highlighting Russia's utilitarian approach to energy policy, or within a politico-military framework, emphasizing Russia's strategic approach to energy policy.

## The impact of Russia's energy sector on the security of its near environs

The abovementioned risk factors may directly or indirectly affect Russia's own safety or that of its adjacent areas. The biggest factor in this is the modus operandi of the central government, moulded by state-ownership, under which Moscow takes decisions concerning the energy sector. As a result, the energy sector remains politically charged. The politicization and use of energy questions as instruments of foreign and security policy generates the most uncertainty in Russia's near environs.

The energy export-induced boom is also visible in the defence budget. Defence spending grows hand in hand with other appropriations. For example, Russia has invested in its navy with the intention of securing the future of the Baltic Sea pipeline and the Shtokman Field. This creates a direct link between the energy sector and security policy. It is easy to create threat scenarios around the security of the energy infrastructure because it is so vital to Russia. However, they are fairly implausible and the debate around defending the Baltic Sea pipeline, for instance, seems fairly outlandish in comparison to any real threat. Instead, the rhetoric around defending the pipeline may be an attempt to legitimize naval procurement programmes and the increased Russian presence in its near environs.

Russia's arrogant energy rhetoric can be considered the single most harmful influence to the safety of its adjacent areas. It does not provide a base for cooperation for any of its energy partners, and in the worst case it may create tension around its borders. An example of such rhetoric involves Russia's claims of ownership of the large oil and natural gas deposits in the Lomonosov Ridge, a geological structure in the Arctic Ocean. The disputed deposits would not solve Russia's near-term capacity problems and even in the long term, Russia would have to invest heavily in the area. The most credible motivation for this claim is Russia's desire to strengthen its identity through symbolic power games. Quite often Russia's harsh rhetoric is only intended for the home audience. Russia's rulers still need to prove to their subjects that they can maintain the great power status and that Russia is a nation to be reckoned with in world politics.

The increasing military presence does not help either. Even though it poses no clear and present danger, it could constitute a symbolic threat. The security policy analogy between the energy sector and nuclear weapons is not completely far-fetched because like nuclear weapons, the deterrent effect of the use of energy as a weapon is greater than its actual employment. Then again, even a symbolic use of

energy as a weapon is dissuaded by the fact that Russia does not yet have an alternative export market, should exports to Europe dry up. All things considered, one cannot get the whole picture by thinking about energy in politico-strategic terms alone. Rhetoric and symbology must also be taken into consideration. Nevertheless, so long as Russia benefits from the energy trade, energy transports to the EU countries are probably free of security policy risks.

On the other hand, time and changing conditions do affect energy relations. Hydrocarbon resources are diminishing and demand and prices can unexpectedly change. This has a direct effect on the fact that energy has been securitized, i.e. made into a security policy issue<sup>64</sup>. This was particularly evident in the energy disputes between Russia and Ukraine as well as Russia and Belarus. The events had wider bearing on how stable or unstable Russia is seen to be and to what extent it resorts to unilateral spheres-of-interest policy vis-à-vis countries in its former sphere of influence. The Ukraine-Russia energy dispute also demonstrated that Russia's clashes with transit countries can also impact the EU's energy security. It remains unanswered whether Russia would actually shut the gas pipeline to the EU if EU-Russian relations would become severely strained. Still, it is not in Russia's interest to exacerbate the already cooled relations with the EU and, hence, lose energy revenue. Moreover, Russia's row with Ukraine created such waves in the EU that Russia will probably think twice before playing the same trick with, for example, Baltic countries.

Increasing environmental risks constitute the biggest security threat in the near environs. Due to unreliable technology caused by the ageing infrastructure and growing energy demand these risks continue to grow. When it comes to the nuclear power sector, deliberate or inadvertent shutdowns or accidents could seriously harm Russia's adjacent areas and their security. Russia has not essentially changed its views on environmental issues. On the contrary, Russia regards energy as political leverage in environmental questions. For example, the Putin administration took advantage of environmental protection issues in its attempts to regain control of vital energy projects. Neither is Russia's slate clean as regards emissions. Russia's accession to the Kyoto Treaty has marginal effect because the Treaty does not limit Russia's energy sector in any shape or manner. The Russian emissions quota was calculated in the 1990s, during its rock-bottom industrial production. If it were recalculated today, the quota would be considerably higher. Nevertheless, this does not change Russia's indifferent attitude towards environmental issues.

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64 Ole Wæver (1995): *Securitization and Desecuritization* in Libschutz Ronnie: *On Security*. Columbia University Press. NY.

## Summary

This chapter has analysed Russia's energy sector and its risk and safety factors. The energy sector is in a state of flux. This means that same factors may guarantee the stability of Russian society on the one hand and on the other hand spawn instability or provoke conflicts. Even though no dramatic changes are expected during the coming 5-10 years, this period will be the formative phase for Russia's energy sector. Taking this into consideration, it is noteworthy that Russia's energy sector and energy relations with other countries are highly politicized at present.

The lack of confidence between Russia and the EU countries inspires Russia to diversify its energy sector ever more. Simultaneously, it observes a policy of ever more excluding outsiders from the energy sector. Therefore, due to lack of investments, the energy sector cannot efficiently bring natural resources online and the energy infrastructure becomes more risk-prone than ever.

Russia will symbolically and rhetorically exploit its energy resources until it secures a position in the epicentre of international politics. At present, Russian energy policy is built on accentuating the threat rhetoric and security risks and on playing down environmental risks. This may lure Russia into using energy as a strategic weapon, which may also proliferate to other oil producing countries. Furthermore, since Russia seems to favour policy over logic in its energy policy decisions, the energy security dilemma between Russia and the EU may result in increasingly strained relations.

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## 7. Foreign and security policy

### Introduction

Russia's foreign and security policy is a challenge to Russians themselves as well as to states which deal with them. Russia is too large to have natural allies, but also much too weak to cope on its own in global politics. Russia's foreign and security policy has traditionally been defined by its national borders, its expanding dominion and issues affecting the country's security. Nevertheless, misunderstandings stemming from differences in conventions and culture or from Russia vying for great power status and its associated respect caused conflicts already in Russia's early foreign relations. The distance from foreign and security policy to domestic policy has never been great in Russia. The country has always been ruled in an autocratic fashion and its administrative culture differs from that of Europe. Yet at the same time, Russia has tried to alter and modernize its society and integrate with the West. Although Russia wants to cooperate with the West and with Europe, it wants to set the rules and keep its distance. Very little has changed since the times of Peter the Great. "The great ruler [Peter the Great] had two approaches in his relations with the West: a desire to learn and absorb everything seen as useful and practicable and, yet, a conscious pursuit of independence, own power and a certain sense of superiority".<sup>65</sup>

In 2001 President Putin said: "Foreign policy is the gauge and driver for domestic issues. We should not have any illusions about that. The capabilities, competence and efficiency by which we conduct our diplomatic relations do not only define our prestige in the eyes of the world, they also determine the political and economic situation inside Russia." The interrelationship between foreign and domestic policy is always more significant when there are internal conflicts within the country. Subsequently, the boundary between domestic and foreign policy easily disappears, making it difficult for outsiders to decipher. A special challenge in interpreting Russian foreign policy involves foreign policy declarations which are geared towards the home audience and which seem to be in conflict with already existing foreign policy guidelines. When foreign policy issues important to Russia stem from domestic needs, they become emotional issues. These Russian foreign and security policy sore points increase volatility in relations between Russia and the West.

Russia's expressions of emotion often come as perplexing surprises to the West. Fierce outbursts paint a picture of unstable and capricious foreign policy, which only adds to reservations in the West, thereby further decreasing the possibility of closer cooperation. Typically, the Russian modes of operation which differ from Western institu-

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65 Wittram, 1973, 53.

tions and norms have remained strong. Western actors have traditionally regarded sentimentality and unreliability as distinguishing features of Russian foreign policy. Henry Kissinger characterized the foreign policy of Imperial Russia as arbitrary and hypersensitive. Even from the times of Ivan the Terrible there are examples of hypersensitivity. He and Elisabeth I of England were engaged in heated correspondence, in which the Tsar did not mince his words. He revoked all of the trading rights he had granted to the English-Russian trading company. His displeasure boiled down to the fact that he felt that Elisabeth treated Russia as a country of lower rank. This was also the first time when Russia linked economic interest with policy.<sup>66</sup> Indeed, the relationship between Russia and Europe, and later the West, is rife with undulation and conflict. Also Lord Palmerston, British Foreign Minister and Prime Minister, considered Russia's foreign policy in the mid-1800s duplicitous and misleading: on the one hand Russia declared its willingness to cooperate but its action was evidence of the contrary.<sup>67</sup> Similar suspicion of Russia can still be found in the backdrop of Russian-Western relations.

Mutual distrust may easily aggravate even minor international disputes. When an interlocutor's motive is disguised and his foreign policy practices seem strange, the counterpart's natural reaction is to prepare for the worst. This, in turn, spawns misgivings on the other side, resulting in a spiral of mistrust and a psychological security dilemma.

To a large extent Russian security policy is dominated by foreign policy and it is difficult to tell the difference between the two of them. In this chapter foreign and security policy are considered as a joint concept.

### Russia's foreign policy interests

#### Material interests

- Territorial integrity, security
- Living standards, economic growth

#### Psychological interests

- Great power identity: respect and inclusion in decision-making

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66 Isabel de Madariaga: *Ivan the Terrible: First Tsar of Russia*, 2005, pp. 312 -313 and 322 -324.

67 Donaldson&Nogee, pp. 32 -33

## Russia's foreign and security policy

President Vladimir Putin's foreign and security policy can be roughly divided into two phases. From 2000-2004 the policy was conciliatory, cooperation-oriented and strongly Western-oriented. The years 2004-2007 were influenced by Russia's domestic situation, characterized by the accentuation of sovereignty and self-reliance, with hints of anti-Americanism. Throughout history, Russian leaders have eradicated the traces of their predecessors, hoping to start with a clean slate. Only rarely have they continued the policies of their predecessors. During President Yeltsin's last year in office Russian-Western relations experienced a freeze. Confrontations occurred in 1999, such as Russia's hostile attitude towards Kosovo and the OSCE. The legacy of 1999 is still felt today. In 2007 Russia fanned the rhetorical flames. As a consequence, the international media began to speculate about a sequel to the Cold War.

In recent years Russian researchers have claimed that the significance of military policy will increase in global policymaking. According to Zoltan Barany, an American researcher, Russians maintain this belief because it continues the quintessentially Russian and Soviet tradition of regarding military might as primarily being a foreign policy instrument of the state.<sup>68</sup> Strong states advance their political and economic interests through their military potential. According to Russia's Security Council the military situation has changed from the Russian perspective and, therefore, the task of the armed forces has been reassessed over the past years. NATO's enlargement and strengthening resulted in the review of Russia's military doctrine (as of 2000). The doctrine must correspond to the present situation in which not only NATO is an issue, but also the altered Russian demographic picture. The new military doctrine will be adopted during President Medvedev's term in office. Foreign Minister Sergey Lavrov has said that Russia has returned to the world stage. "Military strong – Russia strong" is a slogan of sorts these days. Russia's hard-line declarations coupled with a strong ego boosted by its economic boom have been received with mixed feelings in the West.

Foreign Minister Lavrov quoted Bismarck in a speech in January 2008. He said that political estimates and, especially, security policy estimates must be based on potential rather than intention.<sup>69</sup> By saying this, Lavrov was referring to NATO enlargement, the planned missile defence site in Poland and the radar station in the Czech Republic. Russia also regards the question of Kosovo as a security issue. Even image questions are regarded as security policy issues. Since 2000 Russia has maintained that it considers the negative image of Russia a security threat. Russia has pointed the finger at Western media, blaming it for portraying Russia in the worst possible light. The Russian authorities have taken special objection to material published in the United

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68 Resurgent Russia? A Still-Faltering Military - Reports of its return have been greatly exaggerated, Zoltan Barany, Policy review, Hoover Institute, February-March 2008

69 RFE/RL NEWSLINE Vol. 12, No. 16, Part I, 24 January 2008.

States and the United Kingdom. They have gone as far as talking about "coordinated information warfare" against Russia.<sup>70</sup>

The US-Russian relationship is one of the key qualifiers of Russia's foreign and security policy. Russia has repeatedly expressed its displeasure at not being treated like a superpower, as it was during the Cold War. The prevailing opinion in the United States is that the West won the Cold War, which Russia's foreign policy leadership vehemently deny. Konstantin Kosachev, Chairman of the Russian Parliamentary International Affairs Committee, stressed in his article *Rossiya v globalnoy mire* (Russia in the globalized world) that while the West imagines itself as having won the Cold War, it fails to behave like a strong and self-confident victor. The West does not behave magnanimously nor can it show its weaknesses, for this is not its character. Hence, the result is a futile mix of fear and arrogance when the West tries to deal with Russia while it simultaneously puts pressure on Russia and fears it.<sup>71</sup>

Negotiations between Russia and the United States will be difficult when bilateral and multilateral arms reduction treaties are scheduled for review. The treaties involve both conventional and nuclear weapons (CFE, START, and INF). Their fate will also affect the security of Europe and Finland. Russia is not going to make unilateral concessions. Foreign Minister Lavrov has strongly attacked unipolarity by saying, "The experience of recent years has amply demonstrated that no single state or group of states has enough resources for imposing unipolarity. It is one thing to respect American culture and civilization; it is another thing to embrace Americocentrism. Unipolarity, quite simply, is an encroachment on God's prerogatives."<sup>72</sup> Since President Putin's 2007 speech in Munich almost all of Russia's foreign and security policy elite have harshly criticized the United States. At the same time, however, Russia is trying to mimic the foreign and security policy behaviour of the United States.

In his Munich speech Putin concentrated on the US-Russian relationship. Moscow is extremely suspicious and openly critical of plans to erect American missile defence sites in Poland and the Czech Republic. Russia fears that in the coming years the American missile defence system may grow to such an extent that it will render Russia's nuclear response capability useless. Moscow has stated that it will have to react to the plans, one way or another. Lavrov says that while Russia will react to the development, it does not intend to start another arms race. Even though Russia's prosperity has grown considerably, it is probably not in a position to challenge the United States in an arms race and ultimately prevail.

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70 Imagining Russia: The Role of Images in Russian-German Relations, Valentina Feklyunina, ICCEES Regional European Congress, 2-4 August 2007.

71 Konstantin Kosachev *Russia and the West: Where the Differences Lie*, *Russia in Global Affairs* № 4, October - December 2007.

72 *Containing Russia: Back to the Future?* Sergei Lavrov, *Russia in Global Affairs*. № 4, October - December 2007.



Russia has increased its defence budget throughout this decade. During Putin's term in office defence and security appropriations grew by nearly 500 %. Russia uses several times more on defence and security than on the combined expenses of health and education. According to Russian sources, the sum has quadrupled, adjusted for inflation (ca. €5 billion in 2000, ca. €24.5 billion in 2007). Over the past few years Russia has spent 2.6-2.8 % of its GDP on defence. Defence amounts to 15 % of the federal budget. However, defence appropriations can also be found in other budget areas as well. Nevertheless, in the future defence spending will not keep growing at the present rate. In an international comparison Russia's defence budget is relatively small compared to other great powers. For example, in 2006 Russia spent \$3 800 per soldier; the same figure was \$190 000 in the United States, \$170 000 in the UK, \$94 000 in Germany and \$12 700 in Turkey.<sup>73</sup>

Russia has earmarked approximately €145 billion for its 2007-2015 defence procurement programme. The goal is to preserve the nuclear deterrence and, simultaneously, improve conventional forces. According to the programme, 45 % of the present equipment will be replaced by new and improved weapons systems from 2007-2015. The intention is to modernize the remaining equipment by 2020. However, Russia will not procure more equipment. On the contrary, the programme's intention is to enable Russia to fight "future wars".

The objective of the procurement programme is to improve the capabilities of the armed forces. If the programme is fully funded and the defence industry can meet the increasing domestic demand, Russia's extensive rearmament programme will be seen in the 2010s in Finland's near environs as well. The problem for Russia, too, is that defence materiel is becoming increasingly expensive. What's more, inflation eats into the real purchasing power. New production has been modest up until now and few deliveries have been made to the armed forces. In spite of this the government is fully committed to the programme. Russia is one of the biggest arms exporters, continuing to export more than half of its defence industry's production. In addition to its traditional customers, China and India, Russia is also actively seeking new weapons markets, such as in the Middle East and South America. In 2008 Russia's arms exports are estimated to bring in \$7.5 billion. Russia's arms trade creates friction with the United States.

After the collapse of the Soviet Union the personnel strength of Russia's armed forces was approximately 2.8 million troops. Today, the official number is 1.1 million. The personnel strength of the Russian military is the fourth largest in the world after China (2.4 million), the United States (1.5 million) and India (1.3 million). Russia plans to sustain approximately 1 million troops in the future. In addition, it plans to establish constant readiness forces, augmented with professional personnel as well as modern equipment and weaponry. The required resources will be found for them and their deployment will be tailored to counter the existing threat. Strategic transport will receive

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73 Russia's Defense Spending Declines Faster than Other Nations', Interfax-avn (Moscow, March 10, 2006).

particular attention simply because of the sheer size of the country. The goal of transforming the military into professional armed forces will be continued in the coming years as it has not proceeded according to plan because of low wages, among other things. There are still problems with regard to recruitment and terms of service. If the armed forces and security organizations were under genuine democratic control, it would increase Russia's stability.

## The psychology of foreign policy

If one asks why Russia throws temper tantrums or conducts its present non-compromising policies, the answers will not be found by merely analysing Russia's fundamental material interests or the rational application of them in light of the prevailing balance of power. If Russia were a genuinely rational actor, as states are often presumed to be in international studies, there should not be any overwhelming obstacles for closer cooperation with the West. Even though Russian and Western interest may collide on individual short-term questions, in the big picture their interests coincide. Intensifying and increasing trade, well-functioning markets, wide-ranging threats, close geography and the shared environment are matters which speak for closer cooperation. It seems that quite often the problems between Russia and the West stem from state identity and injured pride.

Historians have traditionally been open to psychological, cultural and sociological explanations. It was not until the 1990s when interdisciplinarity really penetrated international studies. In his 1996 study Erik Ringmar proved that King Gustav II Adolf of Sweden entered the Thirty Years' War mainly for reasons of identity and psychology, rather than traditional national interest. Likewise, as was the case with Sweden in the 17th Century, Russia fervently vies for international recognition of its great power status. It is often thought that Russia's boastfulness is related to its strengthening great power status. When Russia is internationally feeble it cooperates with other actors and when it is more powerful it acts in a more headstrong manner. This follows the so-called neorealist theory, according to which weaker actors seek cooperation in order to become stronger and, respectively, stronger operators act alone, unreceptive to collaborative arrangements limiting the freedom of their action. This model does not explain outbursts of emotion per se; they only reflect the prevailing balance of power. Professor Robert Legvold from Columbia University believes that the sore points of Russia's foreign policy become evident in situations where Russia's leadership feels cornered, ignored or threatened. Russia's "neurotic barking", as *The Economist* described Russia's behaviour, is more likely the result of inner conflict between great power aspirations and low self-esteem, rather than genuine power.

It is, of course, impossible to explain the sore points in Russian foreign policy by means of personal psychology alone. Even though it would be easy to explain Boris Yelt-

sin's temper tantrums as being a result of his persona, outbursts of emotion also occurred during the administration of Vladimir Putin who is generally regarded as a stable and rational person. Even though moments of rage are often very personal and manifest in physical reactions such as angry facial expressions, it is collective psychology that seems to be what stimulates the response. The statesman, fighting dragons in a state of passion, first and foremost represents Russia, its honour, values and interests. The sore points normally surface when leaders appear on the international stage. The statesman delivering the speech represents Russia collectively, rather than himself as a person.

## The expression of sore points in Russia's foreign policy

In international diplomacy, Russians are known for tactical "emotional moments" as well as impulsive outbursts. A classic example of this was the shoe-banging incident. Nikita Khrushchev pounded his shoe on the desk in the UN General Assembly in 1960 when the head of the Filipino delegation accused the Soviet Union of imperialism in Eastern Europe. It is not known for certain how impulsive Khrushchev's behaviour actually was. There are many versions to this story. Whereas some claim that his reaction was completely impulsive, others believe that it was carefully planned. This may be the case with many flamboyant outbursts: rational tactics as the underlying factor behind seemingly irrational behaviour. Another outburst which was deemed impulsive happened in a press conference in Brussels in 2002 when President Putin used very strong language about the Chechens. The moment of passion seemed to express his personal feelings about the question of Chechnya.

Other good examples of tactical tantrums include Foreign Minister Kozyrev's speech at an OSCE meeting in Stockholm in December 1992 as well as Putin's speech in the Munich security conference in February 2007. Both speeches were harbingers of change in Russian foreign policy, related to the strengthening of Russia's great power status. In December 1992 Kozyrev made a startling speech at an OSCE ministerial meeting in Stockholm. He began by openly attacking NATO, warning of unilateral Russian action if the sanctions against Serbia were not immediately lifted. Moreover, he said that Russia was willing and able to defend its economic and military interests in the area of the former Soviet Union and went on to add that Russia's patience had come to an end and that former Soviet Republics should join the new Federation. Diplomats and ministers listened to the speech with bewilderment and after the speech several former East Bloc countries approached Western representatives, asking for security guarantees. The chill of the Cold War seemed to have returned to Europe. However, approximately one hour after the speech Kozyrev announced that his speech had been a rhetorical gimmick, aimed to demonstrate what the name of the game would be if hardliners ever got power in Russia; i.e. Western criticism against Russia and inadequate support could result in the strengthening of the opposition and the return of the Cold War. In hindsight,

Minister Kozyrev's speech marked the beginning of Russia's increasingly anti-Western foreign and security policy.

Kozyrev's speech in 1992 is considered a foreign policy keynote speech. Likewise, President Putin's 2007 speech in Munich proved to be a keynote speech. In his speech Putin, in no uncertain terms, accused the United States of unilateralism, violations of international law and of fuelling a new arms race. He then went on to say that NATO enlargement, American plans to place missile defence systems in Central Eastern Europe as well as the reluctance of NATO countries to ratify the amended CFE Treaty constituted particularly threatening developments. With this speech Russia threw down the gauntlet on the entire existing international security architecture. Unless the United States withdrew from the plans to place the missile shield in Europe, Putin threatened to retarget his missiles at European countries. This speech drew enormous international attention. Representatives of Central Eastern Europe considered it the return of the Cold War and harshly criticized Russia. For example, the Czech Foreign Minister commented on the speech by saying that Putin proved why NATO was still needed. Germany, however, criticized the American missile defence plans.

At home President Putin's speech was lauded because it was seen as proof of the strengthening of Russia's great power status. Russians were also mystified by Western reactions to the speech. Foreign Minister Sergey Lavrov said that the West had misunderstood Putin's motives and that the West had deliberately distorted the facts by foreseeing the return of the Cold War. Russia was also surprised by the fact that the West was stunned when Russia declared a moratorium on the CFE Treaty. Former President Mikhail Gorbachev defended Putin's decision by saying that it was a "wholly justified response, not an outburst of emotion". According to him, the moratorium was an invitation to constructive dialogue and implementation of the Treaty, rather than the end of cooperation.

Putin's speech in Munich and Russia's subsequent more aggressive foreign policy were carefully crafted. Many insiders in Russian politics have explained how genuinely disappointed Putin was towards the West and about his sense of having been betrayed. Russians felt that the United States and the West in general, did not provide quid pro quo to Russia's concessions. This made Russia's leadership draw the conclusion that a conciliatory line is impracticable with the West. Even though Putin's speech cannot be considered an outburst of emotion, it did contain a strong psychological undertone.

In addition to temper tantrums and carefully constructed speeches there are examples in Russian foreign and security policy where the two become one. Examples of tactical and impulsive reactions in foreign and security policy sore points include the case of Kosovo in 1999 and the Russia-Georgia relationship. These are extremely difficult questions, combining Russia's great power aspirations as well as Russia's historical legacy.

Russia vehemently opposed NATO intervention in the Yugoslav conflict. NATO launched the bombing campaign against Serbia in March 1999 and in his book *The Russia Hand* President Clinton's foreign policy advisor Strobe Talbott describes the mood

after President Clinton talked to President Yeltsin over the telephone: "Clinton held the phone in his hand for a moment after Yeltsin had hung up. He looked deeply pained. He had heard Yeltsin rave before, but Clinton usually let it roll off, knowing it would pass. This time, however, as he put it, 'something pretty basic was broken and it'll take a lot of fixing'".<sup>74</sup> Russia reacted very strongly to the bombings. Gennady Zyuganov, the leader of the Communist Party, compared NATO bombings to the action of Nazi Germany.<sup>75</sup> Viktor Chechevatov, three-star general and Commander of the Far East Military District viewed this as the onset of World War Three, calling Russia to armed attack.<sup>76</sup> Alexander Lebed, Governor of Krasnoyarsk, believed that 15 years earlier NATO would not have dared to do this. Lebed said that the West took advantage of Russia's weakness.<sup>77</sup> Yeltsin's primal response was also forceful: "Morally Russia is superior to the United States. This is unheard of in international politics since the end of the Second World War. It is a bad mistake and they [Americans] will end up paying for it".<sup>78</sup> A few weeks after the war began Yeltsin threatened to retarget his missiles at NATO and accused NATO of having instigated a global conflict. US Secretary of State Madeleine Albright wrote about this in her memoirs: "We talked to them through many channels, but whether it was Clinton-Yeltsin, Gore-Primakov or Ivanov and I talking, the message was the same, even if the decibel levels varied: we had screwed up big time".<sup>79</sup>

After the bombing campaign ended in June 1999 NATO and Russian leaders were again at odds. This time they wrestled with the terms of Russia's participation in the military peacekeeping operation in Kosovo. After an agreement was reached, the interpretation of the agreement spawned new conflicts. The particular point of contention was whether the Russian contingent would operate under NATO command or under their own, separate command. NATO countries demanded joint command but Russia demanded its own sector, vowing never to operate under NATO. The issue was still sensitive to Russia and rumours of strong disagreement among Russia's leadership and, especially, between military command and the President's administration, worried the West. When Russian troops landed at Pristina airport, it almost caused a military skirmish between Russians and NATO troops. The situation was quickly defused but it only added to the atmosphere of mistrust. Despite an apology from Russia's foreign policy leadership, the rhetoric of the military leadership remained harsh. General Ivashov claimed that Russia had the same right to unilateral action as NATO. While it was obvious that the balance of power inside Russia was in turmoil, the Kosovo conflict also demonstrated that the post-Soviet relationship between the West and Russia had neither progressed towards trust nor mutual respect.

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74 Strobe Talbott, p. 305.

75 RFE/RL, 7 May 1999, Yugoslavia: Kosovo Peace Force divides West and Russia.

76 CDI Russia Weekly, 9 April, 1999.

77 Komsomolskaya Pravda, 6 April 1999, Interview with Alexander Lebed, governor of Krasnoyarsk Krai.

78 Yeltsin - Vesti TV-news 25/3/99 at 2 PM.

79 Albright 2004, p. 413.

In addition to the Kosovo question, Russia-Georgia relations provide another example of mixing great power politics with historical issues. In September 2002 President Putin gave a televised speech from his vacation home in Sochi. In his speech he threatened to attack Georgia if Georgia did not destroy Chechen terrorist bases in the Pankisi Gorge. The press interpreted this as a carefully considered imitation of American policy vis-à-vis Afghanistan: he justified the potential attack with preemptive action, referring to UN Security Council resolution 1373. In addition to his speech he sent a letter to the Secretary-General of the UN as well as to the member states of the Security Council and OSCE, in which he accused Georgia of harbouring terrorists. In his letter, Putin emphasized that while Russia did not threaten Georgia's independence, Russia's attack was justified because its sovereignty had been violated. Putin's accusations took place in the same time frame when the United States was seriously considering waging war against Iraq and was seeking international support for it. Defence Minister Sergey Ivanov compared Iraq to Georgia when he spoke to the Duma and said that the evidence of Tbilisi harbouring terrorists was much more convincing than that between Baghdad and terrorists. Russia-Georgia relations were poor at the time. They continue to be poor. The crux of the problem lies in Georgia's good rapport with the United States. Russia still considers the area of the former Soviet Union as its own backyard. From the standpoint of Russia's foreign and security policy, the dispute with Georgia and the Kosovo question are equally sensitive topics.

Events linked to Russia's global role trigger fervent foreign and security policy reactions. The same applies to themes which Russia interprets as meddling in its internal affairs or which are associated with its national history or the rights of Russian minorities in other countries. Russia's problems with Estonia and the United Kingdom serve as good examples of these.

In August 1994 Russia began to unilaterally mark its border with Estonia along the same line that Stalin had drawn in the beginning of the 1940s right after the Soviet Union occupied the Baltic countries. Estonia, however, demanded that the demarcation of the border be made along the line of the 1920 Tartu Peace Treaty. Estonia claimed that the later change made by the Soviet Union, transferring 2 600 square kilometres of its territory to the Russian side, was never internationally recognized. In November 1994 President Boris Yeltsin, accompanied by an entourage of high officials and officers, visited the Kunichina Gora border post in the Pshkov province. He declared that "we will not give up one single centimetre of Russian land" and went on to say "this border has always been the border of Russia and it will continue to be its border". Yeltsin called for diligent guarding of the border so as to protect Russia against Baltic crime and Western agents. He also lamented the fact that Russia no longer had air defence systems or other operational military units on the Estonian border. This speech was clearly directed at the domestic audience because the timing coincided with the eve of the 50th anniversary of the Red Army liberating Estonia. Yeltsin's comments were carefully considered. They did not only reflect the need to pander to the home audience, they also demonstrated Russia's strong fear that the border disputes would damage the image of Russia

as a great power and would cause a domino effect in various border issues arising after the demise of the Soviet Union. While Yeltsin's declarations were measured, they also touched on an important and sensitive issue.

One of the most serious conflicts and perhaps the one with the most lasting effect between Estonia and post-Soviet Russia was the statue conflict in April 2007. A bronze "liberators' monument", portraying a Soviet soldier, was erected in Tallinn after World War II. In 1991 the plaque's text was changed to: "In memory of the fallen in the Second World War". The monument was built on top of graves of Soviet troops. In January 2007 the Parliament of Estonia passed a bill pursuant to which the statue could be relocated to a remote cemetery. In February the Parliament decided to move the statue. In the beginning of April Deputy Prime Minister Sergey Ivanov encouraged Russians to boycott Estonian products because of their plans to relocate the monument, and on 23 April Russia sent a diplomatic note to Estonia. The statue was moved in the early hours of 27 April, which resulted in violent riots in Tallinn, organized by Russian-Estonians. The police responded forcibly, using water cannons, fire retardant, rubber bullets and nightsticks. The police also arrested over 300 persons. Russian Foreign Ministry spokesman Mikhail Kamynin called Estonia's action "slandorous and inhumane". State Duma representatives called for anti-Estonian sanctions. The Federation Council of Russia proposed that diplomatic ties be severed. According to the Council, the relocation of the statue just before Victory Day was "only more proof of Estonia's destructive policies, sustained by cliquish Nazi zealots". Foreign Minister Lavrov said that he was shocked by the insult and the manner which the police dispersed the crowd trying to defend the statue. President Putin expressed his serious concern over the unrest in Estonia. He also discussed the situation with Chancellor of Germany Angela Merkel. Germany held the Presidency of the EU at the time. He also mentioned the issue in his Victory Day speech: "Those who attempt today to belittle this invaluable experience and defile the monuments of the heroes of this war are insulting their own people and spreading enmity and new distrust between countries and peoples. We have a duty to remember that the causes of any war lie, above all, in the mistakes and miscalculations of peacetime."<sup>80</sup>

Russia did not limit the expressions of its displeasure to public statements. A tent village sprung up in front of the Estonian embassy in Moscow, inhabited by defiant and belligerent demonstrators. The demonstrators represented youth organizations sympathetic to Russia's present leadership and have close relations to the powers that be. They blocked the movement of the ambassador of Estonia and disturbed, for example, her public announcements. The Russian authorities did nothing to guarantee the security of the ambassador, nor did they prevent the protests. Russian Foreign Ministry spokesman Mikhail Kamynin said that Estonia alone was responsible for the situation in front of its embassy.

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80 Putin - Speech at the Military Parade Celebrating the 62nd Anniversary of Victory in the Great Patriotic War May 9, 2007, Red Square, Moscow.

In addition to protests at the Estonian embassy in Moscow, Estonia's government websites became the target of a cyber attack from Russia, resulting in their homepages having to be shut down. Russian state railways suddenly announced that oil deliveries to Estonia would be halted in May due to repairs lasting for two weeks. The statue dispute was not only about a common history and respect of Russians who fell in the Second World War. It also involved the rights of the Russian minority in Estonia. Russia has long called attention to the rights of the Russian minorities in the Baltic countries. Defending the rights of ethnic Russians and Russian citizens abroad is one of the central elements in Russian foreign and security policy. Even though this question is important as such, Russia's overblown reactions often overshadow the actual matter by drawing attention to its belligerent and distasteful rhetoric as well as to its questionable actions. It is difficult to imagine how Russia can actually believe it could benefit from such swagger.

Throughout history, Russia's relationship with Britain has been complex and full of contradictions. During its EU Presidency in 2005 the United Kingdom managed to improve its relations with Russia. The thaw, however, did not last long. Alexander Litvinenko, a former officer of the Russian State security service, was murdered that autumn in London by polonium, a radioactive substance. Some of the worst threat scenarios in international counter-terrorism involve radioactive material falling into the wrong hands as well as various forms of cyber warfare, as was the case with the Estonian statue dispute. British criminal investigators concluded that the evidence pointed the finger at Moscow. Russia was requested to extradite Andrei Lugovoy to stand trial in the UK. Russia vehemently declined the request, thus launching an avalanche of events. Both parties called their diplomats home. Russia accused the United Kingdom of harbouring Chechen rebels and elements hostile to Russia, such as the businessman Boris Berezovsky and Akhmed Zakayev, the former Foreign Minister of the Chechen Republic of Ichkeria. The United Kingdom held that Russia violated its international obligations. In Britain the Litvinenko incident continued the international, critical debate on Russia and its domestic situation, set off by the murder of reporter Anna Politkovskaya. Even before the British authorities officially concluded that the case was a murder, Prosecutor General of Russia Yuri Chaika announced that no Russian citizens would be extradited from Russia and that any trial in which a Russian citizen is the defendant, would be held in Russia. Foreign Minister Lavrov said in June 2007: "Instead of professional investigation, we see an attempt to turn a criminal investigation into a political campaign. We oppose this." At the same time Russia began to investigate the operation of the British Council<sup>81</sup> in Yekaterinburg, resulting in the order to close two British Council regional offices in the beginning of 2008. Lavrov concedes that poor relations with the United Kingdom had an effect on the British Council issue. Resisting the order to close, the British Council opened its St Petersburg and Yekaterinburg offices, prompting the following statement from Lavrov: "Of course, we understand that the

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81 The British Council is a public organization founded in 1934. It promotes cultural relations, English language studies and a student exchange programme with Britain. The British Council operates in 109 countries.



historical memory of Britain probably relates to nostalgia for colonial times. But this is not the language in which one can talk to Russia”.

Insults and bravado in crises are the rule rather than exception in Russian diplomacy. An insulting tone of voice, overt threats and offensive language indicate that the given topic is sensitive to Russia and that it feels it has been insulted. Russia's foreign and security policy sore points are often submerged, only to surface in extremely aggravated situations which are of importance to it. Russia is particularly emotional about topics related to its great power status, exclusion from international action, interfering in its internal affairs as well as the situation of Russian expatriates and differing interpretations of history, particularly when the counterpart is the West. It is safe to define these topics as Russia's national interests and Russia, in various fora, has expressed the intention of defending these interests in every possible way.

## Conclusions

A survey conducted in Russia in July 2007 clearly showed that Russians want their foreign policy to be steered with a firm hand. The survey also demonstrated that Russians believe, above all, that Putin's foreign policy has raised Russia's international prestige.<sup>82</sup> Ostentatious expressions in Russian foreign and security policy are not only rhetorical posturing. The logic behind temper tantrums seems to be that psychological reactions appear or are tactically produced when Russia wants to justify action which would normally not be considered reasonable, and, when the issue is very sensitive from the Russian perspective. In a manner of speaking, public flare-ups are part of Russia's "securitization strategy", aimed to force others to accept Russia's behaviour and are used to highlight issues vital to it. The gap between between rhetoric and reality makes it challenging to understand Russian foreign policy.

Russia's foreign and security policy will continue to be influenced by sore points. They stem from the inconsistency between the great power identity and the still emerging state identity as well as from Russia's desire for securitization. Even if Russia will probably be a stronger global actor in the future, it will not necessarily be responsible and well-mannered, at least in the near term. Only when Russia feels that it is a great power and recognized as such, might it not feel the need to resort to this securitization strategy in order to defend its role. Alternatively, only once Russia is convinced that it can manage using the same rules as other international actors, would it be reasonable to expect a healing of the foreign and security policy sore points. Still, for a long time to come the sore points will include questions related to great power identity, territorial integrity and sovereignty as well as historical themes and issues regarding Russian expatriates.

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82 Levada centre 10 August.2007.

When it comes to the emerging great power identity, Russia's relationship with the United States plays a crucial role. For years, Russian foreign policy has copied elements of American foreign policy, with a Russian twist. The key actors in international policy are NATO and the United States. Russia carries historical baggage concerning both because they were the main enemies of the Soviet Union. Both of them also uphold the "victory-in-the-Cold-War" rhetoric because for NATO and the United States the demise of the Soviet Union was a long-term objective.

While Russia steadfastly adheres to the principle of its territorial integrity, it continues to violate the airspace of others and fly along the borders of its neighbours. This also demonstrates the dualism of the sore points. Whereas Russia would interpret a violation of its own airspace as a "throwing down of the gauntlet", the typical excuses for Russian violations are merely simple mistakes, calculation errors or map errors.

Frozen conflicts are also elements used in defending Russia's territorial integrity and sovereignty. Because of Russia's unyielding attitudes, unsettled conflicts in the area of the former Soviet Union are still at a stalemate. Border disputes will retain their significance in Russian foreign policy. Even though Russia will probably attempt to solve some of them, such as the border issues with Estonia and Japan, deep-seated principles will make it difficult.

Historical questions are particularly sensitive for Russia. The construction of Russia's post-Soviet state identity is still very much in its early stages. That is why the significance of the collective psyche is so great. Russia's present and future leadership need strong popular support in order to appear as legitimate leaders in a system where institutions and respect for the law are still weak. This is the reason why Russia cannot handle criticism from abroad and why a threat from abroad is often designated as the culprit for the shortcomings. Such an argument, although mainly intended for the domestic audience, creates an atmosphere of mistrust in Russia's foreign relations. Imperialistic elements in Russia's foreign policy thinking also create mistrust in Russia's relations. What's more, during Putin's term in office Russia demonstrated ideas related to cultural imperialism in its foreign policy rhetoric. Russia is aiming to promote the status of the Russian language in countries which have large Russian minorities. At an increasing rate, Russia is championing the cause of Russian ethnic minorities. The creation of post-Imperialistic thought is, hence, another challenge to Russia's future foreign policy.

Since the sore points emerge from psychological factors and securitization needs, two alternative scenarios can be presented:

1. If Russia becomes stronger, the number of sore points would probably decrease because of the reduced need to use extraordinary means in defence of Russian interests. A generally recognized great power status would probably increase Russia's accountability as an actor. The downside is that when sore points do appear, potential conflicts are larger in scope and the desire to migrate from words to deeds is stronger. The more sore points involved, the stronger the reaction from Russia, as was evident in the Estonian statue dispute.
2. However, if Russia remains relatively weak, sustaining several destabilizing factors, failing to diversify its economy or enduring a financial downswing due to a financial or political crisis, it is highly probable that the sore points would remain in the inner sanctum of foreign policy. Russia would then have a great need for securitization, i.e. it could not defend its national interests with "normal" policy. It would not believe it would be reckoned unless it resorted to temper tantrums. On the other hand, Russia's sore points would probably not reach the flash point. Instead, they would remain at the level of rhetorical bravado.

Even if Russia's foreign and security policy "sensitivity training" would not constitute any clear and present military threat to those targeted, it is always a risk for those who bear the brunt of it. Many times when Russia has lost its temper there has been a somewhat understandable underlying problem. However, Russia's subsequent demands have been mostly idealistic, rather than realistic. Through its expressions of emotion Russia has drawn attention, but gained very few concessions. Russia's foreign and security policy sore points are evidence of the fact that, as a state, Russia is still a work in progress and that many of its exploits and opinions carry the burden of history. There is, however, something positive in Russia's inconsistent behaviour, a desire for cooperation mixed with defiant unilateralism. These indicate that all is not yet written in stone as regards Russian foreign and security policy. Everything is still possible: Who knows, Russia might even transform into an accountable and prestigious global actor.

### **"Sore points" of the future**

- Russia is striving for equality in its relations with the United States. Given that the US is financially and militarily superior, several sore points will be features in the relationship.
- Russia still considers NATO a threat and a reminder of the Cold War zero-sum game. Issues linked to NATO are sensitive and counter-action is to be expected.
- With regard to EU-Russia relations, sore points are particularly evident in its relations with the newer Member States of the EU as well as in EU-US relations. If not properly solved, EU-Russia disputes may fester and become permanent.
- Russia will probably intensify cooperation with new power players, such as the Shanghai Cooperation Organisation (SCO) and with the BRIC countries (Brazil, India and China). These relationships will probably remain fairly trouble free, with the exception of China, with whom Russia has potential sore points.
- While Russia demands that other countries respect its territorial integrity, it will probably continue to harass its neighbours with airspace violations, for example. The significance of bilateral relations with, especially, its neighbouring countries is growing, which will be a potential problem for the EU Member States. Russia still thinks in terms of a zero-sum game as regards the territory of the former Soviet Union.
- Frozen conflicts in Russia's near environs will remain unsettled in the near future, mainly due to Russia's unrelenting attitude. Ethnic Russians in Abkhazia are a major sore point.
- Elements of cultural imperialism in Russian foreign and security policy will strengthen in the future. Russia aims to promote the status of the Russian language in countries, which have large Russian minorities. Increasingly, Russia is championing the cause of Russian ethnic minorities.

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## 8. Summing up

Hanna Smith

“What has passed is still ahead, and  
what is ahead is already here”<sup>83</sup>

In order to understand the present, sometimes one must look back. And in order to make at least somewhat credible forecasts, one must know what is happening right now. The West has always been interested in Russia's future. In 1906 Rudolf Martin, a German economist, began his book *The Future of Russia* by stating: “Never before has one single question been as important to everyone in the world as Russia's future prospects are today.”<sup>84</sup> Many would second this today as well. There are many burning issues in the globalizing world of the 21st Century, but the question of Russia's future is particularly important from the European perspective. As all previous chapters have pointed out, the effects of Russia's economy, energy policy and domestic policy development, the state of its society and environmental issues as well as Russia's behaviour in foreign policy extend beyond its borders.

Prior to analysing the previously discussed sore points which may create problems for the Finnish-Russian relationship, it might be interesting to note certain American and Finnish studies that analyse Russia's future. The American studies are written from a superpower's perspective and the Finnish ones from the standpoint of a neighbouring country.

Rudolf Martin's 1906 analysis of Russia's future was mainly directed at German “capitalists” who were in the process of making investments in Russia at the time. Martin predicted that Russia would undergo a revolution in the near future and that its government would go bankrupt. His forecast was based on Russia's defeat in the Russo-Japanese War, which caused societal and financial turmoil. The fundamental causes of the doomsday prediction, however, lay deeper in the structures of Russian society. He considered the backwardness of agriculture and land ownership rights as the worst societal ills. Other factors included lack of education, the anti-reformist stance of the Orthodox Church, quirks of the Slavic race, national debt as well as conflicts of interest between ethnic groups and those between the educated and uneducated segments of the population. It is interesting how relevant Martin's analysis is even today. The wealth gap in

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83 Alexander Zinoyev - *Sto bylo, budet, a chto budet, uzhe est.*

84 Rudolf Martin, *The Future of Russia*, Smith, Elder&Co, London, 1906.

Russia continues to grow and education as well as agriculture and land ownership rights are being questioned. Germans and Europeans in general, turned a cold shoulder to Martin's forecast. Europe considered Russia stable and strong and, hence, the possibility of revolution in Russia was unthinkable. Europeans were also wary of criticism directed at Russia because Russia was regarded as erratic. Just like today, at the beginning of the 20th Century Russia's leadership also resorted to rhetoric which blamed outside forces for domestic troubles. Martin's criticism was considered too open and, lest German financial relations suffer, they were denounced.

In 1963 Harry Braverman, an American Marxist, analysed the future of the Soviet Union in his book *The Future of Russia*. He based his assessment on Nikita Khrushchev's modernization policies. In 1961 *The New York Times* published an article, stating: "Mr Khrushchev has a firm hold on power, shaking the very foundations of the Soviet society. Only few are courageous enough to forecast where his boldness will lead." Braverman believed that, as a result of the changes launched by Khrushchev, the Soviet Union would become the richest country in the world within two decades. Nevertheless, he also foresaw risks: whereas the future of the Soviet Union was mainly considered to depend on industrial success, the backwardness of its agriculture again loomed in the background. The themes of this assessment, too, are topical. Since the collapse of the Soviet Union industrial reform and diversification of consumer goods production are challenges with which Russia continues to grapple. Harry Braverman also considered the prospects of democracy in the Soviet Union: "The possibility of the realization of a co-operative democracy on an entirely new model, superior to the forms of democracy hitherto known, is, despite Russian claims, so remote that it can be discussed at this date only in the most speculative way. But lesser changes, including the formation of a tradition of civil liberties, the opening of an area of limited but licit political dissent and debate, and the appearance of wings and factions of opinion – even if loosely organized and informal – may not be so very far in the future."<sup>85</sup> Braverman's economic forecasts did not prove accurate. However, he was correct in the sense that civic movements and public opinion pressed towards a more open society. When Gorbachev rose to power in 1985 and civil society was given more freedom of action, it marked the beginning of the end of the Soviet Union.

By 1978 it was already clear that the economy of the Soviet Union was in serious trouble. In the history of the Soviet Union the Brezhnev era constituted a period of stagnation. A lively debate on the future of the Soviet Union was ongoing in the West at that time. Opinions and opposing opinions were plentiful. Professor George W. Breslauer from Berkeley University compiled five scenarios of the Soviet Future, amalgamating the opinions of the West with those of Russian immigrants. Since all political decisions are based on an estimation of the future, Breslauer considered it

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85 Harry Braverman, *The Future of Russia*, Macmillan, 1963, p.147.

important to analyse what estimations themselves are built on.<sup>86</sup> He also thought that analyses of the Soviet Union too often concentrated on changes internal to the system, thus ignoring the option of replacing the system. Professor Breslauer's research questions were novel in Soviet studies because he studied alternative administrative models and their permanence. According to him, Western evaluations could be grouped into three categories: stability, instability and democracy. Russian immigrants, on the other hand, evaluated different political systems as being: liberal democracy, socialist democracy, technocracy, elitist liberalism and neo-Stalinism as well as regional nationalistic communism. Breslauer believed that the ability of Soviet leaders to correctly assess future needs and events was the key factor determining the future of the Soviet Union. This also applies to the present-day Russian leadership, especially as regards energy policy as well as economic and environmental policies. If problems are not tackled early on, they may launch a chain of events with unforeseen results. Therefore, assessment and planning are invaluable in societies such as Russia which are seeking viable solutions for everyday life and governance. Seminal events in Russia's history and various developments have made long-term planning particularly challenging. Rapid change has been required and everyday life is a matter of survival. Long-term planning is nonexistent because Russians want immediate results. Good examples of this were the planned economy's five-year plans which attempted to achieve massive changes in a period which was far too short. Too-high hopes were also placed on Gorbachev's 500-day economic reform plan. Impatience is the bane of Russian politics. In taking abrupt corrective measures a wrong course of action was taken and instead of correcting the defects they were only patched. According to George Breslauer and Lilia Shevtsova, a Russian researcher, the prevailing system does not necessarily have to be permanent. However, it would almost take an uprising to replace it in Russia.

The Soviet Union foundered at the turn of 1991-1992, taking the socialist system with it. What would follow was still unclear. Just as in 1917, this was a new situation in world history. In 1917, when the authoritarian system was replaced with a socialist one, nobody knew how the socialist administrative model would work. Up until then socialism had been but a theory and a political ideology. Then, in 1992, Russia turned from an almost totalitarian and communist regime (excluding the Gorbachev period) and a planned economy towards democracy and a market economy. Many opinions and theories were presented about how this would be accomplished. High hopes were placed on Russia's development. As in 1917, the West held its breath and simultaneously marvelled at the post-Soviet development of the 1990s. At that time the West tried to foretell what kind of a country Russia would now become, finally having the opportunity to choose a free market economy. Nevertheless, even if

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86 George W. Breslauer, *Five Images of the Soviet Future: Critical Review&Synthesis*, Policy Paper in International Affairs, Institute of International Studies, University of California, Berkeley, 1978, p. 3.



administrative and economic structures are transformed, they alone cannot support genuine and sustainable change.

In 1992, a Finnish foreign policy expert team analysed various future scenarios for Russia as well as their possible effects on Finnish-Russian relations during the 1990s. The report called attention to the same questions which generate debate on Russia even today: the significance of nationalism, how to solve the problems and balance of power between the central government and the regions, whether a long-term ruler of Russia would emerge from the administrative-military elite and how to create equilibrium between various interest groups. The Caucasus was viewed as a powder keg and environmental questions caused particular concern. Even today, both problem areas remain unsettled and far from a positive solution. Russia's problems were considered so serious that no short-term solutions during the 1990s were thought possible. Environmental problems and the livelihood of citizens were rated the most serious challenges. The report estimated that the administrative structure would probably migrate towards equilibrium and a balance of power between various interest groups, either with or without President Yeltsin.<sup>87</sup> It was deemed that this kind of entente between the armed forces, security organs, state production facilities and sectors of administration would only temporarily prevent chaos in Russia. According to the report such a procession of events could strain relations between Russia and the former Soviet republics, especially the Baltic countries and Ukraine. The 1992 report called attention to many themes which are still relevant in 2008.

In 1995 Daniel Yergin and Thane Gustafson published the book *Russia 2010: And What It Means for the World*. They came up with the following four scenarios:

1. Muddling Down
2. Two-Headed Eagle
3. Time of Troubles, resulting in either a "Russian Bear" and centralized authoritarian control or a fragmented power structure
4. Chudo: The Russian economic miracle

All of the scenarios were foreseen as resulting in a Russian capitalist system in the long run. The four scenarios have very much in common with the Finnish ones of 1992. Yergin and Gustafson, however, concentrated more on challenges which the international system poses on Russia. According to them, by 2010 Russia will have become one of the major players in European and Asian external relations. They judged the geographic priorities in Russia's foreign policy to be as follows: the area of the former Soviet Union, the United States, Germany, Japan and China. Moreover, regardless

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87 Ed. Jyrki Iivonen, Report: Russia's development options and their effects on Finnish-Russian relations in the 1990s, Finnish Institute of International Affairs, 1992. Working group members were Professor Harto Hakovirta, Professor Martti Koskenniemi, Docent Alpo Rusi, Docent Pekka Sutela, Professor Raimo Väyrynen, Director Tapani Vaahtoranta, Professor Tuomas Forsberg and Researcher Weijo Pitkänen.

of the administrative structure, they believed that Russia would strongly demand primacy in the area of the former Soviet Union. Ukraine was estimated as being the biggest headache for Russia. They hit the bull's-eye with the following assessment: "At least publicly, Russia will be increasingly critical towards the growing Western presence and particularly that of the United States, in the area of the former Soviet Union".<sup>88</sup> One of the biggest challenges of Russian foreign policy is how to react to the presence of the EU and the United States in the area of the former Soviet Union. Anti-Americanism increased in Russia's foreign policy rhetoric from 2006-2007. The United States is no longer just a strategic partner, it has also become a rival and as a result, conflicts have surfaced. According to Yergin and Gustafson: "If Russia recovers economically and politically, then it is likely to be a competitor and rival with the United States, although this rivalry will be of a great power, rather than of an ideological, nature"<sup>89</sup> They predicted that the biggest foreign policy challenges of post-Soviet Russia would involve the construction of a post-imperialistic identity, Russian expatriates and, particularly, Ukraine-Russian relations. The collapse of the Soviet Union was an enormous shock to Russia and Russians. It will take a long time for Russia's foreign policy thinking to migrate away from imperialism. Bismarck, often quoted in connection with Russia studies, said: "We can turn the hands of a clock forward. However, this does will not make time fly any faster."

Two reports on Russia's future were published in 2007. One was produced by Finnish Russia-experts and the other was compiled by American Russologists.<sup>90</sup> Both reports comprised three main scenarios. Whereas the Finnish material concentrated on the economy, the American scenarios focused on politics. Both viewed the 2008 presidential election as a seminal event. Likewise, both reports stated that Russia will always be a major factor regarding both countries' national interest.

The Finnish publication, coordinated and produced by the Parliament's Committee for the Future, had three scenarios: Influential Global Player, Mosaic Russia and Power Elite's Russia.<sup>91</sup> The scenarios were based on Russia's economic prospects. The first two scenarios were built on the premise that Russia can transmute into a democratic and accountable great power through economic integration. However, the report recognizes that there is no economy without politics and that particularly economic instability

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88 Daniel Yergin and Thane Gustafson, *Russia 2010: And What It Means for the World*, CERA report, Vintage 1995, p.256.

89 Ibid.

90 Andrew C. Kuchins, *Alternative Futures for Russia to 2017*. A report of the Russia and Eurasian programme, Center for Strategic and International Studies, November 2007. Working group members included Anders Åslund, Ed Chow, Toby Gati, Thomas Graham, Nikolas Gvosdev, Henry Hale, Sarah Mendelson, Lilia Shevtsova, Dmitri Trenin, Judyth Twigg and Cory Welt.

91 Osmo Kuusi, Paula Tiihonen, Hanna Smith (eds.), *Russia 2017: Three scenarios*, Esa print Oy Lahti, 2007. The expert group assembled by the Committee for the Future comprised Antero Eerola, Heikki Hakala, Maaret Heiskari, Janne Helin, Alpo Juntunen, Markku Kivinen, Pekka Koivisto, Juha Mäkelä, Kari Möttölä, Seppo Remes, Pekka Takala, Heikki Talvitie, Stefan Widomski and as a special expert of economy, Pekka Sutela. The committee chair was Jyrki Katainen and Esko-Juhani Tennilä was the chair for the Russia-group.

spawns political instability. The Power Elite's Russia scenario explains how the misuse of power can result in stricter domestic control, total suppression of freedom of speech and the rebirth of exacerbated East-West confrontation. Since the report was published, Russia's economy has proceeded along the lines of the Influential Global Player scenario, but political development has veered towards the Power Elite's Russia scenario. Positive domestic development will be impeded by the fact that Russia's leadership harbours strong suspicions that foreign entities are aiming to harm Russia. There is, however, a silver lining in this cloud: Just as Professor Breslauer and almost all analyses during the past 100 years have demonstrated, totalitarian systems and the suppression of civil society will ultimately turn against those in power.

Andrew C. Kuchins compiled the American scenarios. The difficulty of assessing Russia was again emphasized, saying: "History has shown us repeatedly that what one day may seem totally improbable, in a short time may just happen in Russia." Whereas others see continuity in Russian history, Kuchins regards the trajectory of Russia's development as extraordinarily nonlinear. Few foresaw the collapse of the Soviet Union and, after the 1998 financial crash, only few believed that the economy would recover within only a decade. Noteworthy in the foreword is the observation that the report describes the two basic tenets in Western Russia-analysis: the frequent optimism expressed by economists vs. the pessimism of political analysts. The views are profoundly divergent. The report lists key questions with regard to Russia's future, which are also the ones that divide political analysts and economists the most.

- Will Russia succeed as a state or will it become a failed state?
- Will Russia become a mature democracy within a decade?
- Stable economic growth is still far ahead but the near term looks positive. What role will Russian politics and weak institutions play in economic growth?
- The price of oil is crucial for Russia's economy. Another question is whether Russia is a "petrostate".
- Is Russia's territorial integrity secure?
- Can Russia respond to its demographic challenges?
- What roles do nationalism and xenophobia play in domestic and foreign policy?
- What is the real direction of foreign policy and what role does the economy play in it?
- Is present-day Russia politically and societally stable?

Mr Kuchin's scenarios begin from the 2008 presidential succession and have been given the names Putinism without Putin, A Shot in the Dark...and True Dictatorship and Putinism Falls from Grace...and Democracy Rises Again. The first scenario most resembles Russia's present-day policy. The second and third scenarios demonstrate how vulnerable the current administrative system can be when individuals play key roles while institutions and the party system are weak. Kuchins draws the conclusion that Russia will not become a mature democracy within 10 years. However, it may in 20 years because at the end of the day, in addition to their present freedom,

Russians will also desire political transparency, diversity and a genuinely accountable society. According to the report, the price of oil will be a crucial factor in determining the development of the Russian economy and society. When it comes to foreign policy, Kuchins believes that Russia, despite its aggressive posturing, does not want a rerun of the Cold War. He goes on to say that instability on Russia's southern borders will continue to be its greatest security challenge, and striking an anti-U.S. position will not help address that problem. However, Kuchins believes international cooperation is important in the war on terrorism, in which Russia and the United States have shared interests.

The future of Russia has fascinated people and will continue to do so. Turns in its history justify the ever-vexing question: What will become of Russia and where is it going? With regards to Russia, state building and nation building are still in their early stages. Dr Ivan Safranchuk from the World Security Institute in Moscow said some years ago that Russia's development is not in the same century as that of Europe and the United States. The 1917 Russian Revolution and the collapse of the Soviet Union have brought their respective challenges to progress in Russia.

Historical developments and reconstruction have created a society rife with conflict. The report at hand thoroughly demonstrates how Russian society and politics are permeated with contradictions. While Russia's nature is one of the most diverse and pure, some of the world's most hazardous and polluted places can be found there. While Russia's economy is booming, diversification is sputtering. The role of the state and the rules of the game are exceedingly opaque. Diversity exists in society but the tradition of civic action is absent. Healthy lifestyles and even organic food are increasingly popular. At the same time the overall state of health is poor. While some of the world's wealthiest people are Russians, one can also find living standards comparable to those of the poorest developing countries. Elements of different forms of government exist in politics, ranging from totalitarianism to democracy. Energy brings in enormous revenues but the domestic price of energy is low, the use of energy is wasteful and the infrastructure is decrepit. When it comes to foreign policy, Russia wants to cooperate, but uses aggressive rhetoric in its diplomacy and tends to link completely unrelated issues.

Studies concerning Russia's future, as well as the chapters of this report, justify some of the conclusions which have been valid for at least one hundred years. Perhaps it would be safe to assume that they will also be valid for the next one hundred years. Russia wants to be a great power and it will always try to be one. In global politics Russia cannot and should not be ignored. Russia has huge potential in the world economy and it is an important partner and ally in several international issues. If Russia is accepted as an equal partner, finding solutions for global issues of conflict would be easier. The problem with North Korea is a good example of this because it was solved once China, Russia and the United States held the same policy line. Russia's domestic politics, however, corrode the image of Russia as a strong and respected great power.

Russia's chaos management, both today and in the past, includes a political system which is superficially stable, yet far from being a democracy, and is still rife with destabilizing factors. Various interest groups and their interrelations leave their mark on Russia's political development and equilibrium. Society will accept this up to a point, but a system that is totalitarian or too authoritarian is not sustainable.

It is also interesting to notice that the very same challenges, destabilizing factors and problems, such as land ownership rights, freedom of speech, judicial practices, the role of the state in the economy, environmental issues, etc., are repeatedly found in various analyses and scenarios. Solving Russia's problems will take a lot of time. Russia's distrustful attitude towards criticism from abroad and lack of faith in a win-win philosophy and shared interests will seriously hinder many domestic reform attempts as well as Russia's integration into the global economy. Furthermore, Russia's sheer size alone and varying climate conditions bring on new challenges. Russia is full of contradictions. Some things are clear, however, one way or another Russia will continue to surprise and Russia will never run out of challenges.

Scenarios of the future of the Soviet Union	1. Socialist democracy		2. Elitist liberalism		3. Authoritarian welfare state		4. Russia's fundamentalist reaction		5. Instability			
	Author	Political base	Social base	Values	Domestic policy factors	Foreign policy factors	Author	Political base	Social base	Values	Domestic policy factors	Foreign policy factors
	Roy Medvedev	Party intelligentsia, young civil servants	Critical elite, students, highly educated	Citizens' authentic political influence	Open political debate, scientific-technical revolution	Mutually beneficial détente	Aleksander Janov	Technocrats, upper class elite	Blue collar professionals, liberal intellectuals, elitist service staff	Efficient economy, inherited privileges	The elite fears unrest, covets western goods, steers clear of Russian nationalism	Purposeful détente, difficult negotiations with the USA, western investments if administrative reforms are achieved in the USSR
	Roy Medvedev	Party intelligentsia, young civil servants	Critical elite, students, highly educated	Citizens' authentic political influence	Open political debate, scientific-technical revolution	Mutually beneficial détente	Walter Connor	Elite	Majority of citizens, practical elite	Material and physical security, Soviet nationalism	Living standards do not change	Peace
	Roy Medvedev	Party intelligentsia, young civil servants	Critical elite, students, highly educated	Citizens' authentic political influence	Open political debate, scientific-technical revolution	Mutually beneficial détente	Andrei Amalrik, Medvedev, Janov	Parts of the military and security services, local party bosses, civil servants in cultural and nationality issues	Ethnic Russian intelligentsia, unskilled Russian labour	Russian ultra-nationalism, anti-Semitism, anti-intellectualism, Orthodox faith	Prolonged economic downturn, no "discipline", dissatisfaction, unrest	Cold War
	Roy Medvedev	Party intelligentsia, young civil servants	Critical elite, students, highly educated	Citizens' authentic political influence	Open political debate, scientific-technical revolution	Mutually beneficial détente	Richard Lowenthal	Party members	Segments of youth and intelligentsia	Anti-authoritarianism	Economic and political inertia	N/A
	Roy Medvedev	Party intelligentsia, young civil servants	Critical elite, students, highly educated	Citizens' authentic political influence	Open political debate, scientific-technical revolution	Mutually beneficial détente	Amalrik	Ethnic elite	Ethnic majorities	Ethnic political autonomy	Russian military dictatorship	War with China
	Roy Medvedev	Party intelligentsia, young civil servants	Critical elite, students, highly educated	Citizens' authentic political influence	Open political debate, scientific-technical revolution	Mutually beneficial détente	Zbigniew Brzezinski	Not available (N/A)	The young, consumers, farmers, scientists, ethnic groups other than Russians	Anti-authoritarianism, consumerism	Economic and political inertia	N/A

Breslauer (1978): Five Images of the Soviet Future: Critical Review &amp; Synthesis

		Continuous chaos		Controlled development	
<b>Options in 1992</b>	Zero option, i.e. chaos continues.	Russia becomes fragmented and central government continues to weaken.	Present reforms continue.	Interest groups and regions agree on power-sharing and resource-sharing as well as on slowing down reforms which are detrimental to them.	Return to totalitarianism from national, communist or bureaucratic-administrative base.
Political base	President Yeltsin's policies gradually erode. Zero-option is temporary in nature. Politics becomes more conservative.	Central government's clout diminishes on regions' decisions. In 1992 the President of Russia had no instruments with which to enforce his decisions. Fragmented power.	Yeltsin administration continues. Multiparty system begins to emerge.	Presidential administration and Citizens' Union, comprising three separate organizations represented by moderate reformers, military, security organs, reformist communists and state production facilities' leadership.	The popularity of the Red-Brown Alliance grows and the President's ratings go down.
Social base	Temporary equilibrium between interest groups.	Strong regional administrations.	Liberal financial elite, domestic and foreign financial advisers.	State-controlled industry, trade unions, farmers, military, security organs, members of Russia's supreme council.	Pan-Russian movements, right wing alliances.
Values	Values in turmoil.	Looking out for own interest.	Market economy.	Controlled nationalism.	Pan-Russian chauvinism.
Domestic policy factors	Unsettled economic and political problems. Discontent.	Positive effect from decentralization. Economic upswing. Independence movements in autonomous republics. Armed conflict possible in former Soviet republics and, especially, the Caucasus.	New civil society built on private ownership and free enterprise; social inequality grows.	Aim is to develop a new control mechanism by which resources can be centrally allocated and development can be managed. Better law and order but old ills are not fixed.	Russians increasingly migrate to Russia from former border republics; more conflicts. Law and order restored but underlying causes linger on. Return to centralized economy.
Foreign policy factors	Strive for Gorbachev's policies. Russia will mostly succumb to the will of the West and to its international financiers.	Cross-border and near environments cooperation highlighted. Environmental cooperation and social problems better coordinated along peaceful borders. Conflicts along southern borders.	Industrial countries reluctant to provide financial aid without strict rules, which causes internal strife in Russia. Long-term integration with the western economy would allay suspicion and make Russia an integral part of Europe.	Aggravated relations with former Soviet republics, especially with Ukraine and the Baltic countries.	Return to Cold War. Strong pressure, especially, on the Baltic countries. Russia isolates itself.

livonon (1992) Report: Russia's development options and their effects on Finnish-Russian relations in the 1990s

Scenario 2010	Muddling down	Two-Headed Eagle	The Time of Troubles: Chaos and Reaction	Chudo: The Russian economic miracle
Political base	President Yeltsin steps down in 1996. He is replaced by a moderate reformer, backed by communists. Political turmoil results, followed by a new election in 1997. Central government is weak, which is usurped by regions. Turnover in government is high.	An assassination attempt is made against President Yeltsin in 1997. The "centrists", led by the Prime Minister, take advantage of the situation. They try to circumvent the President and bring the police, military and security service personnel into power under the pretext of war on corruption. The same pretext is used in eliminating regional autonomy. A conservative centre leads the country, comprising business tycoons, central government bureaucrats as well as military and security service organs.	The Long Goodbye: The centre implodes and regions either strive for independence or autonomy. By 2010 patriotism and realism bring the regions back together and the Mayor of St. Petersburg is elected President. The Russian Bear: The armed forces and security services take advantage of the situation and launch a coup d'état. The end of the period resembles that of the Two-Headed Eagle, enabling the power elite to retain control.	The 1993 Constitution proves viable for the presidential administration. Regions remain under central government control and there is peace in the land. Security services and the military, too, remain under presidential control. Political parties are well-organized. The power elite select the successor for President Yeltsin, later legitimized by popular election.
Social base	Old and new political players.	Citizens, sick and tired of crime and corruption.	The Long Goodbye: General discontent, centrifugal forces among regions. The Russian Bear: The coup is not resisted. After all, everyday life is enough trouble as it is.	Strong economic growth has made the administration popular. The stronger middle class is now dominant.
Economy	High inflation. State economy is in trouble but the private sector flourishes. Privatization is pseudo-privatization. State control remains. Rules of the game are absent. Stagflation is the buzz word. Ownership rights or stable currency cannot be guaranteed.	Moderate approach to liberal economic reforms and to strong state ownership. Migration towards market economy under state leadership. Existing living standards are retained at all costs. Large corporations, especially the defence industry, play a key role.	The Long Goodbye: Total economic collapse. The Russian Bear: The state renationalizes all large corporations and agriculture. Small companies may continue, albeit supervised. Foreign investors flee.	The economy benefits from central government control, being at the forefront in all decision-making. Privatization is well under the way. Large companies lose their relative importance and the middle class becomes stronger. Two thirds of Russia's economy is in private ownership.
Values	"Everyone for himself"	Strong state, heavy hand	General apathy and immorality	Capitalism and private entrepreneurship
Domestic policy factors	Ultra-nationalists confuse and weaken the political centre. The government is weak and improvises, on a case-by-case basis. Unemployment grows. It is dangerous to move about after dark. The popularity of the Red-Brown nationalistic front grows. Society is free, yet chaotic. The military and the police are too disorganized to form an opposition.	"Much has changed but nothing has happened" or "much has happened but nothing has changed". People from the Caucasus, especially, Chechens and Tartars are persecuted. Regional leaders are replaced with those loyal to Moscow. 1) Comedian Mikhail Zhvanetsky	The Long Goodbye: Unemployment numbers are high. Dry spells have brought hard times to agriculture and there are hiccups in food distribution. Russia also fights a war along its borders, further reducing confidence in central government. The Russian Bear: Independent media is suppressed. Censorship is restored and western culture is singled out. The role of the military rises.	Large financial institutions own a large portion of Russia's private sector. Consumerism thrives. Citizens vie for the respect of rules and a "civilized" business culture. Unemployment is no threat. Women, the elderly and municipal workers have no say in society.
Foreign policy factors	Estonia is a major foreign policy problem. Even the other new neighbours will be a challenge. Eastern Ukraine is in turmoil. Russia's authority in global politics is badly undermined.	Return of great power status. The biggest foreign policy questions still involve the area of the former Soviet Union. Germany is a political ally. Russia is hostile towards the way western media portrays it.	The Long Goodbye: Russia becomes almost totally isolated. Foreign policy is conducted through regional administrations. The Russian Bear: Anti-Westernism grows. Russia refuses to pay back its loans. Conflicts between Moscow-backed Russian minorities and others occur in Kazakhstan, Ukraine and Baltic countries. Eastern Ukraine and Crimea want to unite with Russia.	Cooperation and trade with the EU grows. Particularly Germany invests in Russia and moves its industrial production there. Japan and Russia reach an agreement on the Kuril Islands. As a result, Japan begins to invest in East Russia and European Russia. Russian companies invest abroad. The economy is a dominant force in foreign policy.

Yergin ja Gustafsson (1995): Russia 2010 and What it means for the World



Scenario 2007-2017	Influential Global Player	Mosaic Russia	Power Elite's Russia
Political base	A coalition of the elite, comprising liberal technocrats and the siloviki from the Putin period. Possibility to transform from authoritarianism to real democracy, à la Japan and South Korea.	The liberal wing from the Putin era.	The military and the secret police.
Social base	Key roles played by influential managers in energy, industry and mining. So long as the economy grows and stability prevails society is content, even at the expense of democracy.	Beginning of period: Liberal and technocratic elite and Russian middle class. End of period: The strengthened middle class is now dominant.	Top government leaders and leaders of large energy companies.
Economy	Particularly the large energy companies invest in energy infrastructure. They also spread their portfolio in horizontal diversification. While the state retains a strong role in the economy, it allows SME enterprises to develop.	Energy export revenues plummet and the economy is forced to diversify. New entrepreneurs are a rising trend. SME enterprises become the new dynamo of the economy. Innovation, technological know-how and the internet play a key role. Tourism finds its niche in Russia's economy. The Sochi Olympics herald the new upswing of tourism.	The power elite base their position on the high price of energy in the world. Economy does not diversify under state control, but the state can afford to expend monies with which to provide for the needs of the citizens. Much of the population ekes out a living; many subsist on natural economy and by bartering. The grey economy grows.
Values	Russia operates as a great power, led by a strong leader. Pragmatism.	Democratic values.	Management by fear. The strong power elite subjugate the state to serve its own interests. Authoritarianism and power are revered.
Domestic policy factors	Stability is the key word. United Russia has monopoly in party politics. A two-party system becomes practice. Political activism is weak and citizens have little confidence in politics. However, the new generation begins to question their administrative culture.	The richer, better educated middle class assumes the leading role in reforming Russia. The income gap becomes smaller. National tolerance increases. Societal role models base on the American way, on private entrepreneurship and social insurance, with the exception of national health care. Inequality among regions prevails.	The man in the street is left alone, provided he does not meddle in state affairs. An atmosphere of distrust leaves its mark on the entire society. The ruling elite hold on to power, either by inheritance or coup d'état. The best and the brightest are regarded as threats rather than assets. Xenophobia and ultra-nationalism run rampant, simultaneously as discontent grows. Access to information, such as the internet, is controlled by all means. Opposition is nonexistent and corruption permeates all layers.
Foreign policy factors	Russia is a member of the WTO. The Russia-EU relationship is still wary. Russia prefers to conduct bilateral relations with the EU countries. An armed conflict breaks out in the Caucasus in 2012. The entire area of the former Soviet Union produces major headaches. Russia's trade with China increases, albeit cautiously.	Russia intensifies its relations with India and Iran. A free-trade zone and investment protection agreement has been signed with the EU. The relationship with Kazakhstan intensifies. The role of the military diminishes. NATO-Russia cooperation proceeds smoothly. Russian troops participate in peace support operations.	An atmosphere of distrust extends to Russia's foreign relations. Russia's military highlights threat scenarios (USA; NATO, China, Islamic fundamentalism), against which the armed forces are developed. Some of the CIS countries have joined the anti-NATO front. The arms race is on again. EU relations are less important.

Kuusi, Tiihonen, Smith (2007); Venäjä 2017: Kolme skenaariota

Scenario 2007-2017	Putinism without Putin	A Shot in the Dark...and True Dictatorship	Putinism Falls from Grace...and Democracy Rises Again
Political base	Sergey Naryshkin elected president. Controlled democracy. The hybrid nature of the regime is endured. The role of the State Duma increases.	President Putin is assassinated. Yakunin rises to power by manipulation and total media control. The KGB and security services run the country.	Sergey Ivanov elected president. Putin is re-elected in 2012 but poor economy and growing discontent result in change of guard in 2016 after the liberal opposition manages to unite.
Social base	Russia's newly enriched baby boom generation.	The siloviki faction.	Putinin kahden ensimmäisen presidenttikauden eliitti, osa Putinin uskollisista tukijoista Ivanovin presidenttikaudella
Economy	Economy grows by 4-7 % per annum. Price of oil plummets to USD 40/bbl but Russia's economy can handle this. Government improves banking system, curbs corruption and helps SME enterprises.	Regardless of totalitarianism, some economic liberalism prevails. Controlled foreign ownership permitted and Russians are encouraged to invest both at home and abroad. Situation in Iran and Iraq cause the price of oil to surge. In 2017 Russia is the fifth biggest economy in the world.	The price of energy collapses, taking Russia's economy with it. The price collapse is caused by a change in US policy, encouraging the use of renewable energy sources.
Values	Hyper-sovereignty.	Orthodox faith, nationalism and xenophobia. "Russia for Russians".	Democracy is the end result.
Domestic policy factors	Russians are still ready to swap democracy for stability.	Internal demonstrations and strikes, which are violently suppressed.	An epidemic of multi-drug-resistant tuberculosis breaks out in Siberia. Internal discontent grows. The internet plays a key role in the strengthening of the liberal opposition. Mikhail Khodorkovsky is freed in 2016.
Foreign policy factors	Russia's biggest headache is the growing gap between the USA and China. Russia's relations with NATO improve. Russia, Turkey and the USA cooperate in counter-terrorism. The return of the Taleban in power in Afghanistan unites the West and Russia. Shanghai Cooperation Organisation and NATO organize joint military exercises in Tajikistan..	RATZ (Russia, Azerbaijan, Turkmenistan and Kazakhstan) form a prestigious energy grouping. Russia's close cooperation with Europe and the USA results in tensions between China and Russia. The United States "allows" Russia more latitude in the area of the CIS. Islamic extremism brings the West and Russia closer. More cooperation between the Collective Security Treaty Organization, Shanghai Cooperation Organisation and NATO. Ukraine warms its relationship with Russia.	Russia's clout and authority diminish in the area of the former Soviet Union, replaced by the United States and Europe.

Kuchins: Alternative Futures for Russia to 2017 (2007)

## 9. Potential “sore points” in Finnish-Russian relations

Traditionally, Russia’s development has been a complex challenge for Finland in all sectors of politics. In 1992, after the Soviet Union collapsed, a survey was conducted in Finland that polled Finns’ opinions on Russia’s development as well as Finnish-Russian relations. Over 1 000 persons participated in the survey. Results showed that Finns regarded Russia’s unpredictable societal development as a major security risk. Today, 15 years later, Finns probably still consider Russia’s conflicting domestic development as a significant risk factor.

### Risks from Russia’s development for Finland. Finnish opinions 8/1992

	very serious	fairly serious	fairly harmless	totally harmless	cannot say
Russian nuclear plants and Environmental problems	62 %	32 %	2 %	0 %	3 %
The spread of organized crime from Russia to Finland	57 %	32 %	7 %	1 %	3 %
The nuclear arsenal of the former Soviet Union	32 %	44 %	17 %	2 %	4 %
Increasing Russian immigration to Finland	27 %	44 %	23 %	2 %	4 %
Ethnic conflicts in the area of the former Soviet Union	18 %	51 %	23 %	2 %	6 %
Rising ultranationalism in Russia	22 %	45 %	23 %	2 %	7 %
Political conflicts in the area of the former Soviet Union	15 %	50 %	27 %	3 %	5 %
Presence of Russian troops in the Baltic countries	12 %	42 %	35 %	4 %	6 %
Presence of Russian troops in Finland’s adjacent areas	17 %	36 %	37 %	5 %	5 %

Source: Jyrki Iivonen, Suomalaisten suhtautuminen Venäjän kehitykseen sekä Suomen ja Venäjän suhteisiin (Finns’ opinions on Russia’s development as well as Finnish-Russian relations), Ulkopoliitikka no. 3/1992, pp. 23 -27.

Most of the abovementioned issues are still risk factors in Finnish-Russian relations. Specific future "sore points" described in this publication include the following topics:

### **Domestic policy and society**

- If, for some reason, Finnish-Russian relations become strained it is possible that the unsettled and traumatic events of the Second World War will be revisited. For example, no extensive research has been conducted on the Finnish military administration of Eastern Karelia. Furthermore, the events in Russian ghettos in Petrozavodsk, which the Finns themselves called "concentration camps", could be used as material for "international investigative journalism". Moreover, the fact that Finland was not one of the victorious Allies in WW II and that it was engaged inside the Soviet Union, all but guarantee a favourable international reception to Russian opinions.
- Finnish fears of the Eastern Mafia and organized crime seem to have been overblown. Still, one cannot totally exclude the role of Russian organized crime in the drug trade and human trafficking, either in Finland or via Finland. Therefore, more resources should be allocated to cooperation between Finnish and Russian law enforcement authorities.
- Communicable diseases will continue to spread from Russia to Finland. However, Finns can prevent this to a great extent on their own. In order to prevent health problems and communicable diseases and to mitigate risks it is of the utmost importance to receive relevant information from Russia.
- Societal apathy in Russia may erode the political system and the legitimacy of the regime. Nevertheless, societal stability can be maintained by upholding law and order. It is safe to say that the desire for order is a quintessentially Russian trait and, in itself, is no threat to Finland. On the other hand, a poorly functioning society sustains the possibility of societal instability. If Russia cannot settle its institutional problems, this might result in increasing militarism and authoritarianism. This would amount to a threat to Finland.
- Russia's competitiveness and military power may grow in spite of the demographic crisis. For Finland, this is both a challenge and an opportunity. As Russia becomes a stronger player in the world market Finland may either ride on its coattails or get trampled in the process. The demand for high technology is growing in Russia and Finland could find a niche market for high-tech exports.
- It behoves Finland to support civic activity in its neighbouring areas because civil society is the venue through which many threats to comprehensive security are prevented and problems are solved. Furthermore, civil society is the interface between Finns and Russians. Should this cooperation dry up, threats from Russia's "soft security" will increase for Finland.
- Corruption is a problem, to say the least, for wide-ranging cooperation and activities in Finnish-Russian relations. If the role and degree of corruption increase it will comprise a threat to Finns as individuals, businesses and government policies, as cooperation or agreements can no longer be trusted.

## Energy policy

- Finland depends on Russian energy. In 2007, Finland imported 4 133 (1000t) of crude oil, 1 316 million m<sup>3</sup> of natural gas, 2 954 (1000t) of hard coal and 5 333 GWh of electricity.<sup>92</sup> All natural gas is imported from Russia and is under a 25-year contract. Russian electricity covers ten per cent of Finnish electricity consumption. Until January 2006 electricity had been uninterruptedly imported from Russia for 40 years. Then, due to an extreme cold spell, Russia suddenly limited electricity exports for the very first time.<sup>93</sup> On the one hand, Finland has benefited from dependable Russian energy exports and, on the other hand, Finland has been a good, unproblematic customer. There is a direct gas pipeline between Russia and Finland and, hence, potential conflicts with transit countries do not directly impact Finland.
- Russia will probably suffer from a serious energy shortage in the near future. Energy conservation and environmental protection are still marginal issues and the use of energy is wasteful. Already, there are local electricity shortages and without considerable energy saving measures the risk of power outages in Russia is very real. Cold spells raise Finnish and Russian electricity demand through the roof and at such times it is possible that Russia will not have any surplus electricity to export. Finland must prepare for this also because of an imbalance between supply and demand in the Nordic market. When Russia had major difficulties in exporting electricity in the winter of 2006, Finland came close to no longer being able to supply electric energy to industry. Finland also aims to reduce dependency on Russian electricity by investing in nuclear energy. Furthermore, even if natural gas continues to be imported from Russia, Finland could also store natural gas in Latvia. This would be a way to increase the security of supply because Finland would not have to compete with Russia's own natural gas demand during cold spells.
- Russian foreign, domestic and trade policy decisions will comprehensively impact the energy relationship. They could potentially turn development in a direction detrimental to Finland. Should world market prices tumble, Russia's export revenues would also plummet. In the medium term this would probably result in societal chaos, also affecting adjacent areas such as Finland. Furthermore, the increasing link between energy and military security may also pose a risk for Finland, simply because of Finland's geopolitical position. In addition, disputes around hampering or stopping timber imports to Finland result in risks in the energy sector, such as the rate of employment.
- Russia's increasing sea transports as well as port construction and pipeline projects will strongly affect Finland. Through these Russia aims to reduce its dependence on transit countries. Russian exports through the port of Primorsk will substantially grow, thereby increasing cargo shipping in the Baltic Sea and, thus, also accident risks. Fin-

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92 Statistics Finland 2007.

93 Energiateollisuus ry 2006.

land is also affected by the busy passenger traffic between Helsinki and Tallinn as well as by the fact that oil tanker routes traverse the coast of Finland. In addition, construction of the Nord Stream pipeline on the seabed raises the strategic importance of the Gulf of Finland. These developments are potentially sensitive in Finnish-Russian relations. Also, they highlight the role of multilateral negotiation mechanisms as venues for cooperation.

- The importance of energy infrastructure inspections rises because maintenance problems may cause cascading effects which extend to neighbouring countries, such as Finland.
- The energy sector also reflects the differences of international business cultures. Russia has lately favoured bilateral relations and, during the time of the Putin administration, the importance of personal relations has grown. Finland has considered this an asset and strength and, therefore, Finland has clearly underscored the special relationship between Finland and Russia. Still, from the Russian perspective Finland is small fry in the world market and, therefore, economic priorities may supersede even good relations. Moreover, negative tendencies have been detected in the manner in which the energy relationship is managed. Motivation and willingness to cooperate have diminished because the respective systems are increasingly divergent. As is the case with the EU, the problem is that both parties' powers and decision-making hierarchies differ so much that it is mainly only companies that can conduct a genuine dialogue.

## **The environment**

- A prolonged high-pressure area (heat wave or cold spell) that creates a dome of smog from traffic and industrial pollution in the area of St Petersburg could dramatically worsen the state of the environment in northwestern Russia. This kind of smog dome would have extensive societal and cross border effects. The situation could become critical if the high-pressure smog dome also incorporated smoke from forest and marsh fires. The Intergovernmental Panel on Climate Change has suggested that the probability of extreme weather phenomena grows hand in hand with climate change. An inversion such as the one described above could reoccur more and more often and persist for longer periods. One could compare this to the great smog of London in 1952 which killed several thousand people in a very short period.
- The oil pipeline to the port of Primorsk crosses under the River Neva. St Petersburg gets its potable water from the River Neva, pumped downstream from the point where the pipeline crosses the river. Should the pipeline rupture due to an accident or sabotage, this would be an extremely difficult task for Russian civil defence authorities. They would have to guarantee enough water for 4.7 million inhabitants or, alternatively, evacuate them. In all, the impact of this kind of an accident or act of terror would be far-reaching.

- It goes without saying that an oil spill in the Gulf of Finland would be a major environmental disaster. It would also impact societies and economies all around the Baltic Rim. The environmental impact would be entirely dependent on the volume of the spill, the time of year and weather conditions. In other words, these would determine how efficiently the oil could be recovered in the open sea. Sea ice, strong winds and currents could render oil recovery in the open sea impossible. If this were the case, long-term pollution of the shores of the Gulf of Finland could not be prevented. Even if a spill occurred right in front of St Petersburg or the Karelian Isthmus, Finland would probably feel its effects. This is because sea currents run counter-clockwise in the Gulf of Finland, from the coast of Estonia to the Neva delta and further along to the coast of Finland.
- Russia's plans to significantly increase nuclear power always include serious environmental risks. The effects of the Chernobyl disaster can still be detected in Finland's nature. If, for example, an accident occurred in the Sosnovy Bor nuclear plant, Finland would probably again suffer the effects and end up paying for its cleanup. Even though the risk of major nuclear disasters is relatively small, minor disturbances and outages are increasingly probable because systems are being run at their maximum.

### **Economy and transport**

- From the Finnish perspective, Russia should mainly focus on improving its roads and railways. Transit transports through Finland to Russia are mainly road freight. This being the case, road conditions and capacity are crucial from the standpoint of, for example, truck congestion on the Finnish side of the border.
- As presented above, Russia's decrepit transport infrastructure is the single biggest risk factor decreasing the reliability of the transport system. Russia relies on only a few major transport corridors. Thus, an act of terror or an accident on one main transport corridor could seriously impact the entire transport system
- Without smooth and constant cooperation between the Finnish and Russian customs authorities the problems at border crossings will continue and, in the worst case, may reach a flash point.
- Finland should more systematically monitor changes in the key sectors of Russia's economy. A major risk for Finland involves EU-Russia negotiation mechanisms. An underlying cause is the increasing competition between Europe and Asia for Russia's natural resources. A further problem is the fact that while Russian companies are increasingly buying shares in European transport and energy industries, Russia limits foreign investments in its own economy.

## Foreign policy

- Russia considers the United States its strategic rival and regards the US-led NATO as a threat to itself and its allies. This negative attitude towards NATO is psychological and immune to reassurances that it is not a military threat to Russia. Should Finland seek membership in NATO, it would most probably reduce trust between Finland and Russia. From time to time the Russian media plays with the idea of Finland becoming a member of NATO and, almost invariably, the press and the Russian authorities adopt a negative stance to the idea. Should Finland join, the threat would probably not be a military one; rather, the biggest threat would involve Russia's hostile posturing towards Finland. When the Baltic countries joined NATO, Russia implemented select demonstrative military measures such as more military exercises along the border. Russia would probably react in a very similar manner to Finland's NATO membership. In potential membership talks Finland could prepare for Russia's reaction by pushing for a more active Russian role in NATO, and by otherwise improving bilateral relations. Such voluntary activity could reinforce the image that Finland, despite its NATO membership, was not Russia's enemy.
- Should Finland bring up the border question, it would stifle the relationship between Finland and Russia. Finnish leaders have traditionally understood how sensitive the issue is and, therefore, the Finnish authorities have not raised the question of returning, for example, Karelia to Finland. Off and on, the Russian press discusses the Finnish debate on the issue in a negative light. Nevertheless, the border question is by no means a point of contention in Finnish-Russian relations. Should the Finnish authorities bring this to the table, it would be met with an emotional response.
- Problems may arise if Russia feels that Finland is meddling in its internal affairs, for example, by criticizing the state of its human rights or democracy. With regard to these issues, however, Finland can always invoke the stance of the EU. It is also unlikely that Finland, alone, would bear the brunt of Russia's ire.
- The question of Chechnya is still sensitive. Relations between Russia and Finland would sour, should Finland pursue the issue. Public debate alone will not sour the relationship but if Russia feels that Finland supports the Chechens, it would be a completely different matter.
- As a great power, Russia also seeks bilateral "allies" in its multilateral cooperation. Russia does this quite unashamedly in its EU-Russia relations. When it comes to Finland and the intensifying EU defence cooperation, Russia will seek information and influence by way of Finland. This is already evident in questions related to visas and the Baltic countries.
- Problems may also arise if ethnic minority questions become politicized. For example, Alexander Rumyantsev, Russia's ambassador to Finland, has publicly called for official minority status for Russians living in Finland. If Russia more actively champions the cause of the Finnish-Russian minority in the future, this may create tension in the relationship. The best way for Finland to avert the politicization of the minority question is to implement advance measures. Investments in individual integration, education and employment as well as promoting social integration are probably the best ways to prevent Russia's meddling in the issue.



- Russia's psychological reactions contain new risks which Finland should prepare for. From the Finnish perspective, the recent use of indirect, extra-governmental pressure instruments is a troublesome development. Since the chain of responsibility is unclear, this lowers the threshold of resorting to action instead of using rhetoric. If disagreements arise between Finland and Russia, it is much easier for Russia to put pressure on Finland by using sources similar to those used in the Estonian statue dispute: youth organizations, hackers or even state-controlled or state-owned companies. The Finnish authorities should prepare effective contingency plans for these types of wholly new conflicts.
- Russia's emotional reactions must be taken seriously, but not so as to give in regarding matters of substance. Russians respect a firm opinion and an honest approach, even if they do not agree with the opinion. It is good to keep in mind that Russia's sore points are almost invariably psychological and tactical. Finland must itself decide in advance where it wants to draw the line in any given dispute.