

**The First and Second Report of the**

**Monitoring Russia Serbia Relations Project**



# **MONITORING RUSSIA SERBIA RELATIONS**

## **I and II Report**

## Introductory remarks

ISAC Fund started the realization of the Project “Monitoring Russia Serbia Relations” in September 2008. The idea for the project came from the need to comprehend the relationship between Russia and Serbia in a realistic manner which can be based on facts, from the point of view of Serbia’s rational interests. The idea also came from the noticeable lag in Serbia’s Euro – Atlantic integration processes. One of the reasons for such a lag is the continuation of Serbia’s painful losses and political defeats, even after the democratic forces came to power. One part of the political spectrum subscribes these losses and defeats to an outside factor, independent from the position of and the situation in Serbia. Pursuant to this logic, the outside factor – finding a powerful protector, holds the key to discontinuation of these losses and defeats and compensation for such losses. The powerful protector, in a completely and historically unoriginal manner, is being found in the Russian Federation.

Serbian society attributes big significance to the “resurgent Russia”, which while “on its knees” during the Yeltsin era of 1990s, ascended at the beginning of the 21st century and at the moment is grandiosely returning into the line of great world powers, if it is not there already. As a great power, this logic develops further; Russia will help its old friends – the Serbs, in overcoming all obstacles which Serbs are facing.

The goal of ISAC’s project is to critically examine this assumption as well as to bring concrete information about contemporary Russia closer to the citizens and the political elites of Serbia, so that strategic decisions which they pass be based on rational decisions, subjected to analysis and revision, and not on myths of closeness of peoples, orthodoxy and “Slavic soul”, which, unfortunately, even in the 21st century, influences political choices of some parts of Serbian, but also Russian society and, more importantly and more dangerously, some elites.

The following compilation of texts is an attempt to present certain aspects of the internal situation in Russia but also its foreign policy, to the Serbian public, but, above all, to examine in this context certain decisions which are passed in Serbia in connection to Russia. Srđan Gligorijević’s text shows how much Serbia misses in its cooperation and integration in Euro - Atlantic structures, comparing Serbia’s omission with the successful and fruitful Russian cooperation with the NATO alliance. Olga Sadovskaya’s text presents the extent to which it is possible to examine decisions of Russian leaders, through free media, which are a measure of democratic development. Gregory Shvedov’s text aims to provide an objective, but still a Russian point of view, on events which have significantly changed the existing state of affairs in European security structure – the August conflict on the Caucasus, i.e. Georgia, and fostered existing frictions between Russia and the West.

Of course, the most important issue in Russia – Serbia relations is the question of the “Agreement between the Government of the Republic of Serbia and the Government of the Russian Federation” on the oil – gas arrangement, could not have stayed outside of ISAC’s focus. Texts of Dr. Zorana Mihajlović – Milanović, and Anatoly Pomorcev, provide well founded and elaborated critical views to the whole arrangement, although from two different viewpoints.

Finally, the text of Žarko Petrović, offers a collection of arguments to readers in support of the thesis that Serbia’s political and economic alternative does not lie in the turn towards Russia which is, simultaneously, ISAC’s working hypothesis within the Project “Monitoring Russia Serbia Relations”

ISAC Fund Team

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# PART I

## Serbia and Russia in Contemporary International Affairs and Security Frameworks

# Russia, Serbia and NATO

*Srđan Gligorijević*<sup>1</sup>

## Introduction

Serbia formally joined the Partnership for Peace program (and Euro-Atlantic Partnership Council) on 14 December 2006, much later than the majority of transitional countries from Central, Eastern and South-Eastern Europe. For instance, twelve years later than Russia. The reasons for such a delay in Serbia's formal inclusion into institutions of the Euro-Atlantic Partnership were manifold: endurance of an authoritarian anti-Western regime throughout '90s, a complex legacy of decade-long armed conflicts in the former Yugoslavia (with the Hague Tribunal obligations), Serbia's unique painful experience of the NATO air campaign in 1999, and certain lack of support from the part of some Alliance's member states. Still, defining further stance towards more evident rapprochement with NATO, and eventual membership, undoubtedly stands as one of the main challenges for Serbian foreign and security policy, at the beginning of the 21<sup>st</sup> century.

Apart from the agonizing NATO bombardment of Serbia (and Montenegro) in the spring of 1999, which represents the main stumbling block in a more positive Serbian attitude towards NATO, the current unfavorable atmosphere in regard to NATO is also a consequence of ideological misperceptions, emotional judgments, notorious ignorance on nature, structure and transformation of NATO, lack of understanding of contemporary international relations, and irrational thinking. One of the most widely spread misconceptions, particularly fostered by some conservative political elites in Serbia, is that a more enthusiastic cooperation with NATO, and subsequent membership, would disrupt Serbia's relations with Russia.<sup>2</sup> Furthermore, there is a predominant prejudice in Serbia that the relationship between Russia and NATO has always been utterly hostile, and consequently lacked in any visible form of cooperation or valuable achievement.

Despite many persistent difficulties, and hitherto two serious stalemates (in 1999, and in the aftermath of war in Georgia, in 2008) Russia's relations with NATO have been advanced in a number of forms, driven by overlapping interests, common challenges and shared concerns. Although significant political differences have been influencing those relations at the high level politics, Russia-NATO cooperation is characterized by impressive practical achievements and a pragmatic approach towards a set of security and defense issues. Many of these achievements can provide a solid basis for energizing Serbia's policy towards NATO, and some of the established and pursued forms of Russia-NATO cooperation could serve as models and guidelines for a more effective Serbia's involvement with the North Atlantic Alliance.

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1) Srđan Gligorijević is the Director of Analytics of ISAC fund.

2) Aleksandar Vidojevic, Srbija ne može biti ostrvo, in *DANAS*, 6 November 2007

## Russia and NATO: A Pragmatic Affair

Russia has been developing its relationship with NATO since 1991. For nearly a decade after the emergence of the Russian Federation, NATO-related issues were a key focus of Moscow's foreign policy.<sup>1</sup> These days, Russia has outlined its position towards NATO, in the recently released (July 2008) Foreign Policy Concept. In the course of the Concept, there is a clear statement that "proceeding from a realistic assessment of the role of NATO, Russia deems it important to ensure progressive development of interaction within the format of the Russia-NATO Council in the interests of ensuring predictability and stability in the Euro-Atlantic Region".<sup>2</sup>

Cooperation between Russia and NATO formally started on 20 December 1991, at the first meeting of North Atlantic Cooperation Council (NACC). Interestingly enough, during the course of the meeting, the Soviet Union ceased to exist. Few years later, in 1994, Russia joined the Partnership for Peace program, and in 1996, Russian soldiers were engaged in Bosnia and Herzegovina, alongside their peers from the Alliance, in the NATO-led peace support operation IFOR (Implementation Force). The next significant step towards establishing a closer cooperation between Russia and NATO was made in Paris, on 27 May 1997, when the NATO-Russia Founding Act on Mutual Relations, Cooperation and Security was signed. The Founding Act reflected the change of the security environment in Europe and emphasized the commitment of Russia and NATO to build together a long-standing peace in the Euro-Atlantic area. In that occasion, a new forum was established, under the name of the Permanent Joint Council (PJC).

This Council set a framework for cooperation, confidence building and consultations on security issues of the common interest, between the Alliance and Russia. The Council met regularly at the ambassadors level, as well as in the foreign and defense ministerial format, and if needed at the level of Heads of States and Governments.

Successful cooperation between Russia and NATO came to light in the implementation of the Dayton Peace Agreement and stabilization of Bosnia and Herzegovina. In addition, the Russian mission to NATO was established in March 1998. Nevertheless, different stances of NATO and Russia on the means of finding a solution for the crisis in Kosovo, in 1999, and the firm Russian opposition to the bombardment of the Federal Republic of Yugoslavia, brought to the Russian withdrawal from PJC, bringing the work of this body to a standstill. Nevertheless, the work of the PJC continued with several joint activities, including Russian participation in the peace support mission SFOR (Stabilization Force), in Bosnia and Herzegovina. Finally, after a very active diplomatic role in the final stage of the Kosovo crisis, Russia decided to participate in KFOR (Kosovo Force), with its military units, starting in June 1999.

Soon after, there was a revival of Russian cooperation with NATO, which was stimulated by several significant events. For example, the same day (12 August 2000) when the Russian submarine *Kursk* accident happened, NATO offered assistance in rescuing the crew. In February 2001, NATO opened its Information Office in Moscow, which purpose was to improve mutual confidence and understanding,

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1) Dmitri Trenin, NATO and Russia: Sobering thoughts and practical suggestions, in *NATO Review*, Summer 2007, NATO HQ, available at: <http://www.nato.int/docu/review/2007/issue2/english/art1.html>

2) *The Foreign Policy Concept of the Russian Federation*, President of Russia, Official Web Portal, available at: <http://www.kremlin.ru/eng/text/docs/2008/07/204750.shtml>



informing the Russian public on NATO activities, as well as on the Russia-NATO affairs. Furthermore, in the aftermath of the terrorist attacks, on 11 September 2001, Russia opened its air space for the coalition forces heading to fight the Taliban in Afghanistan, and also made available relevant intelligence data as a contribution to the fight on terror. In accordance with a positive development of mutual relations, The NATO-Russia Council (NRC) was launched, during the NATO-Russia Summit in Rome, in May 2002.

The NRC contains 26 NATO member states and Russia, in the forum which enhances possibilities for joint dialogue and action, in areas of mutual interest, substituting the PJC. The most important characteristic of the NRC is that mutual cooperation is established on the principle of equality and consensus among all 27 states. This is the essential difference from the previous Russia-NATO relationship, in the scope of PJC, which functioned according to formula *NATO+1*.

The NRC meets at different levels: once a month at the ambassadorial level, twice a year at the ministerial level and when needed, at the level of Heads of States and Governments. Additionally, once a month there is a meeting at the level of military representatives, and twice a year at the level of Chiefs of Defense Staff. NRC meetings are chaired by the NATO Secretary General. In the scope of the NRC, some areas of cooperation have been particularly intensified: counterterrorism, non-proliferation of weapons of mass destruction, improvement of interoperability, crisis management, arms control, theatre missile defense, defense reform, civil emergencies and scientific cooperation.<sup>1</sup>

Almost simultaneously with the launch of the NRC, in 2002, the NATO Military Liaison Office was opened in Moscow, to connect the NATO Military Committee and the Russian Ministry of Defense. The same year a joint NATO-Russia Resettlement Centre started its work, helping redundant Russian military personnel return to civilian life. Furthermore, in 2003, a direct special telephone line was opened between offices of NATO Secretary General and Russian Defense Minister. In the meantime, Russia withdrew its contingent deployed in peace support missions in the Balkans. During the visit of the NATO Secretary General to Moscow, in April 2004, agreements were signed on setting up the Russian Military Branch Offices at both Alliance's Strategic Commands. During the same year, the NRC endorsed The Action Plan on Terrorism, which includes concrete initiatives to prevent, fight and handle the consequences of terrorist acts. Additionally, in 2005, NRC foreign ministers launched a pilot-project on counter-narcotics training for Afghan and Central Asian personnel.

In 2006, Russia actively joined NATO-led antiterrorist operation in the Mediterranean, *Active Endeavour*, with a frigate *Pitliviy*. During 2007, the Russian Duma, ratified the Status of Force Agreement in the Partnership for Peace program (known as PfP SOFA) and another Russian frigate *Ladniy* was included in the operation *Active Endeavour*. Moreover, in April 2008, Russia and NATO signed a document which allows land-transit across Russian territory of non-military equipment destined for the NATO-led International Security Assistance Force (ISAF) in Afghanistan. Occasionally joint exercises have been held in areas such as disaster-response, theatre missile defense and search-and-rescue-at sea. But, as a consequence of the conflict in Georgia, in August 2008, military cooperation between Russia and NATO found itself in a stalemate.

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1) Robert E. Hunter et al., *NATO and Russia: Bridge-Building for 21<sup>st</sup> Century*, White Paper, RAND and Institute for US and Canada, Santa Monica, 2002, 37 pp.

## Serbia and NATO: An Unusual Agenda

Serbia still appears to lack a clear political commitment to move closer to NATO. The climate of cooperation is indifferent, and government efforts to address support for NATO among its population have dropped. Public support for Serbia's NATO membership, according to the survey made by *Medium Gallup*, in autumn 2007, was 28%, while at the same time 55% opposed NATO membership for the country.<sup>1</sup> In addition, there are frequent official claims in Serbia on the alleged neutrality of the country, which finds its only validation in the non-binding parliamentary *Resolution of the National Assembly on the Protection of Sovereignty, Territorial Integrity and Constitutional Order of the Republic Of Serbia*.<sup>2</sup> Driven by the lack of the public support for NATO issue, none of the principal Serbian political parties has NATO membership on its agenda. Nevertheless, Serbia has been gradually managing its cooperation with NATO, before and after its accession to the Partnership for Peace programme. As a matter of fact, this cooperation is still very hesitant, self-limited and unenthusiastic. As a consequence of this, Serbia uses only a small piece of all the available possibilities that the Alliance offers to Partner countries. Compared with other member countries in the Partnership for Peace, Serbia is lagging far behind in making a more effective relationship with the Alliance.

The milestone in the establishing of cooperation between Serbia and NATO came after democratic changes in Belgrade in October 2000 and the clear commitment of the new Serbian government to work closely with the Alliance in seeking a peaceful resolution to the Albanian insurrection in Southern Serbia, two months later. From that moment on, visits of high ranking civilian and military officials of the Serbian government to NATO HQ and Joint Force Command (Naples) have been realized frequently and on a regular basis. Moreover, on 4 March 2001, in a major breakthrough of confidence and cooperation building efforts and in close coordination with NATO, Serbian security forces were allowed to enter the Ground Safety Zone, the five-kilometre strip of Eastern Montenegro and Southern Serbia adjoining Kosovo, established in the aftermath of the NATO campaign, in 1999. Besides the Ground Safety Zone, its counterpart, the Air Safety Zone also experienced the phased reduction.

Moreover, flight routes over Serbia (and Montenegro) for NATO missions in the region, under SFOR and KFOR control, were established on 20 December 2002. Foreign Minister of the State Union of Serbia and Montenegro, Goran Svilanovic officially applied for country's membership in Partnership for Peace program, on 19 June 2003. Certainly, the historical event was the visit to Belgrade, by Lord Robertson, NATO Secretary General, on 26 November 2003, on his farewell tour throughout the former Yugoslav states.

The real challenge and a very important moment for the further relations between Serbia and NATO was the outbreak of violence in Kosovo, on 17 March 2004. Shocked in the first moment, by the furious campaign of the extremist-led ethnic Albanian groups, KFOR did not react rapidly enough to such intensive attacks on Serb enclaves. Thanks to the responsible action undertaken by three core persons in NATO (Jaap de Hoop Scheffer, Secretary General; General James Jones, SACEUR, and Admiral Gregory

1) *Javno mnjenje Srbije o evro-atlantskim integracijama*, Medium Gallup, available at: <http://www.atlanticcouncil.org.yu/>

2) *Resolution of the National Assembly on the protection of sovereignty, territorial integrity and constitutional order of the Republic of Serbia*, enacted on 26 December 2007, available at: <http://www.parlament.sr.gov.yu/>

Johnson, Commander of Joint Force Command in Naples) the situation was stabilized, by sending NATO reserve forces, as reinforcements of the approximately 18,500 NATO troops already operating in Kosovo at that time.

To overcome an institutional obstacle in cooperation with Serbia, caused by the delay in the Partnership for Peace accession of the country, NATO initiated the Tailored Cooperation Program, in June 2003, enabling Serbia to participate in certain activities of the Partnership for Peace program. These activities were predominantly of educational and training nature. Tailored Cooperation Program has run in three one-year cycles. In the meantime, Serbia (and Montenegro) concluded the Agreement on Transit Arrangements with NATO, on 18 July 2005, which was meant to improve the logistical flow to and between NATO's operations in the Western Balkans.

The most efficient step concerning NATO engagement with Serbia and its support to defence reform was the establishment of a Norwegian-advocated Defence Reform Group (DRG), as a joint body of Serbian (and Montenegrin) MoD and the Alliance, approved by the North Atlantic Council, starting its activity in February 2006. DRG is co-chaired by the NATO's Director for Defence Planning, and Serbian Assistant Minister of Defence for Security Policy. Activity of DRG is organized through plenary meetings and in sixteen Working Tables.

Finally, Serbia was invited to accede to the Partnership for Peace and to the Euro-Atlantic Partnership Council, in NATO Riga Summit, in November 2006, along with Bosnia and Herzegovina and Montenegro. The ceremony of signing the Framework Document, took place in NATO HQ, in Brussels, on 14 December 2006.

Following that, NATO opened its Military Liaison Office (MLO) in the Serbian Ministry of Defence, on 18 December 2006. The mission of NATO's MLO in Belgrade is to serve as a link with the military authorities of Serbia on the practical aspects of the implementation of the Agreement on Transit Arrangements between NATO and Serbia. The MLO also facilitates the implementation of Serbia's PfP program with NATO and support activities of DRG.

On 5 September 2007, Vuk Jeremic, Serbia's Foreign Minister, presented the Presentation Document, at the NATO HQ, nine months after the country was invited to join the program. Unlike the Presentation Documents of other Western Balkan countries, this one does not contain a clearly expressed intention of the country to join NATO.

Particularly important for Serbia, in regards to the improvement of relations with NATO, was the signing of the Security Agreement on the exchange of confidential information with NATO, by Serbian Defence Minister, Dragan Sutanovac, together with Jaap de Hoop Schefer, on 1 October 2008, at the NATO HQ. Moreover, on this occasion, Minister Sutanovac addressed the North Atlantic Council. By signing the Security Agreement with NATO, Serbia removed a considerable impasse in its relationship with the Alliance, which had burdened a formal and more dynamic Euro-Atlantic integration of Serbia.

Regretfully, as a consequence of a decision made by NATO Defense Ministers, during their meeting 12-13 June 2008, to implement NATO's new tasks in Kosovo, which means assistance to building Kosovo security forces, there is a deadlock in the high-level meetings between KFOR and the Serbian Armed Forces.<sup>1</sup>

## **Russia-NATO relationship: Some Lessons for Serbia**

Although Russia and NATO have not developed, so far, a firm *strategic* partnership, they have undoubtedly developed a considerable *pragmatic* partnership. For sure, experiences from the almost two decades long process of building Russian relationship with the North Atlantic Alliance can be, to a large extent, very useful for the improvement of Serbia's relations with NATO.

Someone can be trapped into underestimating the achievements of PJC and NRC, and the entire Russia-NATO cooperation. Nonetheless, as mentioned above, there is a notable record of this relationship, which considerably evolved throughout the time, laying a firm basis for any latter development. Moreover, the fact remains that without the PJC and the NRC, relations between the two players, in last 17 years, would have been less predictable, controlled and cooperative. Hence, the result should be measured as positive, by all means.

For its part, Serbia should seriously take into consideration constructive and practical aspects of Russia-NATO cooperation, and consider the validated attainments of Russia-NATO relationship, utilizing them in the most appropriate way, according to its needs and abilities. In its engagement with NATO, Serbia should work harder to reach the level, intensity and scope of cooperation that Russia has achieved with the Alliance, to date.

It could be generally useful for Serbia to apply an approach largely present in the Russia-NATO relations: to uphold a careful management, making sure that intrinsic difficulties and obstacles are minimized, and that practical cooperation is maximized wherever possible. Despite the fact that Serbia has developed and engaged in wide-ranging cooperation with NATO, there is still room for improvement, to which some Russian experiences could be particularly helpful.

Russia has been one of the main non-NATO contributors to NATO-led peace support operations, joining IFOR mission in Bosnia and Herzegovina, from 1996, and continuing its participation in SFOR mission, until 2003.<sup>2</sup> After the deployment of NATO-led KFOR mission, in Kosovo, in June 1999, Russia contributed to it, with a contingent, remaining there until 2003.

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1) General Opening remarks by NATO Secretary General, Jaap de Hoop Scheffer, Meeting of the North Atlantic Council with non-NATO KFOR contributing nations, NATO HQ, 12 June 2008, <http://www.nato.int/docu/speech/2008/s080612a.html>; General Ponos in Ground Safety Zone, Serbian MoD, 28 August 2008, [http://www.mod.gov.yu/novi\\_eng.php?action=fullnews&id=1065](http://www.mod.gov.yu/novi_eng.php?action=fullnews&id=1065)

2) Paul Fritch, The NATO-Russia partnership: More Than Meets the Eye, in *NATO Review*, Summer 2007, NATO HQ, available at: <http://www.nato.int/docu/review/2007/issue2/english/analysis1.html>

Moreover, Russia became the first non-NATO state ever to contribute to an Article 5 collective defence operation, when in 2006, Russian frigate *Pitliviy* joined the Alliance's maritime counter-terrorist operation *Active Endeavour*, in the Mediterranean Sea. In 2007, another Russian frigate, *Ladniy*, was included in this operation.

Serbia still keeps an exceptionally hesitant attitude towards involvement in peace support operations. Its participation in UN-led missions is only symbolic, having several observers in Liberia and Ivory Coast and a six-member medical team in the Democratic Republic of Congo. Unlike all Partnership for Peace countries, Serbia has not recognized yet the importance of contribution to peace support operations as a prominent foreign policy tool. Therefore, it remains the only Partnership for Peace country which has not participated in any NATO-led operation so far, neither with observers, nor with troops.

Russia opened its mission to NATO in March 1998. Ten years later, Serbia still has no established mission to NATO. On 3 November 2008, the information on Serbian Government's decision to open mission to NATO was released.<sup>1</sup> But, between this initial step and effective start of mission's work will pass some time and there are several requirements to be fulfilled. In regard to this, Serbia has still not signed the Agreement on the Status of Missions and Representatives of Third States to NATO. Delay in the making operational the national mission to NATO is a huge disadvantage for Serbia, which needs an established and full-capacity channel of communication with the Alliance, on a number of issues that essentially concern its national interests.

While NATO opened its MLO, in Belgrade, in December 2006, with an exclusively military affairs agenda, the particularly delicate relations between Serbia and Alliance require better public diplomacy, which could be pursued through a civilian part of the MLO, or a separate entity alike the NATO Information Office in Moscow. As well as in Moscow, the purpose of such an effort would be to improve mutual confidence and understanding on NATO, and informing Serbian public on NATO-related affairs.

Albeit Russia already set up its Military Branch Offices at both Alliance's Strategic Commands, in Mons and Norfolk, and have assigned its personnel to some Partnership for Peace bodies, Serbia has not seconded so far its military personnel to any of the placements in the Alliance's integrated command structure and institutions, available for Partnership for Peace countries. The same holds true for the Senior Course at the NATO Defense College, in Rome. It is a high-level six month excellence course for senior appointees in NATO and multinational staffs or NATO-related duties in national ministries of defense and foreign affairs. Russia has repeatedly sent its course members, but Serbia, though invited, has not done it so far. With this, it stays as the only Partnership for Peace country that has not have course member of the NATO Defense College Senior Course.

In 2007, the Russian Duma ratified Status of Force Agreement in Partnership for Peace program (PfP SOFA), which facilitates performing of joint exercises and training, in the scope of Partnership for Peace. Serbia has not signed this important agreement thus far.

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1) Web-site of the Serbian Ministry of Foreign Affairs, 3 November 2008, [http://www.mfa.gov.yu/Bilteni/Engleski/b031108\\_e.html#N2](http://www.mfa.gov.yu/Bilteni/Engleski/b031108_e.html#N2)

## Conclusion

Security environment of Serbia and internal political and security circumstances do not allow Serbia to stay out of the mainstream of Euro-Atlantic integration. Only reasonable path for this country lies within cooperation, mutual understanding and inclusion into broader Euro-Atlantic community. Whatever happens, Serbia (and the region) can not escape from its Euro-Atlantic future; only its pace will determine whether this aim will be reached faster or slower. Recent developments in South Caucasus, which furthered clearer strategic determination in the Euro-Atlantic zone, together with a steadfast Euro-Atlantic orientation of all Serbia's neighbours, raises a necessity and importance for a new policy of Serbia's engagement with principal Euro-Atlantic institutions. Having that in mind, Serbia should consider Russia as a country which has been building a specific relationship with NATO, to the best benefit for its national interests. In that endeavour, Serbia can use and adapt to its own needs and abilities, the ideas, concepts, experiences and approaches that Russia so far has undergone and improved. At the same time, there should be raised awareness in Serbia on Russia's achievements, range and intensity of the hitherto cooperation with NATO. Simultaneously, there is a demand for explanation that Serbia's rapprochement with the Alliance and eventual membership cannot be detrimental for Russia, at all. For those undertakings, and for the overall Euro-Atlantic integration of the country, Serbia needs thoroughly informed decision-makers, who should take a bold step and lead, not follow somewhat mistaken public opinion.

# Caucasus – Confrontation or Cooperation

Gregory Shvedov<sup>1</sup>

## Change of Status Quo

What happened in South Ossetia and Georgia between 7-12 August? There are several viewpoints on that issue. It is obvious that the status quo in the region was not only brought down, but the map of the Caucasus, as well as respective foreign policies, had been completely changed. Let me present, inevitably simplifying, some viewpoints about those events. I would try to underline both common misunderstandings (stereotypes) and the interpretation of the events, which correspond to reality. Journalists of the 'Caucasian Knot' worked in Tbilisi, Tskhinval (and villages of South Ossetia) and in Moscow during and long before the events took place.<sup>2</sup>

What was seen from South Ossetia: Georgia attacked us again. And we have already stood up for our independence. The international community kept silent<sup>3</sup> when civilians died and when city was destroyed.<sup>4</sup> The West openly supported Tbilisi. Russia saved us from Georgia. Although it took too long for the Russian Army to reach Tskhinval, it finally recognized our right to self-determination. We strove for it for so long. The President and his personnel escaped, and we were saved by the militiamen. Without them we would have been exterminated. Russia made clear to Georgia that it should be reckoned with. Too bad, the Russian army did not reach Tbilisi. Nevertheless, we also paid Georgia back by burning down Georgian houses in enclaves and raiding Georgia in the "buffer zone".<sup>5</sup>

The more balanced picture is as follows: regular fire<sup>6</sup> from the Georgian side intensified after Saakashvili announced a cease-fire. Civilians had to spend several days in the basements<sup>7</sup>, from where not much could be seen. Mobile communications was quite intermittent (Russian mobile operators were blocked) and the rumors about the total destruction of the capital as well as about one and a half thousand dead people spread among the population. Many residents of South Ossetia had relatives killed and almost all had friends killed, which is why stories of brutalities of Georgian soldiers were and still are

- 1) Chief Editor of 24-7 Internet agency, "Caucasian Knot" website: <http://eng.kavkaz.memo.ru/> and Member of the Board "International Memorial". A partly translated version of this text into English can be found at <http://www.eng.kavkaz-uzel.ru/>
- 2) The author of this article in August - September, communicated with academic circles of Stanford and Harvard Universities, with experts and officials in Washington, New York and San Francisco, whilst maintaining contacts with Georgia and South Ossetia and had very close discussions.
- 3) Testimony of Lira Tskhobrebova, Chairperson of Association of Women of South Ossetia for Democracy and Human Rights, who survived the war in South Ossetia in Tskhinval, <http://www.youtube.com/watch?v=9iyXELH1YVI>, [http://www.youtube.com/watch?v=qYDSUHt9O\\_A](http://www.youtube.com/watch?v=qYDSUHt9O_A)
- 4) Story about civilians, escaping from city, was told by Larissa Sotieva (International Alert) and published by IWPR.
- 5) The so called "buffer zone", territory on the border of South Ossetia and Georgia, occupied by Russian troops; control over the looters was conducted carelessly, in many places Russian soldiers were looting themselves. In the state of uncertainty a number of Ossetian militants were pillaging villages and inhabitant of the region, and even journalists. For instance, journalist Margarita Akhvlediani (Tbilisi) under the threat of death was deprived of her car and equipment.
- 6) 'Caucasian Knot' keeps a chronicle starting from 2004, including events in South Ossetia up to date, <http://kavkaz-uzel.ru/newstext/ourannounce/id/1017941.html>. Considering that military confrontation in the region lasts for very long period the use of the term "frozen conflict" seems surprising.
- 7) War in South Ossetia: Recollection of the Witness, 14 August 2008, <http://www.kavkaz-uzel.ru/analyticstext/analytics/id/1228369.html>

widely circulated.<sup>1</sup> The President Kokoity and the majority of security, law enforcement and defense officials fled the capital (with few but very significant exceptions). The militiamen, indeed, played a key role in the war, which resulted in the increase of opposition's popularity. Georgian villages were completely destroyed and abandoned by the inhabitants. As a result of Russian military appearance, the operations were moved to the Georgian territory, which saved lives of the large part of the peaceful civilian population of South Ossetia.

What could be viewed from Tbilisi: We were restoring territorial integrity of the state, while Russia invaded our country, occupied first Tskhinval region<sup>2</sup> and then Gori region, at the same time bombing cities and killing civilians. It was moving throughout the country using Chechen troops notorious as 'punitive forces'.<sup>3</sup> By virtue of what right did Russia do so? We were subjected to information attacks, and the information was unavailable. The West did not help us. It betrayed us fearing to spoil its relations with Russia. Bureaucrats from international organizations declared their support too late, but, better later than never. President Sarkozy took the pro-Russian position. The proposed Medvedev – Sarkozy's plan is unacceptable. Cultural heritage monuments were destroyed and looting was widely practiced. Georgian houses, in Tskhinval region, were burned en masse.<sup>4</sup> But the whole nation is united, supporting the President's policy.

From a legal point of view, restoration of the territorial integrity cannot be considered as sufficient grounds for initiation of military operations. Russia and Georgia signed an agreement, according to which political (negotiation) and military bodies were created in South Ossetia (with participation of Russian, Georgian and South Ossetian peacekeeping battalions). Their work was not effective, but all attempts to create other bodies failed. Georgian side stopped participating in the work of one of those bodies (negotiation body), but did not denounce the agreement and, thereby, by the attack on Russian peacekeepers, inevitably incurred aggression. From that viewpoint, the Russian army had no need to stop in the "buffer zone". Fighters from the Chechen battalion "Vostok" did participate in the war. Bombing of Georgia was not most accurate, which resulted in the death of peaceful civilians. The national television was on, and generally the information was available, but filled with gross exaggerations. Internet resources were subjected to cyber attacks and many of them were hacked or blocked (Internet websites are mostly being read from outside of Georgia). The sense of information vacuum which was created by the Russian and Georgian media propaganda, made media impossible to trust. Enthusiasm and mobilization potential of the first days was replaced by despondency and fear that Tbilisi may be captured by the Russian Army. The opposition, including the most irreconcilable part, indeed swore allegiance to the authorities. However, unlike in South Ossetia the mobilization potential was very low.

What was seen from Moscow was so widely known, that it should be repeated here very briefly. Poor South Ossetia was subjected to a traitorous (specially launched at the time of Olympic Games in Beijing

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1) This position was widely spread among the residents of Tskhinval at least until the end of November; the author of the Article personally came across this point of view.

2) Customary name for South Ossetia in Georgia.

3) Indeed, soldiers of the division "Vostok" who participated in the war, repeatedly used excessive brutality in conducting Special operations before, including one in the village Borodzinovskaya on the border of Chechnya and Dagestan.

4) Caucasian Knot managed to record testimonies of witnesses in the Georgian village Avnevi, residents of which, like those from other places, until now cannot return back after fleeing to Georgia, <http://www.youtube.com/watch?v=HiFugMcYZbE&feature>



and pre-election campaign in the US) attack by Georgia. Genocide of the Ossetian people, and crimes against humanity were underway.<sup>1</sup> Russia had to take a decision to conduct “peace-enforcement” operation. Putin is a real national leader who will not allow harm to come to his people. Russia showed to the whole world that it should be reckoned with; the NATO and Western trained and instructed troops ran away from Russian soldiers.

The objective assessment of facts was provided by the narrow circle of experts; International Society “Memorial” and Sergey Kovalev came out with dissenting statements.<sup>2</sup> The society was divided into two uneven parts – absolute majority, including several prominent opposition leaders, followed the media propaganda and supported the pro-Ossetian position while minority took the pro-Georgian position. Practically, there was no balanced opinion, with rare exceptions of documents prepared by Human Rights Watch together with Memorial Human Rights Center<sup>3</sup>. The President Medvedev used the mobilization mood of the population to prolong the President’s term in office for 50%, from 4 to 6 years. He explained the amendment to the Constitution will be applicable only to the next President’s term.<sup>4</sup>

Finally, from Washington, visible was the disproportionate use of force against Georgia – the poor victim of Russian post-imperialistic syndrome, the inconsistency of the principles, declared by Medvedev with real actions on the ground, the pro-Russian actions of Sarkozy, and Europe’s and even NATO’s spineless position, which did not seek to impose sanctions. They did not focus on South Ossetia and this term was frequently replaced by the words “the territorial integrity of Georgia” and “the aggressor”. We could even say that majority of the society considered Russia as an aggressor, who started the war.

Indeed, the position of the President Bush and the authorities in general, at the peak of the election campaign, was weak, even with clear anti-Russian statements, made by Condoleezza Rice. However, those statements did not have any consequences – and, for the first time, the weakening of the US on the international arena was so obvious. The US media presented situation mostly within the framework of the above-mentioned interpretation of the events, but also quite objectively. The information campaign in Russia was focused on the interviews with the witnesses at the beginning of the war – a young Ossetian girl and her aunt, broadcasted by a pro-republican FOX channel. They described how Georgia attacked South Ossetia and despite the fact, that a host interrupted them several times, all-in-all, they had fairly long live appearance. On YouTube it was viewed by more than million users, and on Russian TV it was dubbed to demonstrate American censorship<sup>5</sup>.

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1) 11 August 2008 Sarah E. Mendelson, the Director of the Human Rights and Security Initiative and senior fellow in Russia and Eurasia Program at the Center for Strategic and International Studies in Washington gave already the precise arguments regarding the use of the term “genocide” and about consequences of the events in South Ossetia, [http://www.csis.org/component/option,com\\_csis\\_pubs/task,view/id,4748/type,3/](http://www.csis.org/component/option,com_csis_pubs/task,view/id,4748/type,3/)

2) Sergey Kovalev, It Is Necessary to Stop Russian Aggression in Georgia, 17/8/2008 <http://kavkaz-uzel.ru/newstext/news/id/1227343.html> , “Memorial” calls to stop the war in South Ossetia, 8/8/2008, <http://www.kavkaz-uzel.ru/newstext/news/id/1226843.html>

3) Prepared by Tatiana Lokshina and Aleksandr Cherkasov, Human Rights Defenders: Residents of Georgian Villages in South Ossetia Are Not Protected, 11/9/2008, <http://www.kavkaz-uzel.ru/newstext/news/id/1228807.html>

4) Read – Putin. According to the state of affairs in November 2008 there was no doubt in the society that Putin will be the next President.

5) Precise analysis was given by Evgeniy Morozov, the founder of the news aggregator Polymeme, Russian bloggers go after YouTube, 21 August 2008, San Francisco Chronicle, cited: <http://eng.kavkaz-uzel.ru/analyticstext/enganalytics/id/1227779.html>. Differences in translation and original version are presented at: <http://www.youtube.com/watch?v=Bm745nPZm5I>

The negative perception of the Russian position in that 'cyber-war' prevailed, but rare objective voices could have been heard from the US. For instance, Ethan Zuckerman from Berkman Center presented balanced analysis of the information war.<sup>1</sup>

From the very first days, discussions about the similar or the same scenarios of Russia's behaviour in the Crimea (which was given to Ukraine by Khrushchev in Soviet times), and in the Baltic countries, where there are still a lot of Russian citizens<sup>2</sup> were started all over.

Even for the high rank advisors of both US Presidential candidates, McCain and Obama, that war suddenly became a part of the pre-election campaign and dozens of statements were made by both candidates. There was no significant difference in their statements. Obama underlined humanitarian and peacekeeping aspects while McCain was talking about the isolation of Russia.

What in fact happened? After the several false starts Georgia finally decided to undertake an special forces operation. That decision implied victims among civilian population and possible participation of Russia. Because of that a number of representatives of the conventional West<sup>3</sup> warned Georgia against such a decision and opposed Georgian obtaining the Membership Action Plan in NATO.<sup>4</sup> The operation by special forces failed<sup>5</sup> and the participation of Russia became inevitable. A pause, taken by the Russian authorities, allowed them to speculate with the term "genocide", which even more complicated tasks of the international community, already confused by the contradictions. A sluggish information confrontation between Russia and Georgia turned into the information war, resulted in Russia's defeat .

However, in real politics and on the battlefield Russia won an impressive victory, a bit overshadowed by its traditional allies – neither the Shanghai Cooperation Organization (SCO), nor Belarus and Armenia recognized the independence the of South Ossetia and Abkhazia. However it did not affect a new " system of coordinates", formed by Russia in August 2008, at all. Who will be able to win the game according to the new rules? Macedonia and its supporters? Sri Lanka and its diaspora? Nagorno-Karabakh and Armenia or their opponents? It's open question.

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1) Misunderstanding cyber war , Ethan Zuckerman , 16 August 2008, <http://eng.kavkaz-uzel.ru/analyticstext/enganalytics/id/1229078.html>

2) Brilliant presentation on that topic was made by the prominent researcher Gail Lapidus at the round table urgently organized at Stanford University by Norman Naimark, Stanford's Overseas Studies Program director on 14 of August.

3) The notion of the West (Occident) started losing its meaning in the 20th century and ultimately lost it in the 21st . Can we consider Poland and Serbia as a part of the West, is there a term "Western Europe" in the political system of co-ordinates? Did Bosphorus and Dardanelle stop being a border between the West and the East? The answers to these questions are obvious, but at the same time they are not used in the political realm, because the sharpest confrontation takes place not on the border of the so-called West, but inside the so-called West and inside the opposing region. That model was examined only on the example of Ancient Rome, which got under the influence of its colonies and lost its identity; the results of research on extrapolation of Rome model up to the 21st century is unknown to the author, therefore, in the present paper he uses the term "the conventional West", it implies the system of co-ordinates that is still used in 2008, but obviously exhausted itself.

4) The day before the crisis in South Ossetia, in CDDRL, Stanford University, there was organized an informal discussion by Michael McFaul (at that moment high rank advisor in Obama's election campaign) on a question regarding possible choice of Georgia – territorial integrity or NATO membership. Some participants of the discussion considered that choice as pragmatic while the attempt to reach both as unachievable utopia.

5) The real control over South Ossetia by Georgian troops would lead to blockade of the Roksky tunnel, the only passage to Russia, and, therefore, reciprocal special operation by land would be impossible

## Causes and effects

The isolationism policy, actively pursued by both parties during the Cold War conflict, could be hardly justified at the end of the millennium. As a result of this policy, rogue states, instead of just existing, started actively cooperating with each other in 21<sup>st</sup> century.<sup>1</sup> The war in South Ossetia and Georgia gave another blow to the isolationism and, Abkhazia and South Ossetia, which gained *de facto* independence from Georgia at the end of the last century, were recognized by Russia and Nicaragua in the first decade of the 21<sup>st</sup> century. Even if the list of countries, recognized the right of Abkhazia and South Ossetia to self-determination as independent states does not look very impressive, one cannot underestimate their recognition by more than one country. The cooperation, limited to commerce and rhetoric in the past, will evidently become also diplomatic at the present. In fact, having participated in Geneva process along with other parties, South Ossetia and Abkhazia are not outcast anymore.

Kosovo became a trap for the conventional West. The recognition of Kosovo by several countries, but not by the UN, created a precedent which could not be ignored. We can already see that the opponents of the conventional West have already started, or soon will follow that example. Russian political elite considered the case only to run a discussion about the right of nations to self-determination and useless comparison of similarities and distinctions between the regions. In practice it used it as an excuse to develop a similar model.<sup>2</sup>

At the same time, the danger for the world community lies in the approach of recognizing statehood of a particular region, based on the historical principle of an unilateral will of a country. In unipolar world, destroyed by the President Bush administration,<sup>3</sup> there was still an opportunity to dominate by the positioning of these countries through the coalitions (e.g. NATO), legitimizing and delegitimizing particular decisions and even territorial entities.<sup>4</sup> However, nowadays the monopoly of such coalitions has been disrupted. Anti-American alliance of Latin American countries does not have less legitimacy to recognize a particular territorial entity than the EU or NATO member states. Russia and Nicaragua had no less right to recognition of Abkhazia and South Ossetia than France and Germany to recognition of Kosovo. Number of countries stops being decisive, with successful diplomacy it is only a matter of time.

Blurring of polarity, black and white dichotomy of the Cold War age, inevitably led to the situation when a membership in a coalition or informal group, united around such leader as the United States, does not mean lack of close relations with the leader of the opposite group, for instance, with Russia. Despite of incomparability of resources of NATO and Collective Security Treaty Organization, of EU and Commonwealth of Independent States, of GUAM (Organization Georgia, Ukraine, Azerbaijan and Moldova) and SCO, the key factor is not confrontation between the West and its opponents, but interrelations between groups and coalitions and opportunity to influence their member states.

1) Libya and Venezuela, Belorussia and Syria cooperated with Russia; unrecognized Abkhazia, South Ossetia and Transdniestria cooperated not only with Russia but also with each other, using as a model cooperation of left-wing leaders of Latin American countries.

2) Gordon Bardos (Harriman Institute, New York): "In the issue of the right of the peoples to self-determination the International community applies the policy of double standards", <http://www.kavkaz-uzel.ru/analyticstext/analytics/id/1205785.html> - discusses the principles of recognition.

3) Through its ineffective policy the Bush administration destroyed the primacy of the US to the extent when it is as noticeable as hardly applicable.

4) As successful examples of such delegitimation can be considered the unification of GDR and FRG, division of Czech Republic and Slovakia, Serbia and Montenegro, etc.

During the last 7 years such powerful actor as the US demonstrated progress in Central Asian and Caucasus regions and created an image of its domination and leadership in these regions among Russian alarmists. Inaccuracy of such ideas was dispelled by the events in August 2008. Within those 5 days nothing kept Russia against the destruction of all efforts that the US made to reconstruct Georgia's statehood and to develop this region. Moreover, it was a good occasion to demonstrate Russia's skills to use close relations with the leaders of EU and even NATO member states, in support of which was indisputable for Washington.

As a result, the model developed by the US in Georgia was destroyed and no adequate reaction followed neither from the US nor its satellites. Moreover, starting from September 2007 Georgia's political system swiftly drifted towards the one of Russia<sup>1</sup> and the US had to form relations within the framework used by Russia. Failure of the US in Georgia was not a result of Russia's actions, which were predictable, but a consequence of Georgia's actions, that completed the failure of democratic development.

Such interference of influence<sup>2</sup> weakens the leading actors to such extent (US failed to make its partners to influence seriously Russia, and Russia failed to win support from its partners in recognition of Abkhazia and South Ossetia) that the potential of actors which never had any influence over the key questions or even never existed on the map 20 years ago, significantly rose. And the more these actors would direct their efforts to the development of their own agenda and interests related to all parties, the more those countries will benefit from such course.

## The Model of Multi-Vector Policy in Practice

Let us take, for instance, two republics of the former Soviet Union: Kazakhstan and Azerbaijan are the obvious leaders in development on the post-Soviet territory. Their progress depends not only on their profits from carbohydrate resources, but also on multi-vector policy, allowed these countries to be more successful than Georgia and Armenia with their one-vector orientation (towards the West and Russia respectively).

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- 1) The problem concerns authoritarianism in government and limitation of freedoms, which became a reality in Russia Starting from 2000 and that were demonstrated in Georgia in the last 11 month (the author personally witnessed gross and massive violations during the presidential elections, which were followed by violations during the parliamentary elections - Ivar Dale, Aage Borchgrevink, Norwegian Helsinki Committee/Human Rights Centre of Georgia Extraordinary Parliamentary Elections in the Republic of Georgia <http://eng.kavkaz-uzel.ru/analyticstext/enganalytics/id/1217495.html>). The culmination of similarities was in the legal aspect of the announcement of was in both countries, that was taken outside the legal sphere. The problem concerns the procedure of taking decision about the beginning of military operations first in Georgia and then in Russia. Foreign policy framework of cooperation with US always or almost always presumes implementations of reforms that the partner of the US should conduct in order to develop such cooperation. On the other hand, Russia does not offer its partners to make any changes and tries to find a common language with those elites that have power – in many respects, due to such policy of Russia in Belarus, Armenia and Central Asian countries, they got stable authoritarian regimes.
  - 2) According to opinion of the famous Russian politologists, published 2 weeks before the war, the crisis in Abkhazia and South Ossetia revealed a secret diplomatic cooperation between Russia and FRG, and plan of Stainmeier -Putin is just a start of Russian-German confrontation to the policy of the US on the post-Soviet territory. “Previously, in confrontation between Moscow and Tbilisi the West defined its position by the words of American politicians and diplomats. A weak voice of Europe in duet with the US could be hardly heard. At the same time Russia was in full isolation and was acting on its own in the Caucasus” – said Andrey Serenko to the correspondent of “Caucasian Knot” – plan of Stainmeier-Putin suggests 3 steps to resolve Georgian-Abkhazian conflict”, <http://kavkaz-uzel.ru/newstext/news/id/1225857.html> . Plan of Stainmeier was not implemented but cooperation, most probably will continue, due to the new political ambitions of Stainmeier.

Notwithstanding the significant deterioration of relations with Russia, Azerbaijan managed to maintain relations with it. That implies a possibility of close cooperation when needed by one of the parties.<sup>1</sup> The cooperation with Turkey, as with Russia, develops not only in economic and political but also in cultural<sup>2</sup> dimensions, and it is also purely pragmatic. The US has its own agenda with Azerbaijan.<sup>3</sup> Some of the issues could be negotiable, other – definitely not. For instance, issues related to use of airports for military transportation, probably, with the purpose of power demonstration to Iran cannot, because Baku has its own interests in cooperation with Teheran, and regards them as too significant to jeopardize. At present, Azerbaijan has a stable state system, high rotation of elites on the international arena, succession of authoritarian regime, enrichment of particular social circles – one of the most stable models in the post-Soviet area. That model is very similar to the Russian model with one significant difference – its multi-vector policy.

So why is multi-vector policy possible for Azerbaijan and so difficult to reach in Russia? There is only one reason – Baku's interests, as well as the one of Astana, are, first of all, focused on extracting maximum benefits from internal development rather than external (in this case, example of Nagorno-Karabakh should not be considered as aggressive foreign policy). Russia puts considerable resources in foreign-policy games trying to return to the model of Soviet domination. Its internal policy is less pragmatic and is subjected to its foreign-policy interests.

## Consequences – How to Handle Them

There is no doubt that, in taking decisions regarding the “peace-enforcement” operation, the Kremlin was solving its foreign-policy issues. It demonstrated force to the international community, settled problems with Georgia, and undertook an ending solution (from the Kremlin's point of view) of South Ossetian and Abkhazian issues (outside of the framework of the territorial integrity of Georgia). At the same time, while enjoying its victory in foreign policy Russia is not going to solve problems related to its domestic policy - refugees, aggravation of conflict in Ingushetia, terrorism and new wave of separatism in the Northern Caucasus, as well as the development and funding of South Ossetia. Meanwhile, inside Russia, one can observe the trends which might put in danger territorial integrity and peaceful coexistence of nations in Russia in the nearest future. In political dimension the top of the iceberg of dissent was revealed by two governors (of Tatarstan and Moscow), rich political heavy-weights. They

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1) It was demonstrated by the sensational offer about the joint use of Gabala radar (<http://www.kavkaz-uzel.ru/encyclopediatext/encyclopedia/id/1193275.html>) to control Iranian airspace. It was made by the President of Russia Vladimir Putin to the President of the USA George Bush on the summit of G-8 in Heiligendamm (Germany) on 7 June 2008 within the discussion about of Air Defense System in Europe.

2) If cooperation with Turkey is natural due to the historical reasons, it is far more difficult to find common interests with Russia. Nevertheless, the Head of Religious Board of Muslims of the North Caucasus is located in mostly Shiite (like Iran) Azerbaijan (sounds irrational taking into consideration mainly Sunni North Caucasus, out of control by Central Religious Board of Muslims of Russia), and it kept close contacts with Russian Patriarch Aleksii.

3) David J.Kramer, Deputy Assistant Secretary of State for European and Eurasian Affairs on Azerbaijan. <http://eng.kavkaz-uzel.ru/analyticstext/enganalytics/id/1204355.html>

made statements about the necessity to return to the model of elected governors in the regions<sup>1</sup> (Russian Federation has 86 regions). Unbelievably tough statement, made by President Medvedev in the second half of November, demonstrated that uncertainty and lack of flexibility still dominate in the President's administration. The above-mentioned statements demonstrated the readiness of influential elites to bring down Putin's achievements and to fight for regional autonomy.

In the regions, especially in the South of Russia, but not exclusively, an idea of autonomous, independent government receives wider recognition. The North Caucasus is characterized by the weak policy of the federal government which predetermines decisions on key questions, but does not have resources to control the projects implementation, even very significant for the federal government itself<sup>2</sup>. Certainly, the recognition of the right of the Ossetians to self-determination revived hopes of numerous smaller and bigger ethnic groups and peoples to create their own autonomy. Even in North Ossetian society the idea of unification of South and North Ossetia with the following separation from Russia is actively discussed.<sup>3</sup> Historically, though, it was Northern Ossetia which mostly benefited from coexistence with Russian Empire and the USSR by enlarging its territory. The developing crisis within the nations of Chechnya and Dagestan, the elites of Kabardino-Balkaria and Karachaevo-Cherkessia<sup>4</sup>, small ethnic groups inside Dagestan let us predict the growth of separatism. One should not expect quick reaction, but it is obvious that recognition of Ossetia by Russia revived even long forgotten separatism in Chechnya.

These challenges were and will be in the backyard of political interests of the Russian authorities, which are rather busy in solving more opportune tasks. Taking this factor into account, any group of interests (or a country) should cooperate with Russia in two directions simultaneously. Sovereign relationship should be built around Kremlin's foreign policy interests – in that realm the monopoly belongs to the Russian authorities. On the other hand, in matters of internal policy to develop relations with independent actors (think-tanks, media, project-based organizations, NGOs, etc.). Only relationship in these two directions will give a possibility to develop long-term partnerships based on a multi-vector cooperation with the society as a whole. The similar model (involvement of the civic potential in the interstate dialogue) was tested and is actively used within German-Russian relations, but it still has room for improvement. Saint-Petersburg – Weimar dialogue is justifiably criticized for over-representativeness of GONGO;<sup>5</sup> but it does not minimize the importance of the initial concept.

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1) Elections were abolished immediately after, because of taking the hostages in Ossetian town Beslan at stunning indifference of regional political elites. The most significant change in federal principle of state system was connected to necessity of more effective resolution of conflicts (such as failure of special operation on release of hostages in Beslan). The war in South Ossetia again brought actualization of political changes – the President announced a decision about change of Constitution of the country and prolongation of the term of a president, which is interpreted as long-awaited for security block of Russia return of Putin.

2) Putin personally complained about slow execution of his order on construction of the road in Dagestan mountains (there is a military base in the district of Botlikh), but the road is still not there; after the events in August 2008 he also personally ordered organization of a quick (and expensive) project of Gazprom in South Ossetia, but paces of construction are far from the scheduled date, and criticism of ecological issues also slowed down the project.

3) Valery Dzutsev: Kosovo and duplex peace agreement in Georgian-South Ossetian conflict, <http://www.kavkaz-uzel.ru/analyticstext/analytics/id/1206777.html>

4) The Balkars and the Cherkess are poorly represented in the official bodies, but the Cherkess live on the territory of several neighboring regions and even publicly declare their wish to create autonomy.

5) Governmental Oriented Non-Governmental Organizations.

## New agenda?

The relationship of any country (or group of interests) with Russia after August 2008 could not be based on a purely patriotic concept of the 'resurgent Russia' as a winner because it is just an image. The economic crisis will significantly modify that concept even inside Russia. But efficiency of decision – making process, including coercive decisions, not accidentally makes many of past partners to become hesitant. In this regard, it is appropriate to mention concepts of interpenetrative partnerships and coalitions, multi-vector approach in foreign policy and potential of new actors. All of them are applicable, first of all, to Abkhazia but also to South Ossetia, to some extent. In case if the 'conventional West' is interested in restriction of Russia's potential, including in the Black Sea area, Abkhazia may play an ideal role for sensible politicians. The isolation of non-recognition will only bring Sukhumi closer to the Kremlin's hugs. On the other hand, discussions on recognition, cooperation and active investments will lead to the exactly opposite result. According to the political scientist from Volgograd, cited above, such kind of scenario is called "a stolen victory".

Turkey did not participate actively in regional politics before, but now it made first steps towards the new agenda in the Caucasus. Windows of opportunities remain open: meetings of the high officials from Yerevan and Ankara on the football match (the role of culture should be kept in mind), the establishment of the "South Caucasus platform"<sup>1</sup>, which excluded Iran, unbelievable Russian-Armenian activity – all evidences that prove that the Caucasus "volcano" is active again. Unfortunately, it is also very visible, on the other side, in the Russian part of the Caucasus. Religious terrorism, which after Beslan hostage crisis seemed dead, strengthened again. Civil war in Ingushetia developed during fall of 2008 to the extent, when the state of emergency can be considered *de facto* announced. Therefore the instability in the North Caucasus creates situation, when such projects as Nabucco and Olympic Games - 2014 suffer from ill-conceived Russian regional policy unless, new actors are included.

The age of coalitions and alliance finished in the 20<sup>th</sup> century, a new period of the multi-polar world, based on cooperation of new and old actors, is coming into a play.

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1) With participation of Russia, Turkey, Azerbaijan and Georgia.

# Freedom of Expression in Russia - Russian Mass Media: Freedom, Censorship or Self Control?

Dr. Olga Sadovskaya Aleksandrovna<sup>1</sup>

Today, both in Russia and abroad, two opposite views on the situation regarding the protection of freedom of expression in Russia exist. As always, one of them is optimistic and official, the other is pessimistic and oppositional.

From the Russian government's point of view, it diligently and effectively protects freedoms of the citizen to receive any information and protects the media in their effort to provide any information to the citizens. According to the Russian delegation's statement at the 13<sup>th</sup> OSCE Human Dimension Implementation Meeting, Russian media are free, independent, and objective and, as a result, impartial in covering events both inside and outside the country. To support their claim, the delegation provided statistical data, according to which there are 92,850 registered media in Russia. One hundred and fifty existing TV channels are served by more than three thousand private TV companies and only four hundred state TV companies, which, according to the Russian government, speaks of a high level of independence of information that reaches the citizens. Furthermore, the number of active Internet users is constantly on the rise and leads to a decreasing interest in printed media, a significant segment of which is partly financed by the government. All in all, the government's statistics should persuade an outside observer that nothing and nobody endangers freedom of expression in Russia.

On the other hand, representatives of the opposing opinion claim that freedom of expression in Russia essentially does not exist and that the government has total control over all radio stations, TV channels and media outlets. Moreover, lately, the government started attacking the last stronghold of freedom of expression such as blogs, analytic materials and op-eds on the Internet. According to the majority of representatives of the opposition parties and NGOs working in this field, freedom of expression in Russia almost disappeared during the last few years and the situation has sharply deteriorated since 2000. To those interested in these issues, cases of closure or attempts to close newspapers that reflected oppositional views are very familiar. For instance, in 2002 there were attempts to close one of the biggest opposition outlets "*Novaya Gazeta*" when Mezhprombank filed a claim for a significant amount from *Novaya Gazeta*. However, this attempt failed and the outlet survived. In February 2003 "*Noviye Izvestiya*" – the outlet expressing sharp criticism of the authorities was closed. Often, as an example of violations of freedom of expression in Russia, one can mention cases of bringing criminal charges against journalists for critical publications against the authorities. One such case exists, famous both in Russia and abroad, which is the case of Stanislav Dmitrievsky, historian, public figure and the chief editor of the now closed newspaper "*Pravo Zashita*", who was sentenced to three years imprisonment

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with a suspended sentence for the publication of a statement addressed to the Russian people from Ichkeri Zakaev, the Vice-Prime Minister of the Chechen Republic, and to the European Parliament from Aslan Maskhadov, the President of the Chechen Republic. This publication was considered unleashing inter-ethnic hatred. The Dmitrievsky trial was conducted with violation of the principle of equality of arms, most of the documents were fabricated and almost none of the witnesses for the defense were invited, notwithstanding petitions and complaints made by the defense attorney.

Undoubtedly, these striking examples of violations of freedom of expression of journalists and freedom of citizens to receive information are more persuasive than dry governmental statistics of Internet users. However, concrete examples chosen for a particular purpose will not reflect a whole picture, and statistics also may be used by both the *pro* and *con* sides.

In principle, freedom of expression stopped being a term with unclear meaning for ordinary people in Russia. Most of the Russian citizens very well know that censorship is prohibited, freedom of media is guaranteed, and the right of every person to seek, receive, convey, produce and disseminate information freely in every way prescribed by law is protected. Still, those who would like to seek and disseminate information they consider important, will face another challenge in the term “[prohibition] prescribed by law”. Officially, indeed, censorship in Russia is prohibited – there is no authority, whose permission is needed for broadcasting information on a TV channel or for publication of an article in a media outlet. Nevertheless, based on two federal laws (“On Mass Media” and “On Countering Extremist Activity”) articles, interviews, TV programs and other journalistic products can be easily considered extremist (unleashing social, ethnic, racial, religious hatred, inciting violent change of government, etc.) or, in some cases, pornographic without in effect being so. The Russian jurisprudence has already faced several examples of when those who held a different opinion criticized the authorities and were thus considered extremists, resulting in their subsequent arrest and a suspension of their media outlet. One such case is the already abovementioned case of Dmitrievsky. Moreover, vague wording of these laws theoretically allows institutions to bring about criminal proceedings against defenders and colleagues of the abovementioned individuals. Vague and uncertain interpretation of the term “extremist activity”<sup>1</sup> allows for any statement or act disagreeable with the government to be considered as such. Another problematic legal provision is that a norm<sup>2</sup> exists which obliges public organizations to renounce extremist statements made by their representatives. In other words, if one of the leaders

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1) Extremist activity (extremism)

Violent change of the basis of the constitutional order and violations of the integrity of the Russian Federation; Public justification of terrorism and other terrorist activity; inciting social, racial, ethnic or religious hatred; propaganda of exclusivity, superiority or less worthiness of a human being based on social, racial, ethnic religious or linguistic origin or view on religion; violation of rights, freedoms and lawful interest of a person and citizen depending on his or her social, racial, ethnic, religious or linguistic origin or view on religion; preventing the exercising of election rights of citizens and their rights to be elected, participation in referendum or violation of the secret of voting, lined to violence or threat thereof; Preventing the lawful action of state bodies, bodies of local self governance, election commissions, public and religious associations or other organizations, lined with violence or threat thereof;

Committing an offence on motives stated in “e” article 63 of the Criminal Code of the Russian Federation; propaganda and public demonstration of Nazi insignia or symbolism or insignia or symbolism resembling the Nazi insignia or symbolism to the point of confusion; public inciting to implementation of abovementioned acts or mass dissemination of extremist materials, and equally their creation or storing of the purpose of mass dissemination; public or obviously false accusation of a person holding official position of the Russian Federation or official position of a subject of the Russian Federation, in their committing in period of implementation of their duties listed in the present article which are an offence; organization and preparation of the abovementioned acts; and also incitement to their undertaking; financing of abovementioned acts or other assistance in their organization, preparation, including by means of providing instructions polygraphic and material or technical basis, telephone and other forms of communication or provision of IT services;

2) <http://www.consultant.ru/online/base/?req=doc;base=LAW;n=76617>

of an organization, including media, makes a “public statement, inciting to carrying out extremist activity, without specifying that it is his or her personal opinion”, the respective organization “is obliged to renounce the statement publicly within five days from the day when the statement was given”. The same responsibility is imposed in cases when the respective leader of an organization is convicted by a verdict of the court for “a crime of extremist character”. Accordingly, “if a respective civic or religious association or other organization does not make such a public declaration, this will be considered as an evidence for considering its activity as extremist”.

Thus, the Russian government has a unique combination of the two federal laws which together, with a respective article of the Criminal Code, can be used selectively against particular individuals or the media.

The government also has a preventive mechanism in the form of warnings. For instance, in 2007 the Federal Mass Communications Supervision Service issued 74 warnings to Russian media for violations of Article 4 (disseminations of extremist materials) of the law “On Mass Media”. Interestingly enough, according to Russian authorities, this number of warnings against the high number of mass media registered in the country cannot be considered as the government’s policy of persecution of undesirable journalists. However, one should evaluate the validity of issued warnings, which are questioned by Russian human rights activists, international experts and Russian attorneys, rather than their quantity. Even though most of the given warnings have been baseless, they had not been dismissed. In case of repeated warning, the authorities have an opportunity to consider the closure of an organization, and availability of preventive warnings may effectively assist in bringing a criminal case in against a publication that is considered extremist by the authorities.

It is also impossible not to mention the fact that in Russia since 1993 more than 200 journalists have been killed. With rare exceptions, the professional activity of the deceased, who had criticized internal or foreign policy of the government or its law-enforcement practice, was the true reason for their death. Most of the killings have still not been investigated. This shows not only the lack of professionalism of law-enforcement bodies, but also demonstrates that the government is not interested in protecting journalists. Certainly, one cannot claim that the murders of opposition journalists was done by the authorities, but one also cannot refute that the state had an obligation to protect them.

According to Reporters Without Borders<sup>1</sup> – an international organization that among other things monitors protection of freedom of expression – physical violence and economic sanctions with respect to journalists and mass media are the most actual threat to freedom of expression in Russia. For example, several independent media outlets were closed as a result of unjustified tax complaints. Starting in 2007 *Rossiyskaya Gazeta* (official newspaper of the Government of the Russian Federation) regularly publishes the list of officially prohibited materials in Russia that were recognized extremist by the court. The list includes printed outlets, music albums and movies, and it is made based on the court decisions. The first list was published on 14 July 2007 and at the beginning contained 14 items. By 18 June 2008 it already contained 151 items. This is done in accordance with the federal law “On Counteraction Extremist Activity” which states that the “federal list of extremist materials is to be published regularly

1) <http://www.rsf.org/>

in mass media". This creates a situation when mass media have to introduce internal self-regulation, *i.e.* censorship, in order to continue their activity. As a result, one more often comes across the media that instead of disseminating information, it popularizes one particular view of the state. One can talk about receiving information when a person has an opportunity to learn about different opinions regarding a particular event and to form his or her own viewpoint. On the other hand, propaganda is a message, even if stated only several times and by different people but nevertheless reflecting only one point of view. Propaganda is also not limited to state media, to whom this is part of the usual work, but is also done by theoretically independent TV channels and media outlets. Today in Russia, one can observe such a phenomenon as "pro-governmental self-censorship". Information, before going onto the air at non-governmental channels, instead of external censorship goes through internal censorship, the purpose of which is to broadcast only that information which is favored by the government. In other words, the purpose is to meet expectations and to avoid being noticed.

This phenomenon can, in many respects, explain the obvious degradation of journalism in Russia that creates even more conditions conducive for institution of self-censorship by the particular outlet or channel. However, it is impossible to assess adequately if abovementioned factors are the only reasons for self-censorship or is it also provoked by a desire to accumulate more profits by broadcasting more popular entertainment programs.

At the same time, internet remains to be a relatively control – free zone where there is a real opportunity to disseminate and receive any kind of information. There are isolated instances of pressure over bloggers who allowed themselves to sharply criticize the existing regime, but not enough to claim that freedom of expression is violated within the realm of internet as well. Unlike in other post-Soviet countries, in Russia there are no problems to create and to access websites with alternative ideas to that of state policy. Internet users can get access to information regarding the cases of Anna Politkovskaya, Dmitry Kholodov, Paul Khlebnikov and other murdered journalists, or to access articles of foreign outlets and news blocks of foreign TV channels. However, in this case the internet user has to get information independently, sometimes wasting time in search of it. This surely says something about a lower level of access to alternative information in comparison with information broadcasted on television. In many cases users do not have a possibility to understand information because it is not accessible in Russian and cannot be found in other sources. Furthermore, it is important to note that notwithstanding the state statistics which claims that there are thirty million computers connected to the internet in Russia, only a small part of the population has access to such an alternative source of information.

One of the main conditions for freedom of expression is that every person has free access to information should they wish so. It means that one should not make an effort to find several points of view on a particular event – they should be provided by the media, both state and private. Internet should not be the only source of alternative information and it is the state's responsibility to guarantee that.

Therefore, there are two main problems with freedom of expression in Russia nowadays. First, in the presence of opportunity to express one's opinion freely there is no opportunity to provide alternative information to the society. Second, even if somebody managed to provide an independent opinion or appeal to the wide audience, there is no guarantee that this action would not be considered extremist

or would not be restricted in any other way. On the other hand, it is also true that there is no “iron curtain” in Russia anymore, and one can find any information on any political, business, cultural or other question if needed. But the fact that it requires efforts and spending time and money to find it indicates limited access of an ordinary user to information.

Freedom of expression is never absolute and will never be absolute, because it will always have its enemies and will always have shortcomings in terms of the ability to be abused. Freedom of expression in its essence seems to remind of a horizon – a perfect line that you cannot touch but it is there. It is an ideal which is impossible to comply with, but which should be followed, because absence thereof may lead to the degradation of the society and its suppression by the state.

Today, Russia has stopped and is slowly but surely reversing in crossing off freedom of expression from the list of guaranteed rights and freedoms. But it is not only the Russian government’s fault. In many respects, it is the society that is carried away with solving personal economic problems and stopped paying attention to what it sees and hears and, as a result, cannot influence the content of information. Obviously, a lack of aspiration for the protection of freedom of expression and freedom of access to information by the society says enough about its immaturity and preoccupation with more practical problems, more often of financial character. A lack of aspiration for protection of freedom of expression from the part of the state mostly indicates that it has something to hide from its citizens. It is certain now that the authorities are not going to protect freedom of expression in Russia on their own initiative. And it is also true that real opportunities for its protection exist, and in the absence of the Russian government’s will, the society must solve this problem for its own benefit.

# PART II

## Russia Serbia Energy Relations at the Beginning of the 21<sup>st</sup> Century

# Russia Serbia Energy Deal: Two Sides of a Coin

Anatoly Pomorcev<sup>1</sup>

At the end of 2008, the governments of Serbia and Russia finally reached, after months of exhausting negotiations, an agreement on all points of the bilateral Energy Deal, which was already signed on 25 January 2008.

In accordance with the agreement, the Russian side shall soon become the owner of 51% of the shares of Serbian oil giant NIS. The new owner, company „Gazprom neft“, shall make one – off payment of EUR 400 million for control over NIS, into the Serbian budget, and invest in modernization of facilities another EUR 547 million until 2012. In return, the Russian owner shall, among other things, acquire two refineries in Pančevo and Novi Sad, whose annual production capacity is 4.073 million tones of raw oil.<sup>2</sup> After production facility modernization, the two refineries' total production capacity may be increased to up to 7 million tones of raw oil annually. According to the words of a representative of „Gazprom neft“, investing in the modernization of NIS is one of the priorities, since „Gazprom neft“ does not have its own oil processing facilities. Apart from that, NIS's developed sales system is of serious interest for the Russian side.<sup>3</sup> But the essence of the Energy Deal is not the oil, but the gas portion of the document. According to the Agreement, the Russian side, whose interests are represented by the company „Gazprom“, bears responsibility for the construction of the Serbian section of the „South Stream“ gas pipeline, and gas storage in Banatski Dvor. One should mention that Bulgaria, Greece, Italy, Hungary, Bosnia and Hercegovina, Austria and Slovenia all expressed willingness to join the „South Stream“ gas pipeline.

Notwithstanding the positive assessment of the Energy Deal by the government and the Parliament of Serbia, signed in January 2008, the Serbian public saw constant repetition of negative aspects of this document. In the given situation it seems useful to thoroughly examine benefits and shortcomings of this agreement, in order to create its objective portrait.

## Oil – Related Part

One of the main arguments of those opposing the realization of this Agreement is a notion that „NIS is sold at a unwarrantedly low price“, which rests on the assessment of its market value of 100% of NIS's shares, done by Diloitte agency in June 2008. According to the assessment NIS was worth EUR 2.2 billion on 30 June 2008.<sup>4</sup>

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1) Anatoly Pomorcev is analyst and journalist of RBK Daily from Moscow.

2) NIS official data from 2004, <http://www.nis.rs/>

3) 500 gas stations on the territory of Serbia and Montenegro, annual turnover of 2.5 million tones of oil derivatives – NIS official data from 2004 godine, [www.nis.rs](http://www.nis.rs)

4) [http://www.media.srbija.sr.gov.yu/medsrp/dokumenti/nis\\_izvestaj\\_trzisna\\_vrednost.pdf](http://www.media.srbija.sr.gov.yu/medsrp/dokumenti/nis_izvestaj_trzisna_vrednost.pdf)

Based on this assessment an image was created that selling NIS for EUR 400 million is damaging for the Serbian budget (allegedly, loses EUR 1.8 billion) and long – term economic interest of Serbia. In this regard, however, the participants in the discussion ignore several facts, countering their thesis. First, EUR 400 million is the price which was offered only for 51% of NIS's shares. Therefore, taking Deloitte's assessment into account, 51% of shares could not cost more than EUR 1.1 billion. Second, one should keep in mind that this estimate was done before the „hot phase“ of the economic crisis, in times of peaking oil prices. Since then, the situation changed radically – oil prices went down five times, and, accordingly, the price of oil companies went down.<sup>1</sup> Therefore, every invoking of estimations from June 2008 simply loses every meaning. Besides, the facts that „Gazprom neft“ is obliged to invest EUR 547 million in the modernization of NIS processing facilities and bear NIS debts up to EUR 10 million seems omitted from the discussion. It is, also, important to mention that the Agreement stipulates the Russian side's obligation to invest this amount regardless to the consequences of the economic crisis. If this feature of the Agreement is not fulfilled until the end of 2012, the Serbian side is entitled to annul the entire Sale – Purchase Agreement of NIS.

The next in line of argumentation of those opposing the Energy Deal is alleged loss of control over the national oil company and its immobile asset, which includes oil and gas fields on the territory of Serbia. According to the final agreement between Moscow and Belgrade, the Serbian side shall retain significant influence over the process of passing company decisions, through its representatives in Managing and Supervisory Boards, as well as a many managerial positions. Furthermore, without the consent of the Serbian side, it would not be possible to pass strategic decisions (if Belgrade controls at least 10% of shares).

During the negotiations, the Serbian side managed to extract significant social guarantees. The Agreement on sale of NIS, according to Serbian officials, guarantees that there will be no termination of staff employment until the year 2012, that salaries shall be adjusted to inflation and economic situation in the country and that the severance pay for workers who choose to voluntarily leave the company shall be EUR750 per one year of the total number of years of being employed, which is the highest amount of severance pay in the history of the Serbian privatization process. The Serbian side saw less success in the environment protection aspect of negotiations. In effect, the Russian side expressed readiness to invest in the renewal of refineries' environment protection ability, up to EUR 60 million, but the Serbian government agreed to compensate environment – related damages up to the 25% of the total amount of the Sale – Purchase Agreement (i.e. EUR 100 million). Considering that environment – related damages occur relatively frequently in the vicinity of refineries, we can conclude that the Government of Serbia will have to eliminate those consequences itself.

From all of the abovementioned, a conclusion could be made that the sale of NIS brings more good than harm to the Serbian side. The Serbian budget, formed in the conditions of world economic crisis, receives EUR 400 million in cash, and another guaranteed EUR 547 million, shall be invested into the

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1) For instance LUKOIL shares have from 14 September until 15 November lost 49% of its market value, <http://www.lenta.ru/articles/2008/11/19/compare/>

modernization of obsolete facilities of Serbian refineries over the next three years. Upon the completion of the modernization program, Serbian refineries shall be able to produce fuel in accordance with EU standards. The increase in production volume will give Serbia an opportunity to become exporter of oil derivatives, for the first time in its modern history. One can consider somewhat negative the temporary decrease in the capacity of oil production, due to the necessary works on the modernization of the facility and equipment.

The Russian side acquires the developed sales network and powerful basis for production of oil derivatives, which, still, requires investments for the purpose of modernization. „Gazprom neft“ receives possibility to process its oil on the territory of Europe, which, in all accounts, could be used as a spring board for further penetration into the European market. One should mention that the Russian oil companies already have positive experience in doing business in the region. This is relevant for refineries in Bulgaria (owned by LUKOIL), and in Republic of Srpska (owned by „ZARUBEZHNEFT“). There are no signs that „Gazprom neft“, the third oil company in Russia, will fail to transform NIS into the modern and effective holding.

## **Gas – Related Part**

According to the Agreement, a part of the „South Stream“ gas pipeline shall run through the territory of Serbia, with 400 km in length. Furthermore, „Gazprom“ shall have to finance and conduct works on building of the gas storage in Banatski Dvor. The feasibility study for the gas pipeline and the map of its route (according to the most recent information) shall be completed by 2010, and the strategy of the construction of the gas storage – until 2009, after which the construction of both facilities shall start. One should mention that the framework Agreement, signed in December 2008 does not contain precise financial and economic guarantees in its text, which does not afford Belgrade the possibility of petitioning any international arbitrage in case of breach of the Agreement. But, this Agreement, as well as the Agreement signed in January 2008, contains more political guarantees, backed by the authority of the former and incumbent President of the Russian Federation, Vladimir Putin and Dmitry Medvedev. Knowing the specific system of the Russian Government, we can claim that these sort of guarantees bear more weight than any classical economic or financial guarantees. Notwithstanding this, the Russian side formal guarantees shall be provided upon the completion of the feasibility study in 2010.

We consider unfounded claims of possible abandoning of the „South Stream“ by Russia. It should be mentioned that, apart from Serbia, Italy, Bulgaria, Greece and Hungary, are a part of the project, and Austria and Bosnia and Herzegovina, Slovenia and Croatia expressed their interest in it.<sup>1</sup> The realization of this project is not connected only to Serbia, and thereby, Moscow's abandoning of its obligations to Belgrade, would mean crumbling of the entire project and annulment of much more serious obligations. The probability of this in today's conditions equals to zero. After the modernization of the gas storage Banatski Dvor, the capacity of the storage shall be 300 million m<sup>3</sup> of gas, which will give Serbia

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1) <http://top.rbc.ru/economics/29/04/2008/162134.shtml>



opportunity to form operational reserves, in case of interruption of the gas supply in extraordinary circumstances. The working volume of the storage is 10% of the total annual gas consumption in Serbia and this quantity gives opportunity of stable supply of consumers in a certain period of time.

It is obvious that the conclusion of the Gas Deal have several positive consequences for Serbia, the first of which is opening of several thousand jobs. The total financial calculation of the project upon construction of the Serbian part of the „South Stream“ and gas storage is estimated to, at least, EUR 2 billion. Considering that at least half of the contractors shall be Serbian firms, we estimate that at least EUR 1 billion, over several years, shall be directly injected into the Serbian economy. Russian firms, operating on the territory of Serbia, shall also spend on its territory significant financial means and the construction of the gas pipeline will require, among other things, modernization of Serbia's road infrastructure.

The operational start of the gas pipeline is projected for 31 December 2015 at the latest. The gas pipeline will secure first hand supply of gas to Serbia, giving Belgrade the possibility to renounce services of Hungarian company „MOL“, which charges EUR 70 million annually for the transit of the Russian gas to Serbia.<sup>1</sup> Furthermore, with the beginning of exploitation of the gas pipeline, Serbia itself receives a role of a transit country. Bearing in mind that Serbia's own gas demand does not exceed 3 billion m<sup>3</sup> annually, the minimum possible capacity of the Serbian part of the „South Stream“, defined by number 10 billion m<sup>3</sup> annually. Therefore, the transit of additional 7 billion m<sup>3</sup> of gas to EU consumers and consumers in the region could bring up to EUR 150 million per year in the Serbian budget.

In the opinion of the former Minister of Energy of Serbia, Aleksandar Popović, the relative cheap Russian gas could play an motivating role for the Serbian industry, whose development slowed down due to the shortage of energy sources. The development of gas network in central and south Serbia will receive additional impulse, which will positively affect the living standard of the local population. One should not disregard the political effect of the start of the gas pipeline – „South Stream“ turns Serbia into a serious regional player and affords status of the energy center of the Balkan region to Belgrade. The assumption that Brussels may „be angry“ at Belgrade due to Serbia's rapprochement with Russia does not seem to have merit: it is known that several EU countries will participate in the construction of the „South Stream“ gas pipeline, and the final consumers of the Russian gas in Italy and Austria will not give much thought to over which countries the gas arrives to them. According to the „Gazprom“ analysts' assessment, in the next five years, the EU will spend approximately 200 billion m<sup>3</sup> of gas, and „Gazprom's“ projects, including the „South Stream“, will contribute to meeting these demands.

It should be noted that the volume of gas production at „Gazprom“ sources is constantly growing - from 512 billion m<sup>3</sup> per year in 2001 until 548 billion m<sup>3</sup> in 2007. Therefore, the argument that „Gazprom“ will not have enough gas to fill the „South Stream“ in 2015 seems unfounded. During the last few years, the Russian company started exploitation of the nine new gas fields, whose total capacity is estimated to 195.7 billion m<sup>3</sup> of gas per year, and in 2015 the total production of gas will reach 610 – 615 billion m<sup>3</sup>.<sup>2</sup>

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1) [http://www.danas.rs/vesti/ekonomija/tranzit\\_ruskog\\_gasa\\_donosi\\_zaradu\\_od\\_70\\_miliona\\_dolara.4.html?news\\_id=148828](http://www.danas.rs/vesti/ekonomija/tranzit_ruskog_gasa_donosi_zaradu_od_70_miliona_dolara.4.html?news_id=148828)

2) <http://www.gazprom.ru/articles/article20015.shtml>

## Conclusion

It is obvious that the Energy Deal, signed between Russia and Serbia in December 2008, shall positively influence Serbian economy. Serbian Oil Industry, over which Belgrade will not lose control, shall receive necessary investments and possibility to take role of the key player in the regional market of oil derivatives. The Government of Serbia will receive EUR 400 million in one – off payment for shares, resolve the question of modernization of NIS and secure certain social guarantees to workers of this company. The construction of the gas pipeline and gas storage will guarantee a certain level of energy security to Serbia, increase its political and economic potential, which is very important in light of the intensified dialog of Serbia's accession to the EU. Russia shall, from its side, acquire production capacity in one of the European countries and foster its economic presence in strategic region of Europe.

# Serbian Energy Sector – Status and Contemporary Russian – Serbian Energy Relations

First Report within the Framework “Monitoring Russia – Serbia Relations Project”

*Dr. Zorana Mihajlović – Milanović<sup>1</sup>*

Serbia and its energy sector are on the transit route from the East to the West, in the central part of the Southeast Europe. The region of Southeast Europe (Albania, Bulgaria, Bosnia and Herzegovina, Croatia, Macedonia, Romania, Serbia, Montenegro and UNMIK – Kosovo) is located at the crossroads of all relevant energy transit corridors, thereby making this significant East – West link much more efficient and cost effective. Although it saw a difficult period since the 1990s, marked by substantive economic and political changes, often resulting in conflicts, civil and religious wars, the most part of the region has seen a road of recovery since the mid 1990s, and a gradient development trend. Countries of the region have already completed or are in the final phases of transformation, relocation and restructuring of capital sectors, especially energy sectors. In Serbia, these events are yet to take place, starting only in the next two years.

Given that the energy sector in the region is at its turning point, both due to the new development – investing cycle and due to the new model of market and profit oriented principle, events in the Serbian sector will directly influence the energy blueprint of the region. The region’s accelerating development and GDP growth has seen an increase in energy demand, averaging at 1% (1991 – 2001). The combination of reducing availability of infrastructural facilities (aging) and increased energy demand, resulted in the deficit in securing sufficient quantities of energy since 2001. Until the year 2012, average annual energy demand growth will be 2.3% (2002 – 2012), which means that 4,500 MW of new facilities (or around €5 billion of investment) will need to be built. By 2025, 15,000 MW of new facilities will have to be built, while 11,500 MW will have to come from revitalized facilities (estimated to be €35 billion). Precisely due to the lack of new energy facilities and investment, regardless of how well the strategic position is, the Southeast Europe region is a potential lagging point of energy flow. The need for organized, faster and joint solution of this problem resulted in the European Union’s initiative, and acceptance thereof by the countries of the Southeast Europe, on drafting and signing an Agreement on Establishing South East Europe Energy Community between the countries of the South East Europe (signed in Athens 25 October 2005, ratified by the EU and came into force on 01 June 2006). This is the first document on energy with a binding status, signed between countries of the South East Europe and the EU. By ratifying this agreement, an obligation to create a legislative framework for establishing a unified and integrated energy market (the EU and 9 partner countries) was announced. The goals of the South East Europe Energy Community of countries are: creation of conditions and attracting new investments in the energy sector (especially electricity and gas), so that the network is safe; creation of the unified electricity market (allowing cross border trade and link with the EU market); increase of the security of the offer and strengthening conditions for the unhindered environment protection with regards to the energy offer of the region.

1) Zorana Mihajlović – Milanović is a Energy and Energy Security Advisor from Serbia

## The total energy supply and consumption of the South East Europe Energy Community (Mt oe)\*

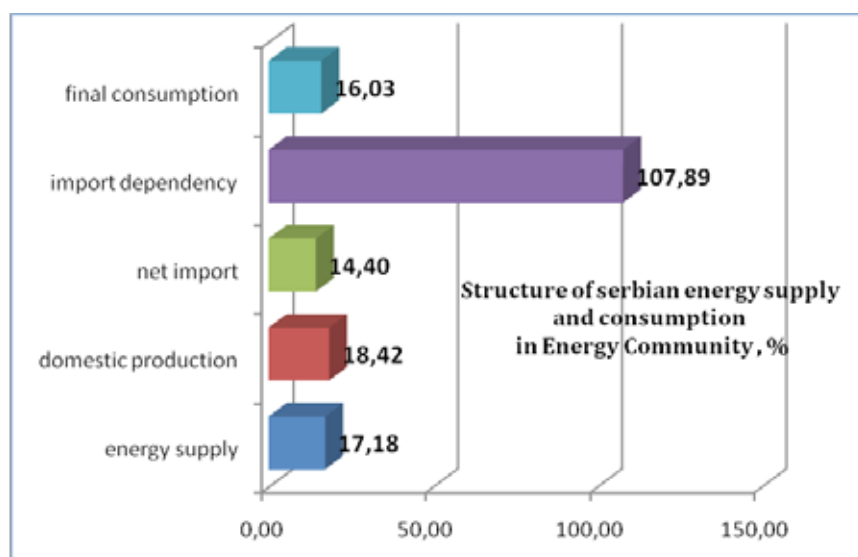
|                        | Energy supply | Local Production | Net Import | Import dependency ratio, % | Final Consumption |
|------------------------|---------------|------------------|------------|----------------------------|-------------------|
| Albania                | 2,4           | 1,2              | 1,2        | 51                         | 2,1               |
| Bosnia and Herzegovina | 5             | 3,3              | 1,6        | 32                         | 3                 |
| Croatia                | 8,9           | 3,8              | 5,2        | 58                         | 7,1               |
| Macedonia              | 2,7           | 1,5              | 1,2        | 45                         | 1,7               |
| Montenegro             | 1             | 0,6              | 0,4        | 40                         | 0,8               |
| Serbia                 | 16,7          | 11,4             | 5,3        | 41                         | 9,7               |
| Kosovo-UNMIK           | 2             | 1,2              | 0,8        | 40                         | 1                 |
| Bulgaria               | 18,9          | 10,2             | 9,1        | 48                         | 9                 |
| Romania                | 39,6          | 28,7             | 12         | 30                         | 26,1              |
| Total                  | 97,2          | 61,9             | 36,8       | 38                         | 60,5              |

\*t oe – tone of oil equivalent, energy unit, as the amount of energy produced through the combustion of one tone of raw oil.

*Source: Energy in the Western Balkans, IEA, 2008*

The development of this energy market is coordinated by the European Commission, which gives energy sectors of the region “one foot” in the EU.

Serbia is a member of this energy market, which it confirmed by ratifying the Agreement (July 2006, Official Gazette of the Republic of Serbia 62/06), i.e. by promulgation of the Law on Ratification of the Agreement on Establishing Energy Community.



Serbia's share in the energy offer in the region is 17.2%, and Serbia holds a 16% share in its final consumption. Considering each type of energy source Serbia stands out with producing 30% of the coal in the region. In second place is hydropower with 23% and in fourth place is raw oil at 23.4%, in the region.

For this reason, the challenges before Serbia are significant, and the responsibility of the political and economic elites is increased.

Since the democratic changes in Serbia (2000) little has been done in the energy area. Apart from passing the Law on Energy four years later (2004), Strategy of Development of Serbia's Energy until 2015 (2005) and Implementation Program (2007), establishing Regulatory Agency and Agency for Energy Efficiency, nothing essential was done for restructuring and increasing efficiency. Besides, due to the discrepancies with EU directives, Law on Energy is in the process of being amended and Strategy of Development of Energy is obsolete. The state has not been a good entrepreneur in most of the energy sector, especially in the economic activity of public enterprises, which are still highly inefficient and mostly accumulating losses (estimated loss of the public enterprise "Electric Power of Serbia" for 2008 is 20 billion dinars or around €240 million). From 2000 – 2008 the price of electricity in Serbia increased by 540%, while the salary increases were less than 100%. In spite of that, losses are piling up, consumption is growing (9% for the period 2002 – 2008 and 23% for the period 2008 – 2015) and new facilities are not being built. Capital energy facilities were being built until the mid 1980s and the period of disinvesting, which then started, lasted ever since. Citizens of Serbia have, through the increase in prices of electricity over the years financed the inefficiency and corruptive practice within the enterprise "Electric Power of Serbia" – EPS, instead of financing new electric generating facilities.

The state's failed action is also visible on the example of the Serbian Oil Industry (NIS) enterprise. In order to control oil and oil derivatives market, that is to say give an opportunity to NIS to employ its processing facilities and modernize refineries in Pančevo and Novi Sad, the state introduced a Decree in 2001, regulating export and import conditions of oil and oil derivatives (Official Gazette of the Republic of Serbia 92/2007). The Decree on Conditions and Manner of Import and Processing of Oil prohibited import of basic derivatives of oil, except in cases when the stability of supply of the domestic market is jeopardized, when NIS is allowed to make an emergency import. In order to secure additional funding, the oil-processing price was substantively higher than in the region. Thereby, NIS has been subsidized with €160 million annually for the past eight years. Considering that in spite of all this, NIS today is still "at the beginning", without technologically modern refineries, without investments, eight years older, with a lower quality of oil derivatives than those in Europe, and with a need for investments of around €1.2 billion, it is clear that the money provided to NIS ended in channels of corruption. For the last eight years NIS could have built another modern refinery, could have participated as an investor in oil enterprises of the region and could have become a true leader.

Apart from that, in the first years since 2000, the state had no clear strategy of restructuring and ownership transformation of NIS, which lead to the managers of this enterprise, blessed by their political leaders, to undertake the privatization of various parts of NIS by means of direct sale negotiations. Through signing different memos on cooperation, Agreements on Long – Term Cooperation, strategic partners have been putting forward their interest and management tried to, without public eye, transform parts of NIS (in some cases several times over).

In order to resolve this situation, the state managed to, through a tender procedure, select a privatization advisor for NIS (Merrill Lynch and Raiffeisen International AG) in 2005. Although the advisor laid down

strategy of privatization, by means of tender, in three consecutive phases and although the government of the Republic of Serbia adopted this strategy, only several months later, the government decided to sell NIS by direct sale of majority of shares (51%). This behavior is not only the failure of the government, but signaled that there is no clear position or strategy of energy sector development. Furthermore, this has been a clear signal to investors that other decisions by the government could also be changed overnight, and without a clear rationale.

Generally speaking, absence of tenders, direct negotiations, increase in corruption practices in base sectors, especially the energy sector, are serious obstacles and an aggravating factor for future development of energy not only Serbia, but also in the region. The result is an inefficient sector, without necessary investments and an atmosphere for their attraction and realization.

## The status of the Energy Sector in Serbia in 2008

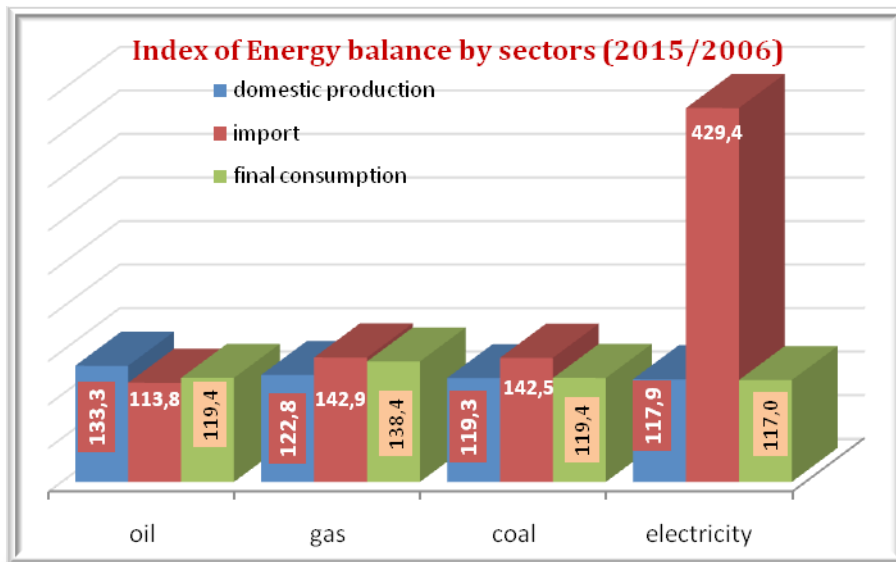
Serbia is a country with no big fossil energy potential. The reserves of good quality oil and gas are symbolic and make less than 1% of the total of Serbian reserves of fossil energy, while coal reserves make the other 99%, which are dominated by the low – calories lignite.

### Reserves of fossil fuels in Serbia, Mt oe

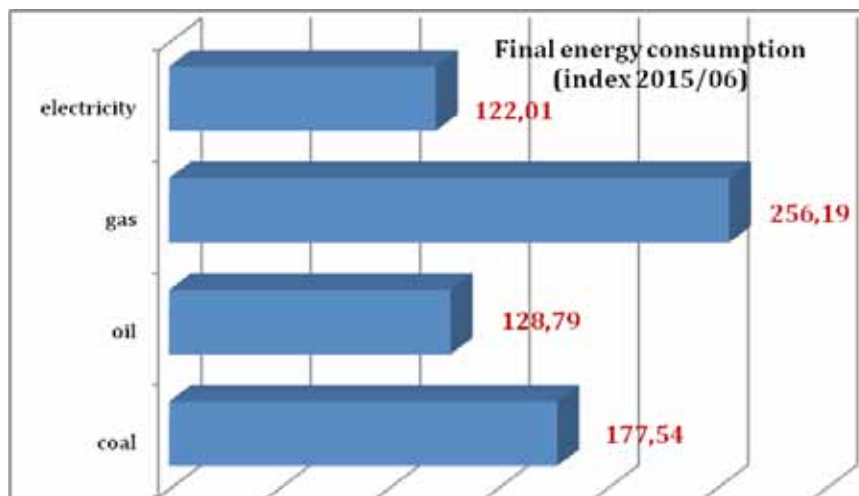
|                      | Recoverable | Geological   |
|----------------------|-------------|--------------|
| Coal with Kosovo     | 2.741       | 3.883        |
| Oil and Gas          | 20          | 60           |
| Total                | 2.761       | 3.943        |
| Total without Kosovo | <b>773</b>  | <b>1.091</b> |

Source: Strategy of Serbia's Energy Development until 2015

Apart from the poverty in sources of energy, Serbia's balance account indicates an increased tendency of energy dependence, both of primary energy (oil, gas, coal) and of secondary energy (electricity). The total energy import dependency has since 2004 been higher than the one projected for 2015 (35.9 – 38.4%, depending on the scenario or slow or accelerated pace of economic development). The energy import dependency has been 42% in 2008.



The final energy consumption will rise until 2015 to 22%, with an annual average of 3 – 5%, while the domestic production will effectuate a slower pace (from 20% upwards), with an annual average growth rate of 1.75%. The sectoral balance shows that until 2015 the sharpest rise will be in import of electricity (329%), coal (142%), natural gas (43%) and oil (14%). The projection of final consumption (2015/2006) per energy source shows the highest increase in gas consumption 156% and coal of 77%, but also the rise in consumption of oil (29%) and electricity (22%).



Gas will very much be in demand in Serbia. Its wide use is declared one of the priorities of the Strategy of Energy Development, and operationally envisaged by the National Action Plan, which sets gasification of at least 400,000 households and increase of gas consumption in the electricity production (for over 300%). Precisely for this reason, projects undertaken in this regard must be done in a public and transparent manner through tenders and public announcements.

The vulnerability, insufficient investments, and absence of any control of realizations of strategies gave birth to a myriad of problems – which now represent points of great concern for the Serbian energy sector:

## Critical Points in the Serbian Energy Sector in 2008

### Gas Sector

1. Low reserves of domestic gas (9% of consumption in Serbia, import is 91%);
2. Growth of gas consumption by 57%, while import of gas will grow by 73% (for the period 2015/2003);
3. Growth of losses in transit and distribution of gas by 69% (2015/2003);
4. Underdeveloped gas infrastructure: 1. One way of inflow of gas (Russia – Ukraine – Hungary (Horgoš) – Serbia), 2. Disproportion in development of the distribution network and degree of gasification of the North (95%) compared to central and south part of the country (under 45%);
5. Disparity of prices of other energy sources which causes fluctuation in consumption and use of gas.
6. Non-transparent procedures and realization of projects of gasification of Serbia;
7. The loss of the status of buyer of gas directly from the producer (the Russian Federation), but instead introducing an intermediary in the acquisition;
8. Jeopardized energy stability due to the lack of operability of underground storage facility in Banatski Dvor, potential capacity of 850 mil m<sup>3</sup>/annually

### Oil Sector

1. Crude oil reserves estimated to last for at least 40 years (50 mil t oe);
2. Domestic oil production satisfies 20% of consumption in Serbia ;
3. Growth of oil consumption by 27%, import of oil will grow by 15% (for the period 2015/2003);
4. Engine fuel consumption will increase for about 72% (2026/2007);
5. Obsolete infrastructure and technology – especially of reprocessing facilities;
6. Low usage of oil processing facilities of only 46.5% due to the obsolete technology. (Pančevo and Novi Sad);
7. Insufficient investing in domestic research and oil production as well as in concessions abroad;
8. Shortcomings in fair competition and relationship between private sellers of oil derivatives;
9. Failure to use tar sands as a way to obtain synthetic oil. Estimated reserves are 2 billion tones, out of which 200 million tones of oil could be obtained;
10. Monopoly and favoring the state oil company NIS, both by means of a Decree on Prohibition of Import of Derivates, and by means of permissions for the potential emergency import of derivates;
11. Disparity between the quality and price of oil derivates in Serbia (quality at the lowest and price at the highest level in Europe);
- 12.

### The Sector of Electricity

1. The growth of consumption of electricity by 22%, and import of over 400% (for the period 2015/2003);
2. The dominance of low calorie coal – lignite in electricity production;
3. Higher losses in transport and distribution of electricity (for only four years 2008/2002., increased by 64%), compared to the region;
4. Impossibility to dispose of energy reserves of coal in Kosovo and Metohija basin, as well as electricity generating facilities (thermo power plants, coal mines, distribution network) on that territory, since 1999 (coal reserves in Kosovo and Metohija are 2<sup>nd</sup> in Europe and 5<sup>th</sup> in the world);
5. Stalemate in the construction of electricity facilities of more than 18 years;
6. Monopoly on electric producing activity directly influencing growth of expenses and prices as well as lack of investment;
7. The state lack of interest in establishing and developing electricity market notwithstanding the fact that it would positively influence the competitiveness of the economy;

### Renewable Energy Sources and Heating Energy

1. Not using renewable energy resources estimated to be 3,83 mil tons annually;
2. The structure of potential renewable energy sources points to the dominance of the biomass potential (63%), sunlight (16,7%), potential in small streams (10,4%); geothermal sources (5,2%) and wind (5%);
3. lack of legislative procedure and by- laws in this area (the Decree on Status of Selected Producers, motivating measures, amendments and to the Law on Energy, Decree on Minimal Share of Electricity produced in RES – Renewable Energy Sources and cogeneration);
4. No laws on rational use of energy and motivating measures of the state and Fund for Energy Efficiency;
5. Impossibility to control public enterprises which produce and transport heating, controlled by the local self – governing bodies, although they directly influence the energy balance of the country;
6. Lack of strategy of development and use of cogenerative facilities which would at the same time produce heating and electricity, thereby increasing energy efficiency and secure sufficient energy sources;



The situation in which the Serbian energy sector finds itself in today, changes, pertaining to the restructuring, privatization, and adhering to relevant EU directives, on one hand and sustaining energy stability on the other, are imminent. Full transparency and openness of the process is necessary. Without that, and all signs lead to the conclusion that openness and transparency will be reduced, the monopoly of the Republic of Serbia, which exists in energy sector, will be replaced by a monopoly of another state and several of its enterprises. This not only jeopardizes all principles of the market economy, but it will also become a limiting factor in the development of the energy and thereby all other sectors in the country. This also sends additional signal to others in the region and potential investors on the insecurity of their investments in Serbia.

Keeping the Russian Federation's gas wealth in mind, as well as decades of Serbia's relying on this supplier, it is not illogical to continue purchasing gas from this country for the energy sector. What is unusual, though, is to hand over almost an entire energy sector, by means of direct deals (agreements on strategic cooperation) without tenders, to Russian companies. The responsibility lies, of course, on the Serbian side, which has not clearly defined routes, criteria and ways of developing energy sources, and which was not even able to respect its own decision (the Government of Serbia – Decision on Transformation of Ownership of NIS), or which, due to its own inaction, lost partnership status in the JugoRosGaz company, an intermediary in gas supplies for Serbia since 2007.

Perhaps the biggest responsibility lies in the deliberate deception of the public, by the political establishment, which, by means of threats, blackmails and creation of public fear of jeopardized energy stability i.e. lag in energy supply, justifies its untransparent sale of Serbian energy sector.

Historically speaking, Russian capital entered Serbia four decades ago, when it participated in the construction of 6 (out of 12) turbines of Hydroelectric Power Plant Đerdap 1. Until today they delivered over 200 billion of kWh of energy, which completed their working life span. The problems connected to the initiation of revitalization of the blocks on the power plant are serious, have already existed for several years and threaten the energy stability of the region. Since 2001, negotiations on starting this business are ongoing (revitalization work has been agreed in 2002 with Russian company OAO "Siloviye Mashini" Moscow, worth \$100.7 million), and for paying off Russian debt to Serbia. Constant changes of conditions by the Russians are delaying signing of the contract but also the start of work.

Also, after the year 2000, Russian oil company LukOil purchased 79.5% of capital in company Beopetrol, dealing with trade in oil derivatives, for the sum of €207 million (€117 million + €87 million projected investments within 5 years + €5 million for the social program). Unfortunately, the promised investments by LukOil in Beopetrol did not take place, with LukOil justifying this due to incomplete ownership documentation – regardless of the fact that it knew of this problem before purchase. By justifying this, the Privatization Agency has deprived the Serbian budget for €30 million in contractual fine!

The only continuing relationship with the Russian side is in purchasing gas, with Serbia stipulating necessary amounts of gas from Gazprom (Gazexport) annually. However, events from the last several years in this regard, resulted in a serious affair, which according to media and public speculation, the political leadership were involved.

The JugoRosGaz (JRG) company changed its ownership structure miraculously, resulting in the majority ownership of foreign partners (25% public enterprise for gas operations Srbijagas, 25% Centrex Vienna, and 50% Gazprom). The existence of joint company JRG in Serbia brought a myriad of problems which will be felt in the future.

1. It was founded by a bilateral agreement in 1966 as a joint stock company with 50-50 participation by the Serbian and Russian sides, for the purpose of gasification of Serbia and building a regional gas pipeline Niš-Dimitrovgrad and trade in gas. By 2001, in partnership with the Serbian side, a section of Niš-Pojate (MG 9), which is also a section of regional gas route MG 10 Niš Dimitrovgrad was built.
2. By its own inaction, Serbia lost partnership in this enterprise and lost ability of equal status both in owning the regional section and future gasification of East and South Serbia;
3. By acquiring the status of an enterprise performing work of general public interest in January 2007 (by the Minister at the time whose mandate expired) JRG became parallel enterprise to the Public Enterprise Srbijagas. This way Serbia, without following procedure and criteria and without fair competition, and above all without strategy on ownership transformation of gas works, opened up through the back door, competition in the most profitable share of gas business.

Since 2007 (1 January 2007), JRG has become an intermediary in the gas supply to Serbia (annual amount of gas is around 2.3 billion m<sup>3</sup>), and the profit which this intermediary acquires is around €30 million annually. Although there were discussions in the Serbian media since 2006 about existing and potential problems around JRG, only upon parliament passing the decision to increase the price of gas (October 2008) did the opposition parties in the National Assembly, and in the public, re-open this issue. This time the issue is expected to be resolved after research and proceedings of the Commercial Crimes Division of the Ministry of the Interior and the Republic Prosecutor.

Beside the current scandal over an intermediary in the gas supply, the battle in Serbia seems more like a political struggle more for the purpose of acquiring additional political points, rather than the application of clear and rational thinking connected to the *Agreement between the Government of the Republic of Serbia and the Government of the Russian Federation on Cooperation in Oil and Gas Enterprises* (signed and ratified in Moscow in January and in Belgrade in September 2008).

Considering the current laws in Serbia, which regulate conditions and the way of performing energy related activities, the arrangement with the Russian Federation is in conflict with it (as well as with *acquis communitaire* EU). Regardless of the fact that Serbia is still not obliged to apply all EU relevant laws, the direction of Serbia towards the EU, signing the Stabilization and Association Agreement and the Agreement on South East Energy Community, should have been a valid reason not to engage in such arrangement. On the other hand, it is exactly Serbia position of holding 'one foot in the EU', which was one of the reasons of the Russian side to, (without obligation to obey too many rules and EU standards) enter the EU space from one, still not covered route.

For Serbia, this document, in comparison to all other documents that the Russian Federation entered into with other countries, with regards to the building of the South Stream gas pipeline, is by far the worst. The biggest problem is the status of the so called “linked transaction”, according to which Serbia sells, through a direct sale, NIS and gains in return one branch of the gas pipeline. Even if one disregards the fact of this most primitive way of doing business (trade – feudalism), a large number of unresolved questions and problems remain.

1. By having a regional branch of the gas pipeline, it is possible to secure gas energy stability, collect profit from gas transit and secure a long – term geostrategic position of Serbia. The capacity assumed by the Agreement of “minimum 10 billion m<sup>2</sup>/annually” (Article 4) is not only insufficient, but it also does not represent a “regional branch”. Bearing in mind that a 2006 Memorandum of Understanding between Gazexport and the Ministry of Energy of Serbia, for the purpose of building a transport gas pipeline over the territory of Serbia (towards the Croatian border), stated that the pipeline would be 400 km in length and have a total capacity between 18 and 20 billion m<sup>3</sup>/annually, and considering the conditions of the agreement from 2008, one can conclude that Russia has a reduced level of interest for having a regional branch of a gas pipeline go through Serbia. Considering that the South Stream gas pipeline will have a total capacity of between 30– 33 billion m<sup>3</sup>/annually, the Serbian regional branch should realistically have at least 15 billion m<sup>3</sup>/annually.

2. The “gas part” of the Agreement presupposes solving the construction of the underground gas storage “Banatski Dvor”, but of an insufficient capacity of 300 million m<sup>3</sup> annually. The storage facility is of extreme importance because it secures energy stability, both by means of covering peaks of consumption and during other possible disturbances in gas supply. If Serbia had phase I operational of the gas storage facility during the gas war between Russia and Ukraine (winter 2005 / 2006), it would not have had a 50% reduction in gas supply, resulting in the shut down of 184 businesses and causing a serious disturbances in the energy sector.

This facility, according to all estimates, could and should be a regional one, with previously projected capacity of 800 – 860 million m<sup>3</sup> gas / annually. Bearing in mind that the strategic partner is interested in this facility by developing only one half of the potential capacity, than the existence of the “regional” branch of gas pipeline through Serbia is “dubious”.

3. The issue of the share capital in the future company, in charge of gas business, reflects the Russian opinion of the inferiority of its Serbian partner and the inability of the Serbian side to negotiate. The Russian partner will be the majority shareholder (51%) and Srbijagas will be the minority shareholder (49%) of the newly founded company. In no other agreement with any other country is the Russian partner a majority shareholder, but has an equal relationship (50-50).

The construction and the usage of the gas pipeline for gas transport is being planed without clear and legally defined obligations, which must exist for controlling a venture which is in the general public interest (transport of natural gas and managing of the transport system). Transport and managing of the regional gas pipeline (gas pipeline with high pressure) is of vital significance for any country, and by its nature a monopoly (and thus has to be regulated). These conditions are clearly stipulated in the

Law on Energy, the Law on Ratification of the Agreement on the Creation of South East Europe Energy Community, Directive 2003/55/EC (on common rules for the internal market in natural gas).

While it is clear that the feasibility study for the South Stream gas pipeline, which will provide the details on the capacity and the route of the pipeline, will not be completed before the end of 2009, the pressure coming from the Russian side and the approval from the Serbian side on the conclusion of the Sale/Purchase Agreement on the Ownership Transformation of NIS is worrisome. The negotiations connected to NIS entail several very important parts and details.

1. The price for NIS, largely debated in public (€ 400 million) is only one of the elements, but by no means the most important one. NIS requires large investments, estimated to be around € 1 billion, so the broad term "minimum €500 million for investments" (as stated in the Protocol) is neither precise nor sufficient.

The agreed sale (between the two sides) in the case of sale of refineries is against the law, and generally goes against market rules. They are being sold - given away - without clearly defined obligations on environmental protection, quality of derivatives and obligations development, improvement and sustaining production capacities (which would be an obligation especially bearing in mind the Program for Fulfilling of the Strategy of the Serbian Energy Sector until 2015).

2. The question of research and production of domestic oil and gas is not treated separately in the Protocol, and that is of utmost importance for achieving a certain degree of energy security. Domestic oil covers 20% of Serbian needs, while gas covers around 10%. There are no reasons for the Serbian side to sell the right to exploit its own domestic resources. Serbian oil is of good quality and with low sulphate level (below 0.5% of sulphate) and largely belongs to the light oil group with more white components (petrol and diesel). One should not even mention that, from an ecological point of view, light oil with low sulphate level (below 0.5%) is more suitable for processing in refineries. The reserves of domestic oil are estimated to last for another 40 years, while the estimated geological reserves are 3 times the size of balance reserves, which points to the need of further research. Furthermore, Serbia is rich in one type of good quality of specific crude oil type called "Velebit oil", a rare commodity suitable for the production of good quality oils and lubricants. With an annual production of this oil and its processing (into oil for generators, and oil based oils) Naftagas could acquire an additional \$1 billion annually (the price of Velebit oil is € 1,000 – 1,250/t, and generator oil is €1,600 – 1,800/t)

Due to the fact that NIS owns all segments of the oil industry, including the systems of primary energy (production of raw oil and gas, import of oil), the systems of transformation of the primary energy (processing of raw oil in refineries) and the final energy system (consumption of final energy for energy producing and non-energy producing purposes), it is necessary to envisage in the agreement a level of investments per one segment, as well as the dynamics of investment. The programs and projects of modernization must envisage the following: investments in expanding exploration on the territory of Serbia, investment in the existing production capacities for oil exploration and production, increase in the technological level for the purpose of euro diesel and petrol production, technological development of refineries, an increase in technological and technical reliability of processing and non-processing facilities, and investments in environmental protection.

3. The Protocol on the Sale of NIS does not deal with environmental standards at all, which should have been an “alarm signal”. Basically, the Russian side through this agreement envisage maintaining an oil import monopoly up until 2012, as well as moratorium on European Environment Standards. If someone should have the monopoly on the import of oil, than the transfer of property over to NIS is not even necessary. NIS today has a monopoly on the import of oil, so there is no change there. A far more serious issue is the problem of the environment. Serbia has at least tried to improve the situation in this field, which is extremely difficult to do without additional investments. Should the strategic partner require a moratorium, then that clearly shows the lack of willingness to deal with environment protection. Serbia does not need a single barrel of oil, a single liter of euro diesel, if obtaining it leads to the increase in lung cancer mortality rate in, for example, Pančevo.

Regardless of the fact that any enterprise is subjected to Serbia’s environment protection laws, and bearing in mind the difficult environment situation in Pančevo, the future energy agreement must contain provisions which additionally oblige the future strategic partner to use and apply only the latest energy, environmental and economic efficient technologies. Any other solutions may mean that the oil industry will not receive modern and technologically advanced, and efficient equipment. In the situation when the energy efficiency of Serbia is five times lower compared to that of the world average, and even eight times lower compared to the OECD countries, it is only natural that a country asks everyone investing in it to bring new and modern technologies.

4. The issue of preserving the Decree on Exclusion of Oil Derivates Import, planned to stay in force for “at least two years” is an unusual request (The Decree on Prohibition of Import of Oil Derivates cannot last longer than 31 December 2010) because there are obligations which Serbia accepted by ratifying the Agreement on South East Energy Community, ratified in July 2006). Preserving this Decree even after the ratification of the Agreement, Serbia is effectively protecting the Russian company.

Any signing and entering into effect the Sale Purchase Agreements on property transfers of NIS is risky unless the Feasibility Study for South Stream gas pipeline is completed or a written guarantee that the regional branch of the gas pipeline of an accurately determined capacity will go through Serbia.

# A View to the Perspective of Russia Serbia Relations at the Beginning of the 21<sup>st</sup> Century

(Introductory observations within the *Monitoring Russia Serbia Relations* project)

Žarko Petrović<sup>1</sup>

Serbia does not have an alternative in the political and economic turn towards Russia. There are numerous reasons for this and none of them are based on a Manichean portrait of Europe as “good” and Russia as “evil” and none of them dispute the necessity of cooperation with Russia in the framework of economy, culture, religion, and even political cooperation, within the agenda that does not contradict Serbia’s path into the European Union (EU).

To the “right” of the Serbian political spectrum, one can notice a growth of self – confidence, steaming from the “resurgent Russia” concept. Tomislav Nikolic, speaking as the Deputy President of Serbian Radical Party, raised, in the wake of the last presidential elections in Serbia, the possibility of the deployment of Russian bases in Serbia.<sup>2</sup> Other parties from that side of the political spectrum do not fall far behind, but they are not the only ones to carry such a view: Branko Ružić, speaking as the Chairperson of the Executive Board of the Socialist Party of Serbia, stated that Serbia is “Returning towards Russia” and that the “Oil – Gas Arrangement has not only economic, but also a political and security aspect”.<sup>3</sup> On the other hand, the words of the Minister of Foreign Affairs of Serbia Vuk Jeremić, in an interview to the Viennese Daily “Die Presse”, where he stated that Serbia is not part of the Russia’s sphere of influence, so that it will not recognize the independence of Abkhazia and South Ossetia,<sup>4</sup> clearly portray Serbia’s European orientation. This orientation, clear and seldom so pinpointing from the mouth of a Serbian politician, did not receive in Serbia support it deserves. The issue of Serbia’s European integration is seen against the backdrop of the recognition of independence of Kosovo by the majority of EU member states and euroscepticism of parts of Serbian society, i.e. a new form of an old dilemma in Serbia: “Russia or the West”, “gathering” or “enlightenment”, “populism” or “liberalism” – one and the same dilemma troubling Serbia since the third century.

Serbia should, in its long term political orientation, take into account only rational factors: questions of security, economic and social prosperity, including values the Serbian society wishes to base itself upon. However, before we turn to these factors in the context of Russia - Serbia relations, one should take an overall look to Russia’s position in the contemporary international affairs.

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1) Žarko Petrović ISAC Consultant on „Monitoring Russia Serbia Relations“ Project, for Russia and the CIS.

2) “I think that the best would be in Kopaonik or Pasuljanske livade. As a military topographer I thought about that a lot. There are locations in Serbia from where the Russians could control the defence of their country very well“ Source in Serbian: B92, Nikolić: Ruske baze u Srbiji 19. December 2007. [http://www.b92.net/info/vesti/index.php?yyyy=2007&mm=12&dd=19&nav\\_id=277248&nav\\_category=11](http://www.b92.net/info/vesti/index.php?yyyy=2007&mm=12&dd=19&nav_id=277248&nav_category=11)

3) <http://www.politika.rs/rubrike/Politika/Ruzic-Ne-okrecemo-se-Rusiji-vracamo-joj-se.sr.html>

4) Die Presse 23.09.2008, Interview with Vuk Jeremić

## Challenges and Frictions in Russia West Relations

Russia sees a “unipolar world” as the basic problem of the contemporary international affairs, and unlimited freedom of action, enjoyed by the United States of America (US) as a destabilizing factor.<sup>1</sup> Russia claims that it seeks a correction of the existing system in which decisions should be passed by means of a consensus within the framework of the existing institutions, international principles and law, and not unilaterally. Simultaneously, Russia aims at reaching a new European Security Treaty and reinstating the balance in Europe which Russia sees as violated as a result of the expansion of NATO and installing of the US Anti Ballistic Missile Shield.<sup>2</sup> In December 2007, Russia suspended the Conventional Forces in Europe Treaty and engaged into active and confrontational rhetoric against installing of the antiballistic shield in Poland and the Czech Republic.<sup>3</sup>

Claims and denials of both Russian and Western officials of a new Cold War, speaks exactly of the depth and intensity of misunderstandings and challenges which lie ahead of them. Even a superficial analysis leads to the conclusion that both sides have valid concerns and solid arguments, which they should address to each other. Both see the other one as aggressive. While Russia is perceived in the West as authoritarian and unpredictable, the West is seen in Russia as conniving opponent, whose ultimate goal is the dissolution or at least subordination of Russia. Our goal here is not to pass judgments, but rather to emphasize the realistic position of Russia in the international arena. Russia did not manage to dissuade the US from raising its antimissile shield “against Iran and North Korea”, and its saber rattling in the form of renewed patrolling of its strategic bombers, their recent visit to Venezuela and sending warships of the North Fleet to joint maneuvers with this country in December caused more shoulder shrugging, or even disregard, than worry.<sup>4</sup> The last OSCE Ministerial Council on 4 – 5 December 2008 brought exactly the opposite of what Russia wanted: the new European Security Treaty was paid only lip service to, while the topic of Georgia dominated the Council, exactly contrary to Russia’s wishes.

For Russia, its action in Georgia in August 2008, represents an answer to the recognition of independence of Kosovo by the West, and for the West a challenge by Russia.<sup>5</sup> The scope and reach of this challenge is extraordinarily important for Serbia. Russia received almost no support in its unilateral recognition of Abkhazia and South Ossetia,<sup>6</sup> with the exception of purely rhetoric support of Belarus, which did not mean recognition of these regions yet. China did not support Russia, and neither did the Shanghai Cooperation Organization. Kazakhstan, with a record of Moscow’s key partner in Eurasia abstained. Armenia, whose entire security largely depends on Russia, did not vocally support Russia. Visible was also the abstention of Kyrgyzstan, Uzbekistan and Tajikistan who owe Russia much from the recent past

1) Sergei Lavrov, the Minister of Foreign Affairs of the Russian Federation, Freedom of speech is also necessary on the world stage (...) every pressure on those who think differently, putting „under the carpet“ existing disagreements bears negative consequences for the whole of the international community. „Present and Future of the Global Policy: A View from Moscow“, April 2007 <http://www.globalaffairs.ru/numbers/25/7287.html>;

2) President Medvedev speech in Evian “World Policy Conference”, 8 October 2008, [http://www.kremlin.ru/appears/2008/10/08/1619\\_type63374type63377type82634\\_207422.shtml](http://www.kremlin.ru/appears/2008/10/08/1619_type63374type63377type82634_207422.shtml)

3) The US withdrew before that from the Anti Ballistic Missile Treaty, a key document in maintaining the strategic balance in 2002.

4) Rice Speech at German Marshall Fund on U.S.-Russia Relations 18 September 2008. 2008 <http://www.america.gov/st/texttrans-english/2008/September/20080918155132eafas0.4152033.html>;

5) George Friedman, Georgia and Kosovo: A Single Intertwined Crisis [http://www.stratfor.com/weekly/georgia\\_and\\_kosovo\\_single\\_intertwined\\_crisis](http://www.stratfor.com/weekly/georgia_and_kosovo_single_intertwined_crisis)

6) Except for Nicaragua.

and invest a lot in the future of this relationship. Other Russia's neighbors were unified in condemning Russia and so were other European states, individually as well as the EU itself. The US and Canada also condemned Russia. The strength of condemnation of Russia's action in Georgia by Poland, Lithuania, Latvia and Estonia is so intensive that it represents an obstacle for the rest of the EU in finding ways to overcome crisis and continue dialogue with Russia.

In its *realpolitik* and international relations in general, Russia uses its developed "energy policy". This policy is based on "parallelism" and interdependence of political and economic priorities of the Russian Federation. Russia's political disputes with neighboring states often coincide with economic disputes, especially in the field of energy sources. Specifically, the dispute over the monument to the Soviet soldier in Estonian capital Tallinn coincided with problems in gas delivery to this country. The arrest of four Russian officers in Tbilisi in fall 2006 caused Russia's economic embargo to Georgia. Also, often mentioning of the gas debt and raising gas prices in the wake of political decisions in Ukraine are quite familiar. Gazprom initiated the issue of Ukrainian debt for gas, in the wake of commemoration of *Holodomor*<sup>1</sup> and in the wake of a NATO summit 2 – 3 2008, which was supposed to discuss further plans for membership of Ukraine (and Georgia) into NATO.

Russian President Medvedev, in the Concept of Russia's Foreign Policy, speaks of the use of many instruments, including economic ones, proportional to their real significance, in securing Russia's foreign policy priorities.<sup>2</sup> Influential analysts consider Moscow's desire to control routes of energy sources as completely logical: *"Of course it is ideal for us to have pipelines passing through our territory [...] I want you to depend on me, rather than me depending on you"*<sup>3</sup> The European Commission published a plan on reducing energy dependency on Russia in November 2008, by, among other things, emphasizing priorities of connecting Baltic states with European energy network and increasing efforts towards the construction of the Southern gas corridor.<sup>4</sup>

The international position of Russia is of great importance for Serbia as a state. The path towards European integration cannot disregard the fact that Serbia aims to integrate in system(s) with which Russia has a problematic relationship. Therefore, with the integration of Serbia into the EU these problems become also Serbia's problems. Simultaneously, building bilateral relations with Russia could hardly ever contradict priorities which the EU has in relations with Russia, otherwise one could not speak of the possibility of Serbia's integration into the EU. Besides, the accuracy of assessments that Russia uses energy as a weapon is particularly important for Serbia, since Serbia's relations with Russia in, for instance, oil and gas, and the energy sphere in general, could, significantly limit political choices which Serbia could make and, consequently, question the feasibility of Serbia's European integration processes.

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1) "Holodomor" is Ukrainian word which signifies events in the 1930s, when a large number of citizens of the Soviet Union died due to malnutrition. The events particularly hard hit Ukraine, the wheat producing part of the USSR. While the Ukrainian Government wishes to depict these events as a policy of violent "sovietization" and punishing Ukrainians and declare it a "genocide" Russia maintains that people were dying also in Russia and Kazakhstan that it was not the policy and therefore cannot be considered genocide.

2) Foreign Policy Concept of the Russian Federation, 12 July 2008, [www.kremlin.ru/text/docs/2008/07/204108.shtml](http://www.kremlin.ru/text/docs/2008/07/204108.shtml)

3) Sergei Markov in the International Conference of the „Ari Movement“, Turkish Daily News, 13.09.2008, Russian-US debate reminiscent of Cold War, <http://arama.hurriyet.com.tr/arsivnews.aspx?id=-637250>

4) [www.guardian.co.uk/world/2008/nov/13/eu-russia-energy](http://www.guardian.co.uk/world/2008/nov/13/eu-russia-energy) EU unveils energy plan to reduce dependence on Russia



## The Problem of Serbia's Integrity: Russia as an Alternative to the EU?

Regardless of what Serbia's current security challenges are, the question of whether Russia could, in the current state of international affairs, be a better alternative than the EU (and/or NATO) in ensuring security and integrity of Serbia should be measured against Russia's willingness and ability to ensure integrity and security of Serbia. Both the willingness and the ability of Russia to ensure integrity and security of Serbia should be examined before the declared foreign policy orientation of Serbia begins to change.

Willingness of Russia to undertake concrete steps in international affairs must be viewed through the prism of a general Russian orientation in international affairs. Russian leaders often emphasize that modern relations should be based on pragmatic approach<sup>1</sup> and suggest the development of bilateral and multilateral relations (multivectoral approach) on non ideological attitude by means of finding mutual interests. Bilateral interests, however, cannot be considered isolated from common EU interests, in the European context to which Serbia strives. In fact, EU member states are often subjected to criticism if they do not pay enough attention to the common interests within the EU.

The issue of territorial integrity of Serbia, in light of the recognition of independence of Kosovo, depicts a difference between Russia's and the EU's approach to this problem. Russia sees the issue of recognition of Kosovo independence as a matter of setting a precedent, which deviates from the international law principles and the existing practice of consensual recognition of independence of new states. The EU, on the other hand, aims to resolve the question of long – term stability, while it leaves the matters of principles and law to its member states. The EU, unlike the majority of its member states, did not recognize the independence of Kosovo. It focuses on stability by way of the EULEX Mission, thereby trying to overcome the difference in positions of its member states, and even Serbia.

Russia, on the other hand, remains opposed to the independence of Kosovo. Its arguments, however, are changing. Until the August conflict in Georgia, they were: 1) there is no agreement by the two sides; 2) it is too early for independence, because the possibilities for negotiations are not exhausted; 3) it contradicts international principles and international law; 4) Kosovo is not an isolated case (despite claims of Western countries that it is) because such precedent could be applied to other regions in the world, such as Abkhazia or South Ossetia. The EU and other Western countries maintain that Kosovo and Georgian provinces cannot be compared, because Kosovo is a *sui generis case* (although with different rationales).

After the August conflict in Georgia, Russia recognized the independence of Abkhazia and South Ossetia, basing the recognition on the notion that in this way it permanently ensures the security of these regions, in light of the Georgian and Saakashvili attack. When its arguments were turned against her, Russia emphasized that it is true that the cases of Kosovo and Abkhazia and South Ossetia are different, because Serbia never attacked Kosovo as Georgia attacked South Ossetia, therefore the case of South Ossetia is *sui generis*, and not the case of Kosovo.<sup>2</sup>

1) Sergei Lavrov, the Minister of Foreign Affairs of the Russian Federation „Present and the Future of the Global Policy: A View from Moscow“, April 2007 <http://www.globalaffairs.ru/numbers/25/7287.html>

2) Sergei Lavrov, Face to Face with America: Between Confrontation and Convergence, Jurnal “Profil”, No 38, October 2008, available in Russian at: [http://www.mid.ru/Brp\\_4.nsf/arh/B3C8684DEA14B242C32574E1002FD07B?OpenDocument](http://www.mid.ru/Brp_4.nsf/arh/B3C8684DEA14B242C32574E1002FD07B?OpenDocument)

This change in approach, accompanied by excellent diplomatic argumentation, however, poses a reasonable question: Is the change in the Russian approach regarding “renegade regions” motivated by protection of Serbian interests with regards to Kosovo or *realpolitik* battle on the international diplomatic field, and protection of its own interest? By continuing to relativize international law, initiated by the recognition of the independence of Kosovo, Russia exposes itself to the same criticism of inconsistency which it itself used in supporting the Serbian position regarding the independence of Kosovo. Besides, this change in approach and maintaining position opens Russia to serious criticism in the international arena connected to its own application of “double standards”. This scares its neighbors and countries with problems with separatism (such as Azerbaijan and Moldova) and creates new problems with which Russia will be spending its strength and resources in solving. Therefore, there are no guarantees that Russia will not change its position regarding Kosovo further, in connection to this *ad hoc* approach, in accordance with its own interests and priorities and necessity to protect itself from attacks and subsequent problems.

The EU, on the other hand, striving to accommodate its interest of stability to interests of its member states and to find common interests, creates a situation in which Serbia, by virtue of its membership, would become part of this common interest. It would also gain a decision making voice in accordance with its relative strength, which is far more efficient than the voice of those who are drifting away from the contemporary integration trends. The EU did not (yet) condition Serbia’s membership in the EU by the recognition of Kosovo independence. Therefore it leaves (still) the possibility to find a *sui generis* solution for this *sui generis* problem.

Integration into the EU (and NATO) is the answer to security challenges for all countries in Serbia’s neighborhood in modern times. To the contrary, Moscow’s ability to assist Serbia in the protection of its security and integrity by supporting confrontation with the EU must be observed in the context of its relations with the EU (and NATO) and priorities which these instill. These relations contain a high level of cooperation and vast interdependence, but also challenges and frictions from which only some have been mentioned. Cooperation is, on the other hand, visible in many fields. For instance, certain EU member states, for the purpose of their NATO engagement in Afghanistan conduct military transports over the Russian territory, cooperate in the fight against terrorism, space research, etc. The Russia – NATO Council (currently suspended) gave a forum for the political and security debate.

The most significant factor in this equation is, of course, the economy.

Russia is only the third most important trade partner to the EU, after the US and China, while the EU is Russia’s first and the biggest trade partner, with 51.5% ratio in the total Russia’s trade turnover. The EU investments in Russia are 75% of the total investments in Russia.<sup>1</sup> The EU need for sources of energy and raw materials from Russia correspond to Russia’s need for capital and investments, technology and the *know how* in energy – related area transfer and modern infrastructure. For more than 20% of the world’s gas reserves, 5% of proven oil reserves and at least one fifth of the world coal reserves, yjr EU will probably remain the main trade exchange partner, to whom 62% of the total Russian gas export and

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1) European Commission, Bilateral Trade Relations with Russia: [http://ec.europa.eu/trade/issues/bilateral/countries/russia/index\\_en.htm](http://ec.europa.eu/trade/issues/bilateral/countries/russia/index_en.htm)

around 63% of the total oil export goes.<sup>1</sup> The biggest oil and gas imports into the EU come from Russia, which is also the main EU supplier of uranium. However, the EU economy is about fifteen times the size of Russia's<sup>2</sup> and the Russian and EU trade data speak more of interdependence than of the possibility of Russia's control over the EU with resources it has. The EU military budgets are about seven times the size of Russia's military budget.<sup>3</sup>

Given the level of interconnectedness and interdependence between the EU and Russia, a question of whether it is realistic to expect extracting some political gain from their potential conflict is raised. The conflict in Georgia in August 2008, certainly the greatest challenge in Russia – West relations since the times of Soviet invasion of Afghanistan, did not lead to the collapse of relations. Russia and Europe are connected in such a manner that they can overcome many challenges in mutual relations. Even if this at some point should not be the case, is it realistic to expect the chilling of relations and Russia's need for allies to give such prominence to Serbia for it to be able to extract some political gain, for instance, in the form of different EU approach to Kosovo independence?

## **Economic and Social Prosperity of Serbia: Russia as an Alternative to the EU?**

World Bank estimates are that Russia has perhaps one half of the planet's coal and perhaps the biggest gas reserves in the world. Its 143.5 million inhabitants have about \$12,500 per capita, compared to 490.9 million EU inhabitants with approximately \$38,500 per capita.<sup>4</sup> GDP growth in Russia was 6.5% – 7% annually from 2000 – 2007 and Russia brought down the number of people below the subsistence level to only 14%. All this data is a testify of Russia's impressive performances in the last few years.<sup>5</sup>

However, with the exception of territory and natural resources, the advantage of the Russian economy is still difficult to compare to that of EU economy. The Russian trade surplus with the EU was approximately EUR 54 billion in 2007 which is the result of the increase in the price of Russian energy resource exports into the EU in the period 2000 (EUR 36 billion) to 2007 (EUR 94 billion)<sup>6</sup>. From the structure of the trade exchange between the EU and Russia, one can immediately see a huge Russian surplus in exchange of primary products (raw materials, energy sources), compared to the huge Russian deficit in exchange of final products (chemicals, machines, cars etc) of EUR 56.6 billion and in exchange in services of EUR 6.6 billion in 2007.<sup>7</sup> Differences are also visible in the sum of foreign direct investments (FDI). While the sum

1) EU Country Strategy Paper 2007-2013, Russian Federation: [http://ec.europa.eu/external\\_relations/russia/docs/2007-2013\\_en.pdf](http://ec.europa.eu/external_relations/russia/docs/2007-2013_en.pdf) Strana 35.

2) Marc Leonard, Nicu Popescu, A Power Audit of the EU Russia Relations, European Council on Foreign Relations, Policy Paper, [www.ecfr.eu/content/entry/pr\\_power\\_audit/](http://www.ecfr.eu/content/entry/pr_power_audit/) (15 January 2008).

3) Ibid.

4) IMF Data <http://www.imf.org/external/datamapper/index.php>

5) (GNI, Atlas method, WDI-2007). <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/RUSSIANFEDERATIONEXTN/0,,contentMDK:21054807~menuPK:517666~pagePK:1497618~piPK:217854~theSitePK:305600,00.html>

6) EUROSTAT News Release, 90/2008 - 24 June 2008.g. [http://epp.eurostat.ec.europa.eu/pls/portal/docs/PAGE/PGP\\_PRD\\_CAT\\_PREREL/PGE\\_CAT\\_PREREL\\_YEAR\\_2008/PGE\\_CAT\\_PREREL\\_YEAR\\_2008\\_MONTH\\_06/6-24062008-EN-BP.PDF](http://epp.eurostat.ec.europa.eu/pls/portal/docs/PAGE/PGP_PRD_CAT_PREREL/PGE_CAT_PREREL_YEAR_2008/PGE_CAT_PREREL_YEAR_2008_MONTH_06/6-24062008-EN-BP.PDF)

7) ibid

of the EU investments in Russia was EUR 17.1 billion, direct Russian investments to EU were only EUR 0.96 billion, thereby making a positive balance in favor of the EU of EUR 16.1 billion.<sup>1</sup>

Economic experts' estimations concur that the Russian economy will continue to be dependent on high prices of natural resources in the foreseeable future. Natural resources make approximately two thirds of the total Russian export (depending on the world prices of these resources).<sup>2</sup> This makes the whole economy too dependent on the unpredictable fluctuations of these products. Due to the lack of diversification of the economy and unpredictability of financial markets and capital flows, Russia dramatically reacts to considerable changes on the market. The period of prosperity, which was jeopardized by the recent fall in natural resource prices, Russia's main exporting product, threatens to jeopardize the entire economy. The price of stability, according to some estimates, in the peak of the financial crisis during September and October 2008 was \$ 100 billion.<sup>3</sup>

Corruption is one of the biggest problems facing the Russian society and economy. According to the Transparency International Corruption Perception Index, Russia is in the 147<sup>th</sup> place, of 180 ranked states. President Medvedev emphasized that the corruption is enemy number one of the democratic, free and just society in his annual address in 2008, and stressed the necessity of the fight against corruption. It remains unclear, however, how will Russia fight corruption in conditions of questionable level of media freedom and independence of judiciary.

Russia's social indicators are worrisome. With negative birth ration of -0.4% during 1995 – 2005, Russia lost approximately 5 million inhabitants, compared to the EU whose population is in constant growth. If one considers education as an indicator, which leans on the previous example, one could see Russia's lag, which in 2004 invested only 3.1% of its budget in education, compared to EU's 5.1%. Russian citizens are aware where the quality in education lies and, according to the Moscow Levada center, even 63% of the surveyed in Russia would like their children to study abroad (28% do not wish so).<sup>4</sup> Russia currently suffers from the relative intellectual poverty compared to the EU. The brain drain during 1990s took its dues. Any university ranking in the world does not include many Russian universities and high educational institutions (if at all). In its recent address to the Federal Council of the Russian Federation, President Medvedev emphasized a need for a widespread and systematic search for talents in Russia and abroad in the form of a "headhunting" and accelerates the formation of strong state and private centers for development of new technologies.<sup>5</sup>

Both Russian and EU citizens are aware of the difference in the quality of life in Russia and the EU. The indicators of mutual visits display that much more Russian citizens travel into the EU than in the opposite direction.<sup>6</sup> Of course, the situation improved drastically in the last ten years in Russia, but it is still not even close to what the European way of life offers. Russians themselves know this. According to the

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1) ibid

2) Vladimir Popov, Russian Analytical Digest, 48/08, 17 October 2008

3) The Price of Stability \$100 billion: <http://www.izvestiya.ru/economic/article3122742/>

4) EU Russia Centre, Review VII, Voices from Russia II: What the Russian Middle Class Think About Their Own Country and About Europe, 2008.: [http://www.eu-russiacentre.org/assets/Review\\_September\\_2008.pdf](http://www.eu-russiacentre.org/assets/Review_September_2008.pdf) page 18;

5) Address to the Federal Council of the Russian Federation, 5 November 2008. [www.kremlin.ru/text/appears/2008/11/208749.shtml](http://www.kremlin.ru/text/appears/2008/11/208749.shtml)

6) The European Union and Russia, Statistical Comparison, EUROSTAT statistical book 2007.g. [http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-77-07-231/EN/KS-77-07-231-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-77-07-231/EN/KS-77-07-231-EN.PDF)

abovementioned research, only 46% of citizens agreed with the statement that Russia reached stability and only 29% of those think that this stability is long-term.<sup>1</sup>

Other social indicators, for instance in the sphere of health also speak of advantages of the EU. The following table shows the causes of death per 100,000 deaths in 2007.<sup>2</sup>

|     | Total   | Infectious and Parasite – related diseases | Malignant Neoplasm | Circular System Diseases | Respiratory System Diseases | Digestive System Diseases | Outside Causes Injuries and Poisons |
|-----|---------|--|--------------------|--------------------------|-----------------------------|---------------------------|-------------------------------------|
| RUS | 1 504.2 | 26.2                                       | 183.4              | 839.7                    | 61.7                        | 61.9                      | 205.8                               |
| EU  | 671.1   | 8.4  | 180.2              | 264.8                    | 46.2                        | 33.6                      | 42.9                                |

Even a glance at economic and social indicators comparing Russia and the EU indicate that Serbia's prosperity is tightly connected to the EU. Not one of these indicators speak against cooperation with Russia in trade and investments, on mutually beneficial basis, which are not against Serbia's EU integration priorities. Instead, they only speak about the fact that linking Serbia with Russia in a way which would prevent or impede further integration of Serbia into the EU, would simultaneously lead to the economic and social setback of Serbia. Economically speaking, vulnerability and unpredictability of the Russian economy would, in such connectedness, lead to the vulnerability and unpredictability of Serbian, which is also valid for the sum of investments. The examples of economic cooperation with Russia, connected with some previous experiences with negotiations on oil and gas arrangement, speak of the character of Russian investments which, at the outset, do not look for total legal certainty and independent judiciary in the measure in which investments coming from the EU are demanding. For instance, the agreement between the government of the Republic of Serbia and the government of the Russian Federation in Oil and Gas Entrepreneurship is an inter – state agreement, which, to a certain extent, excludes the application of Serbian laws. EU investments, on the other hand, very much entail the independence of the judiciary and legal certainty, which is the reason why these principles were supported in Serbia since 2000. These are all value changes. No country in Eastern Europe underwent these social system changes, meaning independent judiciary and respect for human rights, on their own, but rather through the determination and the "influence from the West". Positive results of this influence are clearly visible and difficult to disprove, because economic and social advancement of countries such as Poland, Czech Republic, Hungary and Slovenia are tightly connected to improvements in the field of democracy, rule of law and adhering to human rights which these countries fulfilled.

1) EU Russia Centre, Review VII, Voices from Russia II: What the Russian Middle Class Think About Their Own Country and About Europe, 2008: [http://www.eu-russiacentre.org/assets/Review\\_September\\_2008.pdf](http://www.eu-russiacentre.org/assets/Review_September_2008.pdf) page 6

2) The European Union and Russia, Statistical Comparison, 2007 EUROSTAT statistical book 2007. page 88. [http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-77-07-231/EN/KS-77-07-231-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-77-07-231/EN/KS-77-07-231-EN.PDF)

## Conclusions

Serbia's choices are limited. Few indicators from Russia suggest that a turn towards Russia would, in any respect, be possible to ensure security and integrity as well as economic and social well – being in Serbia. Therefore, it does not seem reasonable and useful to use the “Russia card” neither in international nor in domestic policy. In international policy it is easy to see through it as a “bluff”, because otherwise it does not represent a long-term sustainable policy, which could eventually hurt Serbia itself and only Serbia. In domestic policy, this card generates unrealistic hopes and expectations that the “Resurgent Russia” will be willing and able to help Serbia.

Poor results of one ideology's taught Russia a lesson to adopt a “no ideology” approach in international affairs. For instance, changes which happened in Georgia, Azerbaijan and Ukraine, and even Serbia are, for Russia, the result of a geopolitical struggle of the West to move closer to Russia's borders or, in a softer version, control of these states, and not a choice of value changes of these peoples in those countries.<sup>1</sup> Russia expects to find a mutually beneficial bilateral basis for cooperation and in this context has little understanding for choices which would be made based on value priorities or priorities which European integration imposes. Serbia's course towards European integration, rule of law, upholding human rights and free market reform, however, precisely mean the change in values which are also expressed both in domestic and foreign policy. Practical benefits from these changes are visible through examples of other neighboring countries in Eastern Europe and can be seen in Serbia's own experience since 2000, and they are more than obvious. These value changes, however, could easily come at odds with the “no ideology” Russian approach to politics and thereby put Serbia in the position of having to choose between the bad and the worse.

The President of the Russian Federation, Medvedev, also laid down that the, “fundament of our policy must be ideology, the center of which is a human being”.<sup>2</sup> There are but a few more eloquent statements of political orientation towards upholding human rights, rule of law and freedom in general. However, Russian performances in the fulfillment of this ideology so far testify that this sentence is more President Medvedev's policy orientation for the future, rather than the current state of affairs.

Geography, political orientations of all its neighbors as well as unpredictability of Russia's economy and its interests and international priorities do not leave Serbia an alternative in the political and economic turn towards Russia as an alternative to the EU. Challenges and frictions sparking between Russia and the West, pose additional and even more important question: what would be the price of Serbia's neutrality in this latent conflict?

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1) Sergej Kara – Murza, *Revolutions for Export (Революции на экспорт)* Eksmo Algoritm Knjiga, 2006

2) Address to the Federal Council of the Russian Federation, 5 November 2008. [www.kremlin.ru/text/appears/2008/11/208749.shtml](http://www.kremlin.ru/text/appears/2008/11/208749.shtml)





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