















The other option is the a pipeline system. Caspian states had existed previously as a part of a unified Soviet oil and gas industry. The transportation infrastructure reflected this fact, giving Russia a monopoly over the Caspian countries' access to foreign markets. Infrastructure was positioned on a "North-South" axis, directed towards Moscow, the former Soviet centre.

Another channel to transport resources from this area it is via Azerbaijan and Georgia to the Black Sea and the Mediterranean Sea via Turkey. In the 1990s, the U.S.-supported concept of multiple pipelines, that sought to prevent any actor from a monopoly over the export of the Caspian energy resources.

For the West the South Caucasus forms the hub of an evolving geostrategic and geoeconomic system that stretches from Europe to Central Asia and Afghanistan. It provides unique transit corridors for Caspian energy supplies and Central Asian commodities to the Euro-Atlantic community, and now a direct access for allied forces to bases and operational theaters in the Greater Middle East and Central Asia<sup>28</sup>.

As a strategically central region, the South Caucasus has been a focal point of Russian-US competition throughout the post-Soviet period. In addition, the region has been plagued by a number of major conflicts that have been exacerbated by the US-Russian competition<sup>29</sup>.

Russian politicians in the Yeltsin era vehemently denounced the notion of a direct east-west pipeline independent of their control as an unwarranted curtailment of their natural rights in the South Caucasus. They have repeatedly made it very clear that they seek to oppose the western orientation of Azerbaijan and Georgia. The Russian government pushed for the entirety of

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<sup>28</sup> "The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West", Edited by S. Frederick Starr & Svante E. Cornell, page 27, Central Asia-Caucasus Institute, Silk Road Studies Program; 2005; <http://www.silkroadstudies.org/new/inside/publications/BTC.pdf>.

<sup>29</sup> "The Transatlantic Partnership and Relations with Russia", Frances G. Burwell and Svante E. Cornell, page 93, 2012; Institute for Security & Development Policy; [http://www.isdp.eu/images/stories/isdp-main-pdf/2012\\_burwell-cornell\\_transatlantic-partnership.pdf](http://www.isdp.eu/images/stories/isdp-main-pdf/2012_burwell-cornell_transatlantic-partnership.pdf).

Azerbaijani and Kazakh oil production to be sent to markets via Russian networks.

Moscow would like to see Georgia and Azerbaijan cutting their military and security cooperation with the West and to build a North-South transportation corridor connecting Iran and Russia via the South Caucasus, at the expense of an East-West corridor<sup>30</sup>.

Georgia in particular has formed a target of Russian pressure. Russia responds 'adequately' to every move Georgia makes towards integration into western structures. Russia has been accused of creating problems on this route from the Caspian basin via Azerbaijan and Georgia to the Mediterranean. Since September 1999, the new Russian prime minister initiated a consistent policy of undermining Georgian independence, provoking different movements in the enclaves of Abkhazia and South Ossetia, and it resulted in the Russian-Georgian war in August 2008<sup>31</sup>. The reason was the geographical or, more properly, the geopolitical position of Georgia. Of the three states of the South Caucasus, Georgia's location is especially strategically vital since it is the only state with sea access and thus is key to control of the entire landlocked region of the Caucasus and Central Asia.

The most important project on the East-West corridor is the Baku-Tbilisi-Ceyhan pipeline, formal commissioned in May 2005 in Baku. The Russian government perceived the BTC pipeline to be 'against' Russian interests and opposed the project. The Russian opposition to BTC was taken so seriously by the Turkish government that, in order to reduce bilateral tensions, it agreed to the massive Blue

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<sup>30</sup> "The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West", Edited by S. Frederick Starr & Svante E. Cornell, page 27, Central Asia-Caucasus Institute, Silk Road Studies Program; 2005; <http://www.silkroadstudies.org/new/inside/publications/BTC.pdf>.

<sup>31</sup> "Russia's economic relations with Europe including energy security", Chairman: Silvana Malle, Discussion Leaders: Andrei Illarionov and Philip Hanson, page 6, European Conscience and Communism, Russia's Economic Relations with Europe; Centre for Research into Post-Communist Economies; <http://www.crce.org.uk/publications/colloquium%20webbook/2nd%20Part%20-Russia%27s%20economic%20relations....pdf>.



Stream gas pipeline to transport 16 bcm annually of Russian gas under the Black Sea to Turkey<sup>32</sup>.

## VI. European Union

Russia's foreign policy officials openly question the EU's values agenda and draw a distinction between Moscow's view of the international order - strong sovereign states cooperating within a multipolar world system - with what they present as the failed 'postmodernism' of the European project. The focus is thus on Russia as a sovereign great power and on its exclusion from the 'European project', if not from broader European civilisation<sup>33</sup>.

Russia resents the current European security architecture, dominated by the EU and NATO. In 2008, 'Foreign Policy Concept', the first major security document, was the first document to explicitly propose changing the existing European security architecture by creating a regional collective security and cooperation system, also rejecting a further expansion of NATO.

Russia's political elite perceives that the foreign policy influence of the EU is waning in the international arena. This is the result of the problems related to a common foreign and security policy and that the core member states, especially France and Germany, are moving away from a common foreign and security policy to seek their own bilateral solutions.

A leaked Russian Ministry of Foreign Affairs (MFA) document which appeared in 2010 emphasised the importance of using friendly countries, especially the French-German 'tandem' within the EU, to achieve progress in major security issues. Popular in the Russian press is the idea of a French-German-

<sup>32</sup> "The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West", Edited by S. Frederick Starr & Svante E. Cornell, page 115, Central Asia-Caucasus Institute, Silk Road Studies Program; 2005;  
<http://www.silkroadstudies.org/new/inside/publications/BTC.pdf>.

<sup>33</sup> "Study: The EU – Russia relations, The shared neighbourhood: an overview", page 6, European Parliament, Policy Department, March 2011;  
<http://www.europarl.europa.eu/activities/committees/studies.do?language=EN>.

Russian 'troika' pulling Europe along in place of a Commission incapable of acting according to strategic vision<sup>34</sup>.

In the past decade a kind of competition was seen to emerge between Moscow and Brussels putting forward different offers to the states in the region<sup>35</sup>. In the 2000s tensions evolved first and foremost around security issues, related to NATO enlargement. Today the disagreement seems to be competing trade integration schemes, namely the Customs Union (CU) and the Single Economic Space (SES) promoted by Moscow, on the one hand, and the Association Agreements and Deep and Comprehensive Free Trade Agreements offered by the EU, on the other.

The key drivers of the relationship at present are, for Brussels, securing binding Russian commitments on energy, trade and security, particularly through the new EU-Russia agreement to succeed the 1994 Partnership and Cooperation Agreement (PCA); and for Russia, securing Europe's contribution to the modernisation programme being promoted by former President Dmitrii Medvedev and a simplified visa regime with the prospect of introducing visa-free travel in the near future<sup>36</sup>.

Russia's growing economic power it is based on its hydro-carbon resources. Economically, due to its dependence on its exports of hydrocarbons, of which a considerable part is engineered for Europe we can say that Russia depends more on the EU than vice-versa. Because of the size of the European economy

<sup>34</sup> "Study: The EU – Russia relations, The shared neighbourhood: an overview", page 8, European Parliament, Policy Department, March 2011;  
<http://www.europarl.europa.eu/activities/committees/studies.do?language=EN>.

<sup>35</sup> "Russia's neighbourhood policy", by Andrei Zagorski, 14 February 2012, European Union Institute for Security Studies;  
<http://www.iss.europa.eu/publications/detail/article/russia-s-neighbourhood-policy/>.

<sup>36</sup> "Study: The EU – Russia relations, The shared neighbourhood: an overview", page 6, European Parliament, Policy Department, March 2011;  
<http://www.europarl.europa.eu/activities/committees/studies.do?language=EN>.

and because of the location and distance, Russia may seem stuck with Europe<sup>37</sup>.

Yet Europe's energy dependency on Russia, its fragmented energy market, and the absence of a common foreign policy have made the EU a weak partner for Russia and created an asymmetric bilateral relationship. European states such as France, Germany, and Italy have cultivated bilateral energy relations with Russia at the expense of a common energy strategy towards the continent's dependence on Russian gas, thereby undermining one of the EU's fundamental principles, the multilateral decision-making process.

European gas demand has been growing fast, and currently it is projected to resume its growth after the crisis. Countries like the UK, which currently are not using Russian gas, except very marginally, may well find themselves importing more gas from abroad as North Sea reserves dwindle, and this could quite possibly be from Russia.

Also, Russia represents an important emerging market which is of interest to foreign exporters. European countries in particular have interests in Russia to defend, especially in the oil sector and on the Russian stock market.

## VII. Future perspectives

Russia's main goal will be to maintain stability domestically while strengthening its position internationally. The debate stemming from the nineteenth-century about whether Russia is a European state with Asian colonies or a specific Eurasian state has now taken on a very concrete form, as a result of the muslim migration<sup>38</sup>.

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<sup>37</sup> "Russia's economic relations with Europe including energy security", Chairman: Silvana Malle, Discussion Leaders: Andrei Illarionov and Philip Hanson, page 1, European Conscience and Communism, Russia's Economic Relations with Europe; Centre for Research into Post-Comunist Economies;

<http://www.crce.org.uk/publications/colloquium%20webbook/2nd%20Part%20->

[Russia%27s%20economic%20relations...pdf](http://www.crce.org.uk/publications/colloquium%20webbook/2nd%20Part%20-Russia%27s%20economic%20relations...pdf).

<sup>38</sup> "Russia in a 10–20 Year Perspective", Anna Jonsson, Fredrik Erixon and Marlène Laruelle, page 74, 78, October 2009; Institute for Security & Development Policy;

Russia's Muslim question is underlined by the rapidly changing demographic shifts in the country. While Slavic Russian population is in rapid decline, the Muslims of Russia are actually projected to increase in numbers. Russia's Muslim population is diversified both in terms of religious belief and practice, and also in how it relates to the federal center in Moscow.

The growing xenophobia results in a rise of Islamophobia, despite that this phenomenon has been historically very rare in Russia. The state's endorsement of Orthodoxy as an element of the national identity exacerbates the critique put forward by Muslims concerning the disrespect of state secularism.

The future of Russian domestic politics will be partly determined by the Kremlin's ability to secure a civic identity to its citizens, which means that the current policy to promote ambiguous nationalist rhetoric will have to be halted. Using the instrument of nationalist mobilization may be a short-term approach to avoid any political challenge, but would in a more long-term perspective form a threat to internal stability<sup>39</sup>.

In the external domain, Russia's main challenges lie in its neighboring regions, especially the instability of Central Asian countries and the continued efforts on the part of the western CIS countries to break free from Russia's sphere of influence.

Unlike the Customs Union/SES and the CIS free trade agreement, the concept of the Eurasian Union remains vague<sup>40</sup> and it is essentially limited to further developing, although it seems that political integration is excluded from Moscow's roadmap. The very vision of a Eurasian Union is based on the expectation that the attractiveness of

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[http://www.isdp.eu/images/stories/isdp-main-pdf/2009\\_jonsson\\_russia-in-a-10-20-year-perspective.pdf](http://www.isdp.eu/images/stories/isdp-main-pdf/2009_jonsson_russia-in-a-10-20-year-perspective.pdf).

<sup>39</sup> "Russia in a 10–20 Year Perspective", Anna Jonsson, Fredrik Erixon and Marlène Laruelle, page 8, October 2009; Institute for Security & Development Policy;

[http://www.isdp.eu/images/stories/isdp-main-pdf/2009\\_jonsson\\_russia-in-a-10-20-year-perspective.pdf](http://www.isdp.eu/images/stories/isdp-main-pdf/2009_jonsson_russia-in-a-10-20-year-perspective.pdf).

<sup>40</sup> "Russia's neighbourhood policy", by Andrei Zagorski, 14 February 2012, European Union Institute for Security Studies;

<http://www.iss.europa.eu/publications/detail/article/russias-neighbourhood-policy/>.

membership of the SES will grow over time. It is hoped that other states, which are not yet part of the project and have limited their engagement to participation in the CIS free trade agreement, will seek accession to the SES. For Russia, which sought to consolidate its influence in the post-Soviet space, the project is of predominantly political rather than economic value.

Few signs today point to Russia altering its use of energy as a political tool, which materialized with Putin's ascendancy to power. The Russian energy-strategy under Putin has essentially consisted of three components: reasserting state-control over the energy sector by dismantling private companies; controlling CIS gas production for domestic consumption and/or re-exports to Europe; dominating the European market by crowding out other producers, controlling downstream delivery, while maximizing all export outlets<sup>41</sup>.

Russia is still an emerging market. It is a populous country and despite its natural resources or perhaps because of them, the size of the economy is smaller than the large European economies, such as France and Germany. Russia experienced a spectacular economic boom in the 2000s. Increasing oil and gas prices enabled Russia to follow an export-led economic growth model, with increasing revenues coming through the balance of trade. But international oil price shocks have highlighted the inherent weaknesses of the Russian economy.

The Russian government did not expect to be hurt by the market crash in 2008. Russia's GDP shrank by 8.9 percent in 2009. The Russian Central Bank spent a third of its reserves of \$600 billion in a costly attempt to prevent the fall of the ruble.

The Russian economy remains exposed to international slowdown and unstable energy and commodity prices. A fall in oil prices by \$10 brings about a one percentage fall in budget revenues. A new approach to economic development and growth is

<sup>41</sup> "Gazprom's Monopoly and Nabucco's Potentials: Strategic Decisions for Europe", Nicklas Norling, page 11, SILK ROAD PAPER, November 2007, Central Asia-Caucasus Institute, Silk Road Studies Program; <http://www.silkroadstudies.org/new/docs/Silkroadpapers/2007/0711Nabucco.pdf>.

unfolding, where the scope for private undertaking appears to be broadening and economic diversification away from energy is considered to be necessary<sup>42</sup>. The role of the state in these developments, however, remains paramount and changes so far have followed a top-down approach.

Russia is highly exposed to fluctuations in the global economy and particularly vulnerable to the developments in one single commodity. One flaw of the energy industry is its structure, which is dominated by government-backed monopolies and characterised by discrimination against private businesses, small domestic operators and international players<sup>43</sup>.

Another serious problem is the deeply dysfunctional way in which the energy industry is governed. The absence of public scrutiny allows for uncontrolled redistribution of rents among the actors involved in the networks around the political leadership. Also a lot of its production infrastructure is Soviet-era; it is capital-intensive and aging. So the question regarding Russia's role as an energy power is not about the present; the real question is what is going to happen to Russia's energy sector in the future.

A debate on the Russian model of development has recently been instigated<sup>44</sup>. This debate has created the conditions for a number of reforms that should help to

<sup>42</sup> "Two Decades of Post-Communist Change in Europe and the CIS: What Has Been Achieved? What Is Still To Be Done?", CRCE Colloquium – September 2011, page 3, The Russian Economy since Communism: The Long View; Chairman: Duncan Allan, Discussion Leaders: Silvana Malle & Philip Hanson; Centre for Research into Post-Communist Economies;

<http://www.crce.org.uk/publications/colloquium2011/part1.pdf>.

<sup>43</sup> "Russian elections and the energy sector – no changes ahead", November 14, 2011, Mikhail Krutikhin European Union, Institute for Security Studies;

<http://www.iss.europa.eu/publications/detail/article/russia-n-elections-and-the-energy-sector-no-changes-ahead/>.

<sup>44</sup> "Two Decades of Post-Communist Change in Europe and the CIS: What Has Been Achieved? What Is Still To Be Done?" CRCE Colloquium – September 2011, page 2, The Russian Economy since Communism: The Long View; Chairman: Duncan Allan, Discussion Leaders: Silvana Malle & Philip Hanson; Centre for Research into Post-Communist Economies; <http://www.crce.org.uk/publications/colloquium2011/part1.pdf>.

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modernise and diversify the Russian economy; whilst at the same time stimulating an innovation drive. Notably, however, neither the manifesto ('Russia Forward'), nor successive Presidential public speeches, point clearly to the need to improve or upgrade existing institutions. The theory underlying the modernisation drive is that economic growth must come before democracy or, to put it another way, that democracy inevitably follows economic growth.