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Russia's relations with the United States and some European countries deteriorated throughout 2006 and the first half of 2007, in the midst of increasingly assertive, even hostile, rhetoric from the Russian leadership, including President Vladimir Putin. Traditional sources of tension, including Russia's retreat from democracy and Russian-US rivalry in the countries of the former Soviet bloc, were reinforced by US plans to deploy elements of missile defence in central Europe, NATO's plans to consider membership for Georgia and Ukraine, disagreements over the future status of Kosovo, deadlock in EU-Russian talks, and Russian-UK tensions over the murder in London, with radioactive polonium, of Russian dissident Alexander Litvinenko. The year also saw diplomatic confrontations, backed by economic sanctions, between Russia and two small neighbouring states, Georgia and Estonia – the latter a member of the EU and NATO. And in a race to outmanoeuvre the West, which is seeking ways to diversify its energy imports away from reliance on Russian oil and gas, Russia moved to secure greater control over transport to Europe of Central Asian natural gas through an agreement with Kazakhstan and Turkmenistan.

Increasing Russian resentment towards US and European policy, and its new international ambitions, were summed up in an uncharacteristically strongly worded statement by Putin at a security conference in Munich. He accused the United States of attempting to dominate other nations, to ignore international law and to interfere in the domestic affairs of other states under the slogan of democracy promotion. The confrontational tone of Russian diplomacy was a direct result of Russia's new wealth from high oil and natural gas prices. As the opportunity for external influence over Russian policy declined, Moscow adopted a more assertive foreign policy centred on its ambition to be a major

global power. Russia's first G8 chairmanship in 2006, viewed by Moscow as a major diplomatic success, helped to consolidate this image domestically and, to some extent, internationally.

Tensions with the West were partly a by-product of domestic Russian politics. The last year was marked by growing tensions over presidential elections scheduled for March 2008, which are due to mark the end of Putin's second term. Under the constitution, he must step down at that point and a new leader elected in a direct nationwide vote. Despite this clear constitutional position and Putin's repeated assertions that he intends to step down, there is no certainty about whether, and how, the change will take place. However, one thing is clear: the presidential elections will not be free and fair, given that the Kremlin has consolidated control over the media, imposed constraints on the activities of opposition parties, changed the electoral laws to benefit the party in power, and shown willingness to use administrative resources to pressure the opposition. The succession could still be competitive (between two candidates from the ruling elite) or merely symbolic (if Putin nominates a single candidate as his successor). In parliamentary elections due to take place in December 2007, Kremlin-controlled parties will likely prevail. However, marginalised opposition groups have a better chance to present a united front under a new proportional voting system. The forthcoming elections have provoked new tensions both within the Russian ruling elite and in relations with Western democracies, seen by the elite as trying to influence Russia's murky political process.

Leadership succession

The succession issue looms over Russia's **political, economic and security** agendas. If Putin, while still popular, young, healthy and with more influence than anyone else in the Russian Federation, voluntarily gives up power in accordance with the constitution, it will be a first. Russian leaders never relinquished power voluntarily during the Soviet and post-Soviet periods, or under the tsars. The last Soviet leader, Mikhail Gorbachev, was forced out when Boris Yeltsin made his job redundant by dissolving the Soviet Union. Yeltsin himself had to resign the presidency when his health deteriorated, his popularity plummeted and he lost his grip on power. In earlier times, Soviet Premier Nikita Khrushchev was removed from power by a Politburo-orchestrated conspiracy after he had launched unpopular reforms and lost the respect of and power over Communist Party apparatchiks. Several tsars were removed from power by force – Paul I and Peter III were murdered, Alexander II was killed and Nicholas II was ousted by the 1918 revolution.

There has been much open support for a third Putin term, or extension of his current one. In the first part of 2007 signatures began to be collected in several regions to support amending the constitution to allow him to stay. The speaker

of the Federation Council wrote to many regional legislatures to explore attitudes in their regions towards such a development. The mechanics are simple: post-Soviet leaders in Belarus, Kazakhstan, Uzbekistan and Tajikistan have already held referendums to extend their constitutional terms. If Putin were to take this path, he would likely win a referendum with an overwhelming majority. According to opinion polls, 35% of Russians would like to see Putin given the presidency for life.

The Russian political elite and bureaucracy, who have greatly benefited from oil and gas revenues over the past few years, are not keen to see Putin depart. They have a lot to lose. Most top Russian officials are on the boards of powerful and rich state-controlled companies, making them direct stakeholders in the 'petroleum state' economy. In the regions, officials and members of parliaments fear that a change of leadership could put their jobs on the line. Another powerful group of stakeholders – former security officials whom Putin promoted to the top of the political and business community – have the most to lose if the succession goes wrong. According to recent studies, over 70% of top Russian civil servants had links to the KGB or FSB at some point in their careers and over 35% served on the agencies' books. They may be stirring up perceptions of growing threats from the West, including a Western conspiracy to exert influence over the elections. Putin has made strong statements about foreign-funded non-governmental organisations and about US State Department reports, branding them as attempts to meddle in Russian internal affairs. He also claimed that some foreign leaders had encouraged him to stay.

In spite of all this pressure, it appeared in mid 2007 that Putin was determined to follow the constitution and leave office in March 2008, at the age of 55. It would be ironic if the leader who encouraged what the West sees as a Russian retreat from democracy were to set such a precedent.

State-managed pluralism

If Putin does step down, it is unclear whether he will propose a candidate for confirmation by the electorate, or seek a competitive vote. There were signs that he could take the latter course – albeit with candidates that the Kremlin would endorse. The parliamentary polls scheduled for December 2007 will feature competition between two Kremlin-created parties, both loyal to Putin: the centre-right United Russia, which dominates the Kremlin-controlled and largely powerless parliament (Duma), and the centre-left Just Russia (or Russia of Justice). Their creation in 2006 represented a kind of political engineering project based on Putin's desire that Russia have a two-party system.

This new alignment introduced an arguably healthy tension within the Russian political elite. For the first time, Kremlin loyalists, who used to be guaranteed seats in parliament, were forced to make choices in support of – albeit

marginally – different political agendas. This choice did not mean that affiliation was driven by belief rather than opportunism. However, these two parties provide an embryonic system of checks and balances. Other parties are inherently weak, and were further marginalised by a recent significant decline in support for the traditional left – the communists – and continuing single-digit support for democratic and liberal parties. It appeared that support for nationalist parties – such as the Motherland Party, which unexpectedly won 9% of the vote in the 2003 elections – was captured by the mainstream pro-Kremlin parties which support Putin's tougher line on the West and neighbours like Estonia and Georgia, as well as revival of patriotic symbols like the old Soviet anthem and Soviet-era parades.

The presidential poll could therefore be between candidates hand-picked by Putin and backed by different parts of the Kremlin administration. Two potential candidates were promoted to deputy prime minister in 2005 and were given time on state-controlled media as well as tasks to test their skills and introduce them to the electorate. They were endorsed by some officials, but Putin was careful never to publicly declare them as candidates for the succession.

The first was Dmitry Medvedev, a 41-year-old lawyer from Putin's native St Petersburg. Before joining the Putin administration in 2000 first as deputy head and then head of administration, he taught at St Petersburg State University. Medvedev is very close to Putin and has been a trusted ally not only in the administration but also as chairman of Gazprom, the state-run natural gas company – a post he held since 2002. In 2005 Medvedev was made deputy prime minister and was given responsibility over so-called 'national projects'. These programmes in housing, health care, education, agriculture and other areas are funded from extra oil and gas revenues to answer public criticism that windfalls from high energy prices fail to benefit ordinary Russians. Putin saw these projects as a good opportunity for Medvedev, who was not well known around the country, to get public exposure. However, ineffective government, corruption and regional bureaucracy made it impossible to achieve quick results and the role may prove to be an obstacle rather than a platform for Medvedev's presidential ambitions. Medvedev, who lacks charisma, is believed to share Putin's views about the strong state, but also supports more liberal economic reforms and might support more cooperative relations with the West and a less aggressive policy in Eurasia. With strong support from the Kremlin, praise for his work on national projects, and large amounts of time on state television, his approval rating in early May was 25–29%, a significant improvement on his single-digit rating last year.

The second potential successor was Sergei Ivanov. Like Putin, he came from a security-service background, having served in the KGB and its successor the FSB from 1981 to 1998, including many years in the Foreign Intelligence Service. He had experience of dealing with foreigners, and excellent English.

From 1998 Ivanov was secretary of the Security Council, and from 2001–2007 he was defence minister. A much more public person who is comfortable making speeches, Ivanov had a stronger track record in foreign policy, where he was a strong supporter of Russian national interests as defined by the current Kremlin elite. He used strong rhetoric against Georgia, at one point threatening to mount a preventive attack against Russia's South Caucasus neighbour for allegedly aiding Chechen separatist forces. He was part of Russia's campaign to reassert its influence in the CIS and to oppose the United States on a number of issues, from Kosovo to arms control to US deployments in Central Asia after 11 September. He was the first to advocate that Russia should suspend implementation of Russia's obligations under the 1999 Adapted Conventional Forces in Europe (CFE) Treaty – which was ratified by the Russian Parliament but still has not entered into force since most of the other CFE signatories have failed to ratify it. However, his track record in the ministry of defence was mixed at best, marked by an inability to form a strong reform-minded team. Like Medvedev, Ivanov was given the opportunity to prove himself and to gain popularity – his portfolio includes innovation projects designed to save the Russian science sector. Yet his ability to understand and speak on anything from nanotechnology to space projects is unlikely to win him as many votes as his continuing hardline stance on foreign-policy issues, including the clash with Estonia over removal of a war memorial and graves of Russian war dead from the centre of Tallinn. Although Ivanov is seen as a hardliner, he is also a pragmatist: given his experience in working with the United States and Europe, he would seem unlikely to revive the Cold War.

In early May 2007 a Levada Center poll indicated that if a second-round presidential run-off were held then between Ivanov and Medvedev, the former would get 55% and the latter 45% – an exact reversal of the December 2006 position. The same poll showed that if Putin himself were to take part Ivanov and Medvedev would each get less than 5%. And 41% of respondents said they would vote for whatever candidate Putin proposed. Putin therefore still had room for manoeuvre and he may still be considering other candidates. An announcement was unlikely before the parliamentary elections.

In the meantime, uncertainty over which of the two pro-presidential parties will prevail in various regions in the parliamentary elections, and who will be Putin's successor, paralysed the bureaucracy, which was not accustomed even to Potemkin-style pluralism. Senior bureaucrats preferred to keep their options open, given how much is at stake for them: almost all key officials in the presidential administration, and even some ministers, are board members of state-controlled companies. A similar overlap between the state and big business is also common in the regions.

Another important question is what Putin will do when and if he steps down in 2008. He has made no secret of his intention to retain influence over deci-

sion-making, but it is unclear how he can do this. Given the overall weakness of political institutions, undermined by Putin's drive for centralisation, there is no institutional post that would allow Putin to remain a powerful player. He has dismissed speculation that he would join Gazprom, and it seems unlikely that Putin could assume a more international role like that of former US Presidents Jimmy Carter and Bill Clinton, given his reputation in the West as the man who turned Russia away from democracy. Opinion polls in March 2007 showed that 57% of Russians believed that after 2008 power would remain in the hands of Putin's inner circle, wielding influence through informal levers. But if his successor were to implement real reforms, moving the country closer to the rule of law, such informal power could not be sustained.

Growing tensions with the West

The new assertiveness of Russian foreign policy was linked to Moscow's perception that it has secured its rightful place among the world's great powers. Backed by energy-derived wealth and determined to safeguard its independence and sovereignty, Russia was keen to stress that the West should not take its cooperation for granted. On the contrary, Russian and Western interests have diverged, with the list of disagreements growing longer in 2006–07. The tone of Russian diplomacy changed to be not merely assertive, but increasingly inclined to reject and resent Western messages. Moscow decided that being critical of US policy could win it more friends in the world and more support at home than could any attempt to soften differences and to save whatever was left of US–Russian and EU–Russian strategic partnerships. By early 2007 Russian relations with the West had hit their lowest point since the collapse of the Soviet Union.

In February 2007 Putin strongly criticised American policy at the Munich security conference, saying the United States had 'overstepped its national borders in every way', and accusing it of imposing its policies on other nations and of making excessive use of military force. Putin warned this was extremely dangerous: no one felt safe because no one felt that international law could protect them. Those who lectured Russia about democracy 'do not want to learn themselves'. The model of a US-dominated unipolar world was 'unacceptable' and could not be a moral foundation for modern civilisation. Putin claimed that NATO had broken its promise, given as part of the security guarantees at the time of German unification, not to expand the alliance to the east. Europe was trying to 'impose new dividing lines and walls' on Russia.

Many of the claims were not new, but this was the first time the president had delivered them so bluntly, sparking speculation about the dawn of a new Cold War. Putin continued the attack in April in his annual address to the Duma, when he announced that Russia would suspend its obligations under the 1999 adapted CFE Treaty until the United States and European states ratified it. They refused

to do so until Russia pulls its forces out of Georgia and Moldova as part of commitments made by Yeltsin. Russia claimed these commitments were not binding, while the West insisted that they were part of the compromise reached among all the parties to permit agreement on the terms of the adapted CFE. In May 2007 Putin went even further; addressing the Victory Day parade in Red Square, he appeared to compare America with the Third Reich: 'in our time, these threats are not diminishing ... In these new threats, as during the time of the Third Reich, are the same contempt for human life and the claims of exceptionality and diktat in the world.' The Kremlin later denied that Putin was referring to the United States.

Areas of disagreement

Putin's anti-Western rhetoric was backed by an even stronger campaign of criticism to which ordinary Russians were regularly exposed through the state-controlled media. At the centre of Russian concerns were a number of key issues.

First, there was growing resentment of foreign criticism of domestic developments, particularly the lack of democracy. Many Russians saw such criticism as an attempt to interfere in their domestic affairs or to belittle Russia's role in the world. Kremlin ideologues have branded Russia's domestic system a 'sovereign democracy', underlining their determination to keep external influence over domestic development to a minimum. The Kremlin appeared concerned that the West could try to influence the outcome of the presidential elections and to embolden the opposition to challenge the authorities. Putin accused the West of using non-governmental organisations as vehicles of foreign influence. Democratic opposition parties, on the contrary, blamed the West for offering too little public criticism of Putin's regime and failing to raise the issue at the July 2006 G8 summit in St Petersburg. As the elections approach, domestic political events, including bans on demonstrations and potential election irregularities, are bound to get more attention in the West, threatening to deepen mutual suspicion even further. In an attempt to silence criticism, the government pressed the Organisation for Security and Cooperation in Europe (OSCE) to shift its focus away from election monitoring and human rights, threatening that Russia would withdraw from the OSCE if this did not occur.

A second point of resentment was the growing perception in Russia that the United States and NATO were implementing a new containment strategy. In Moscow's eyes, the evidence for this was discussion of NATO membership for Ukraine and Georgia, the US decision to deploy elements of ballistic-missile defence to Poland and the Czech Republic, and the failure of the United States and Western Europe to ratify the Adapted CFE Treaty. This perception was rooted in Cold War thinking and in a lack of trust.

US plans for deployment of around a dozen missile interceptors in Poland and a radar in the Czech Republic were particularly badly received. Despite US attempts to reassure Moscow that these systems would be defensive – aimed only at neutralising Iranian missile launches – and could not negate the Russian nuclear deterrent, Moscow continued to question US motives and long-term intentions. Russia believed that the American plans would lead to a new arms race in which Russia would have to invest in modernising and maintaining its own nuclear and missile forces. On 30 May Russia tested a new missile, the RS-24 ICBM, capable of carrying multiple, independently guided re-entry vehicles (MIRVs). This test was advertised by the Kremlin as a response to US missile defence. Washington termed ‘ludicrous’ Moscow’s assertion that its proposed system could threaten Russian nuclear deterrence, which was still backed by over 500 ICBMs (some MIRVed) and many SLBMs. In a clearly escalatory move, Putin suggested that Moscow would target its missiles on Europe, or base them in the Kaliningrad enclave in eastern Europe, should the US system be deployed. This return to Cold War rhetoric raised new concerns in the West. However, Putin acted to cool down tensions during the G8 summit in Heiligendamm by proposing that, instead of deploying its systems in Central Europe, the United States should use the Gaballa radar station, located in Azerbaijan and leased by Russia, to monitor Iranian missile tests. Washington’s reaction was to express cautious interest, though the proposal seemed unlikely to be accepted.

Moscow views any decision to establish a permanent military base in Central Europe as a violation of assurances given to Russia under the 1997 NATO–Russia Founding Act, and at the time of NATO enlargement in 1999, that no military bases would be placed in new member states. The missile defence deployment was seen, therefore, as a first step towards more extensive deployments in future. Moscow also questioned why the United States wanted to deploy the systems via bilateral agreements instead of under the NATO umbrella. The NATO–Russia Council has for years been working on cooperation on theatre missile defence and has advanced to discussions on information and technology sharing. At the same time, Russia was sceptical of US proposals for US–Russian cooperation on missile defence in Europe, dismissing them as symbolic and not mitigating Russian concerns. Chief of General Staff General Yuri Baluyevsky said Russia would not cooperate in developing a system that was directed against itself. Even those in Moscow who agreed that US missile-defence plans did not challenge the Russian nuclear deterrent still opposed them on the grounds that if the United States felt less vulnerable against attack, it would be even more prone to use force in resolving differences with states like Iran. Russians were worried by Congressional testimony from US Secretary of Defense Robert Gates in which he included Russia in the list of potential threats to the United States.

US support for Ukraine and Georgia joining NATO was the third bone of contention. This was linked to a number of Russian insecurities. For example, there was growing speculation in Moscow that elements of US national missile defence could also be deployed in the South Caucasus, even closer to Russia's borders. Moreover, as NATO approached Russia's borders to the south as well as to the west, there was a feeling of encirclement. Russia believed NATO membership for Georgia, with which Moscow has particularly difficult relations, could further complicate NATO–Russia cooperation, which was already stagnating under the burden of growing mistrust. It was also worried about escalation of frozen separatist conflicts in Georgia. NATO has never admitted a country with two internal unresolved conflicts, and even some NATO members feared that Georgian membership could one day lead the Alliance into direct confrontation with Moscow. Georgia in turn accused Russia of supporting separatist regimes, and claimed that making conflict resolution a precondition of membership could give Russia a permanent veto over Georgian integration into the Alliance. Concerns over Ukrainian membership included the future of the Russian Black Sea fleet and the unresolved border dispute in the Kerch Strait. Despite Russia's vocal opposition, however, it appeared that Georgia was moving nearer to membership and might be granted a Membership Action Plan (MAP) at the 2008 NATO summit. Although some Western European states remained sceptical, the Georgian bid was strongly supported by newer NATO members and the US Senate, which on 22 March 2007 approved a special bill authorising funding and expressing support for Georgian and Ukrainian membership.

Further complicating relations was geopolitical rivalry between Russia and the United States (and increasingly Europe) in post-Soviet Eurasia. This was particularly apparent in the energy sector, where Europe and the United States sought ways to bypass Russia in the transport of Caspian and Central Asian oil and gas to Europe. Following the 2006 interruption in gas supplies to Europe as a result of Russia's dispute with Ukraine, officially over pricing but believed to be politically motivated, Europe was concerned about energy security and dependence on Russia for its growing demand for hydrocarbons. In 2007 new concerns emerged when Russia interrupted supplies via Belarus in another price dispute and also stopped supplies of oil to a Lithuanian refinery, allegedly due to an accident with a pipeline. Many European governments, especially in Central European states overwhelmingly dependent on imports from Russia, have been exploring projects which could transport oil from Kazakhstan via the South Caucasus and the Black Sea to Ukraine and onwards to Poland and Western Europe. Another project, a trans-Caspian gas pipeline from Turkmenistan, was actively promoted by the US administration following the sudden death of Turkmen leader Saparmurat Niyazov in December 2006. This would connect

with the proposed Nabucco pipeline, planned to transport natural gas from Turkey to Austria via Bulgaria, Romania and Hungary.

However, Russia moved to counter these efforts. Moscow proposed an alternative to Nabucco: extending the Russian Blue Stream pipeline from Turkey and making Hungary a hub for Russian gas distribution. In March 2007 Putin attended the **signing in Greece** by Russian, Bulgarian and Greek partners of an agreement for the construction of the long-awaited oil pipeline connecting the Bulgarian Black Sea port of Burgas with the Greek port of Alexandroupolis in the northeastern Aegean. It was expected to transport 35m tonnes of crude oil per year with the possibility of increasing output to 50m tonnes. In May Putin, Kazakh President Nursultan Nazarbayev and the new Turkmen leader Gurbanguly Berdymukhammedov signed an agreement committing most Kazakh oil and Turkmen gas to be sent to European markets via Russia. The three leaders said they had instructed their respective governments to proceed with the construction of a new export pipeline to Russia along the Caspian Sea coast. The declaration said a final agreement on the Caspian shore gas pipeline would be signed by 1 September and that its implementation would begin in the second half of 2008. The summit was held at the same time as a meeting in Krakow, Poland, attended by the leaders of Ukraine, Azerbaijan and Georgia, at which the Kazakh leader had been expected to agree to bypass Russia. These events left US and EU policy on Caspian energy in ruins.

The past year saw aggressive moves by Russian state-controlled companies to limit Western control over the oil and gas sector. The main targets were two production-sharing agreements from the early 1990s, Sakhalin-1 and Sakhalin-2, under which consortia comprising only foreign companies were granted rights to extract oil and gas in Sakhalin. Gazprom had its eye on Sakhalin development, particularly liquefied natural gas infrastructure, and in 2006 moved to take a controlling stake in the Sakhalin-2 consortium. Under pressure from government inquiries over environmental violations and cost overruns, stakeholders in Sakhalin-2 were compelled to surrender control. On 18 April Gazprom completed the purchase of a controlling share in Sakhalin-2, buying half the stakes owned by Royal Dutch Shell, Mitsui and Mitsubishi for \$7.45 billion. The status of Sakhalin-1 remained unchanged. Gazprom's next target could be the lucrative Kovykta gas field, where BP-TNK, a joint venture half-owned by BP of the United Kingdom, holds the licence but has so far been prevented from developing infrastructure for shipping gas to China.

At the same time, Russia continued to pursue its so-called 'reciprocity policy', under which it granted Western European companies access to some Russian oil and gas production assets if Gazprom was given shares in gas distribution in the companies' home countries. An agreement signed in November 2006 between ENI and Gazprom promised the Italian company access to Russian gas explora-

tion and production in exchange for investment opportunities in the consumer side of the natural gas business in Europe. Russia was keen to establish similar arrangements with other European companies – Gazprom already has interests in 16 out of 27 EU states – but some EU states remained uneasy about letting it acquire a stake in distribution. These issues will remain central to EU–Russian relations in the years to come as Europe’s dependence on Russia for oil and gas grows.

Although Europe and Russia are becoming more interdependent in trade and investment in the energy sector and elsewhere, EU–Russian relations reached a low point in 2006–07. Following a Russian ban on the import of Polish meat on the grounds that some meat re-exported by Poland from third countries into Russia did not meet Russian sanitary norms, Poland vetoed the opening of EU–Russian negotiations on a new Strategic Treaty to replace the Partnership and Cooperation Agreement due to expire in December 2007. Attempts by the Finnish presidency in December and the German presidency in May failed to resolve the Polish–Russian dispute, and negotiations remained blocked. The EU–Russia Energy Dialogue also made no progress as Russia refused to ratify the EU Energy Charter.

In May 2007 the Estonian government’s decision to move the Russian war memorial and Second World War graves from the centre of Tallinn to a military cemetery sparked riots among Estonia’s Russian population and provoked a major reaction from Russia, which called for the resignation of the Estonian government. Moscow initiated limited economic sanctions, allowed demonstrators to blockade the Estonian Embassy in Moscow for several days, and allegedly orchestrated cyber-attacks against the computer systems of key Estonian government agencies, banks and media. This pressure met a slow but firm response from the EU, which backed Estonia and, in a show of solidarity which infuriated Moscow, said the Estonian problem was an EU problem. Russia accused Estonia of attempting to rewrite history and of disrespect for its war dead. With tension mounting between Russia and Central European states, the EU is unlikely to develop a constructive and productive dialogue with Russia in the near future. Even if negotiations on the new treaty are allowed to begin, it is hard to see how these could be completed or a treaty ratified by all 27 parliaments. EU–Russian relations will therefore be confined to low-key dialogue and small ad hoc cooperation programmes, hardly amounting to the ambitious strategic partnership that was previously hoped for. New leaders in France and the UK – Nicolas Sarkozy and Gordon Brown – are likely to take a more critical stance towards Russia and to embrace EU solidarity, taking into account the concerns of Russia’s neighbours in Central and Eastern Europe.

Another point of disagreement between Russia and the West was the future of Kosovo. Washington and Brussels wanted Kosovo to transition towards *de jure*

independence from Serbia within the framework of the plan developed by UN Special Envoy and former President of Finland Martti Ahtisaari. Russia opposed the Ahtisaari plan, which was rejected by Serbia, advocating instead continuation of negotiations between Belgrade and Pristina until the two sides reached a mutually acceptable compromise. Neither Washington nor Brussels believed that such a compromise was possible. They wished to grant Kosovo independent status before, as they feared, the region plunged into another round of violence. Russia made it clear that it was prepared to veto any resolution in the UN Security Council which followed the logic of the Ahtisaari plan. Furthermore, Russia initiated a special Security Council fact-finding mission to Kosovo in order to assess the implementation of UNSC Resolution 1244 of June 1999. This obligated the Kosovar authorities to respect the Serbian minority and to create conditions for the return of Serbian refugees. The mission discovered that many of these obligations had not been implemented and that Serbs had been leaving Kosovo over the past six years. Russia argued that any solution imposed on Serbia would not be sustainable. It believed that separation of part of a sovereign state's territory against its will would create a dangerous precedent and would violate the principle – a Kremlin obsession – of strictly upholding norms of international law where sovereignty was at stake. Russia's unwavering opposition to granting Kosovo 'supervised independence' remained intact even after pressure for a compromise at the G8 summit in Heiligendamm. Russia rejected a proposal by Sarkozy to delay the decision on status for six months to leave room for Serbia and Kosovo to negotiate further. Although Moscow favoured further negotiation, it wanted no deadlines to be imposed on Serbia.

The Balkans remained an emotional issue for Russia. Many Russians criticised Moscow's cooperation with NATO towards the end of the 1999 bombing campaign, and the presence of Russian peacekeepers during the mass exodus of Serbs from Kosovo and destruction of Orthodox churches. Although Putin withdrew Russian peacekeepers from Kosovo, there remained a perception of Russian complicity in anti-Serbian and anti-Orthodox policies. Moscow hinted that it considered Kosovo's potential independence as a precedent for unrecognised separatist states in Eurasia – Abkhazia, South Ossetia (both part of Georgia) and Transdniestria (part of Moldova) – which it backed. Although the United States and Europe rejected the parallel, arguing that each conflict should be considered on its own merits, Kosovo's independence would be likely to be viewed as a precedent in the Caucasus and elsewhere. If Moscow felt compelled to recognise these separatist entities in response to unilateral recognition of Kosovo by the West, neither Georgia nor Moldova, nor the international community, would accept such recognition. This would further complicate the process of conflict resolution and worsen relations between Russia and the West, as well as between Russia and some of its neighbours.

Despite the long list of disagreements and increasingly strong rhetoric in US–Russian relations, both sides dismissed speculation about a crisis in bilateral relations, emphasising that they continued to cooperate on a number of important issues, particularly Iran’s proliferation challenge. Indeed, US–Russian cooperation on Iran, which over the years had been clouded by disagreement and mistrust, developed more smoothly in 2006–07. Following initial disagreement over referring the Iranian dossier to the Security Council, imposing sanctions on Iran and adopting a resolution under Article 7 of the UN Charter – all originally opposed by Moscow – Russia finally supported all three resolutions on Iran adopted since July 2006. While UNSCR 1696 of 31 July 2006 was the most difficult to negotiate, UNSCR 1747, adopted on 24 March 2007, took just weeks to finalise and created almost no tension between the United States and Russia, despite coming in the immediate aftermath of Putin’s Munich speech. Moscow was increasingly irritated that Iran was taking its support for granted and did not reciprocate it. At the end of 2006 Iran criticised Russia for failing to meet its obligations in the construction of the nuclear reactor at Bushehr, and even briefly suspended payment to the Russian company undertaking the work. The Russian manoeuvre at the Security Council was in part intended to compel Tehran to pay. Two days after UNSCR 1747 was passed, Iran made a payment towards the Bushehr costs. However, by June 2007 Iran again owed Moscow over \$105m for work in the preceding five months. Nonetheless Moscow expected to complete construction of the power plant, which has been marred by long delays. Moscow also used its backing for UNSCR 1747 to secure US support for its plans for developing an international centre for reprocessing nuclear fuel. The aim of such a centre would be to supply fuel to countries which could be seen as a proliferation threat, but wanted to develop nuclear power for peaceful purposes. Given high oil and gas prices and growing concerns over energy security, demand for civilian nuclear energy has been growing in many parts of the world and Moscow could earn billions of dollars from such a facility. However, Russia has to first complete negotiations with other powers on the terms under which such a scheme could work. Moscow thus refused to supply fuel for the Iranian reactor, hoping instead to negotiate a comprehensive agreement for Iran to acquire fuel from the international reprocessing centre.

Russian support for UNSCR 1747 may have been purely tactical. It remained unclear whether Moscow was committed to implementing its provisions in both letter and spirit. In April 2007, just over a week after the resolution was passed, an Iranian general on the list of officials whose international travel should have been restricted appeared in Moscow, apparently by official invitation from a government ministry. Tehran argued that the visit showed that UN sanctions could not be enforced. Another concern involved continuing Russian weapons sales to Iran. In January 2007 Defence Minister Ivanov acknowledged that Russia had

sold Iran *Tor 1* air-defence systems. Later in May it was reported that Russia had also sold *Pantsir S1* anti-aircraft systems to Iran indirectly via Syria. Ivanov denied that Russia knew Syria intended to re-export any of the *Pantsir* systems to Iran. Russian journalist Ivan Safonov, who was investigating the sale, fell to his death from the top floor of his apartment building in Moscow in suspicious circumstances in March 2007. There was further speculation, also denied by Ivanov, that Russia might sell S-300 anti-aircraft missiles to Iran via Belarus. Russia and Iran were also discussing other sensitive issues, such as the creation of an OPEC-style gas cartel, which Putin and Iranian President Mahmoud Ahmadinejad discussed at the fifth anniversary summit of the Shanghai Co-operation Organisation in June 2006. Russian and US positions on Iran might again diverge if, as appeared likely, Tehran fails to suspend uranium enrichment. Unlike the United States, Russia was in principle open to the idea of allowing Iran some enrichment capacity, which could be a face-saving measure for the regime. Russian leaders viewed a nuclear-armed Iran as a lesser threat to its security than any US military action against Iran, which could destabilise not just Iran but its entire neighbourhood – to which Russia itself belongs.

No area of disagreement was more sensitive and divisive than Washington's democracy-promotion agenda, also supported by some European states. Although 2006–07 did not see any of the so-called 'colour revolutions' which Russia viewed as externally orchestrated and aimed at weakening Russian influence in Eurasia, Russia's own record on democracy came under increasing scrutiny, particularly by the US Congress. The murder of prominent journalist and Putin critic Anna Politkovskaya in the elevator of her apartment building on 7 October 2006, which Putin dismissed as insignificant, caused uproar among human-rights activists around the world. A study by the International News Safety Institute, an NGO set up by journalists, conducted over a ten-year period (1996–2006) ranked Russia second only to Iraq in terms of the number of journalists killed on the job. The Politkovskaya murder was followed by the murder in London of ex-KGB and FSB officer Alexander Litvinenko, who had accused the Kremlin of orchestrating the explosions in apartment buildings across Russia which killed 300 people in August 1999 and using them as a pretext for the second war in Chechnya, boosting the unknown Putin in his presidential ambitions. Litvinenko, who held a UK passport and lived in exile in London, died on 23 November 2006 from acute radiation poisoning caused by polonium-210, a highly radioactive, short-lived and for the most part commercially unavailable substance manufactured by only a few countries, but mostly in Russia. In his final message Litvinenko accused Putin of authorising his murder. Scotland Yard discovered traces of polonium-210 in various locations across London and in several British Airways aircraft. On 22 May 2007 the UK director of public prosecutions asked Russia to extradite Andrei Lugovoi, who had also worked with the FSB in the past and ran a

private security firm, to London to be charged with the murder. Litvinenko met with Lugovoi and two other Russians at the Millennium Hotel in London on 1 November, and fell ill immediately afterwards. Lugovoi denied the charges and the Russian government made it clear that the Russian constitution rules out extradition of Russian citizens for trial abroad. According to Putin, there was still a possibility that Lugovoi might be tried in Russia, if Moscow received compelling evidence of his guilt. However, such a trial would not be seen as objective by the UK. British authorities stopped short of accusing any Russian government agency of involvement in the murder, although there was a widespread perception that without some official involvement Lugovoi and his putative accomplices could not have obtained polonium-210. The Litvinenko affair cast a long shadow over the already tense UK–Russian relationship. Moscow accused London of granting refuge to two people – oligarch and former political manipulator Boris Berezovsky and Chechen separatist leader Akhmed Zakayev. Russia's repeated demands for their extradition were refused. Berezovsky acknowledged that he continued to fund organisations in Russia which intended to overthrow the current regime.

While the murders of Politkovskaya and Litvinenko affected Western perceptions of the Putin regime, the Russian authorities grew increasingly suspicious that the West was plotting to interfere in the Russian elections in 2007 and 2008. In April 2007 a US State Department report entitled 'Supporting Human Rights and Democracy: The US Record' sparked an uproar in Russia. The report did not call Russia a democracy, but rather a country with a 'weak multiparty political system with a strong presidency', and described US aid programmes to strengthen democratic institutions and promote free elections. The report claimed that 'continuing centralization of power in the executive branch, a compliant State Duma, political pressure on the judiciary, corruption and selectivity in enforcement of the law, continuing media restrictions and self-censorship, and government pressure on opposition political parties eroded the public accountability of government leaders'. In response the Russian government and parliament accused the United States of interfering in Russian internal affairs. In his state of the nation address on 26 April, Putin accused the West of 'making skilful use of pseudo-democratic rhetoric ... to return us to the recent past, some in order to once again plunder the nation's resources with impunity and rob the people and the state, and others in order to deprive our country of its economic and political independence'. In his traditional attack on foreign-funded non-governmental organisations he claimed that 'there has been an increasing influx of money from abroad being used to intervene directly in our internal affairs'. In 2006–07 Washington funnelled most of its money for democratisation in Russia through the US Agency for International Development, which spent \$84m in 2006 and earmarked \$60m for 2007. In 2006 \$38m went to programmes

to strengthen democracy, with \$28m budgeted for 2007. The Kremlin feared that some of this money might be used to encourage grassroots mobilisation of the kind that helped topple corrupt regimes in Georgia and Ukraine.

Beyond 2008

Although most attention was on the succession to Putin, important trends emerged which are likely to be sustained beyond 2008 regardless of who is in power in the Kremlin.

The first was that Russia was unlikely to become more democratic in the foreseeable future, and was more likely to move in an authoritarian than a pluralist direction – in spite of recent moves towards a form of managed pluralism. According to recent opinion polls, only 20% of the population favoured democracy and a market economy, the lowest in any transition economy. State institutions were too weak and not ready for democratic processes and the bureaucracy, with widespread corruption, was even less so. With growing corruption and centralisation, Russia moved further away from a culture of the rule of law. Groups who support democracy do not enjoy broad domestic support, and it is likely to take many years for a new pro-democracy elite to emerge. A poll on Russian attitudes and aspirations published in April 2007 by the European Bank for Reconstruction and Development showed that the majority of Russians were better off than five years earlier, happy with their economic situation and optimistic about the future. Optimism was strong among the new middle class, which accounted for up to 25% of the population. However, it has so far been excluded from the political process. The political awakening of the middle class could eventually be an impetus for future change.

Russia will remain assertive in its foreign policy and aggressive in its neighbourhood, where it will compete for influence with the United States and Europe. Oil- and gas-driven wealth has translated into more self-confidence and a desire to act independently in both domestic and foreign policy. The political elite is united in seeing Russia as a new pole of power in the world and the key player in post-Soviet Eurasia. Moscow is acting on this premise, challenging Western policies on many fronts, regaining influence in Central Asia and reasserting its role as a permanent member of the UN Security Council. Firmly rooted in geopolitics and a perception of zero-sum competition with the United States in its neighbourhood, Russian foreign and security policy is set to follow its own course.

This means that relations with the United States and Europe are likely to get worse before they can start to improve. Russian energy exports have become not a vehicle for greater closeness between Russia and Europe, but a source of growing disagreement. Putin's successor will take office at a time when Russian relations with the EU and the United States are at their worst since the end of the Cold War, and when its relations with other major powers – such as India,

China or Japan – are yet to develop beyond a modest trade and business agenda. Russia's unilateralist and nationalist foreign policy has hindered development of a strategic vision for relations with other powers. Whether or not speculation about a new Cold War is exaggerated depends on whether Russia feels it can afford to escalate tensions with the West at a time when it has been unable to win other powerful strategic partners.

Economic arguments support greater interdependency between Russia and the West. While it will be increasingly difficult to draw a clear line between private economic interests and the Russian national interest, Russia is likely to remain a growing economy and an attractive investment opportunity, continuing to integrate into the global economy. Despite a failure to diversify the economy and regardless of pervasive corruption, there is a growing consumer sector across Russia: household consumption increased by 11% in 2006 and is set to rise further. The trade surplus, which exceeded \$140bn in 2006, will remain high due to oil and gas exports. Investment also continues to increase – in 2006 fixed investment increased by over 13% against 10% in 2005. According to the Central Bank's estimates, net private capital inflow into Russia in 2006 reached an all-time high of \$41.6bn (against \$1.1bn the year before), largely as a result of liberalisation of the currency regime on 1 July 2006 and many initial public offerings (IPOs) by Russian companies. This made operations in Russian financial markets more attractive for foreigners and investment companies. IPOs of Russian companies (some state controlled), mostly in London, have raised over \$17bn, and about 150 companies intend to make IPOs in the next two years, which could bring in \$30–50bn.

However, Russia will be increasingly preoccupied with domestic problems, particularly modernisation of social services and infrastructure. Putin failed to achieve this in spite of a favourable economic environment. Major projects remained unimplemented, such as modernisation of the electricity grid and reform of the social security system, pensions and health care. Immigration policy remained undeveloped at a time when continuing economic growth depended on a steady inflow of workers. Putin's successor is also likely to face growing instability in the North Caucasus.

Putin's presidency was viewed in Russia as largely positive: reversal of economic decline; improved quality of life and levels of security, stability, predictability and prosperity which Russia has not seen for at least a century. But for many ordinary Russians, and for a large part of the bureaucracy and political elite, this stability was associated with one man. It lacked the necessary foundation of strong institutions, rule of law and civil society, all three of which have been weakened under Putin. As the 2008 elections approached, the myth of Russian stability was starting to unravel and systemic vulnerabilities were coming to the surface. The country that Putin will leave to his successor was

no longer in crisis, as it was at the end of Yeltsin's second term, but it was less prepared for the comprehensive economic and political reform that was urgently needed if Russia was to maintain domestic stability, diversify its economy and preserve the role it aspired to play in the world.

