

# Gas power politics

Russia is struggling to maintain its influence despite the eurozone financial crisis, writes James Sherr

From an economic perspective, Russia has been unable to avoid the effects of the global financial crisis. In 2009, it suffered a steeper economic decline than any other member of the G20. Its rebound in 2010-11 to 4 per cent annual growth is impressive compared to the eurozone, but economic performance is perilously tied to the oil price and is increasingly out of balance with budgetary commitments and social expectations. Moreover, Russia receives increasingly poor marks for governance, not only from the International Monetary Fund and World Bank but from its own people as well.

From a geopolitical perspective, the position is rather different. Since the crisis began, Russia has taken a number of steps to strengthen its positions in Europe. Although these are proactive measures, they are also rear-guard actions. They include examples of co-ordination yet also expose incisive competition between Russian interests and factions. These paradoxes require explanation.

In the 1990s, Moscow maintained the comfortable view that the European Union was a political and economic counterbalance to the United States. Today it is understood that 'Europe' is a project of integration on the basis of legal norms, a business culture and a way of social and political life markedly different from that of the post-Soviet world. Two models have emerged in Europe, the one essentially based on rights and rules; the other based on connections, clientelism and the subordination of law to power. As the EU's normative space expands, Russia's contracts. As a result, EU enlargement – just as much as NATO's – has helped to sustain Russia's zero-sum view of politics.

So has the growing assertiveness of EU institutions, not least in energy, which is the mainstay of Russia's export earnings, as well as its influence in Europe. The EU's Third Energy Package, which aims to open up gas and electricity markets, imposes strict market rules on all energy suppliers within the EU's jurisdiction. This is a particularly tall order for Gazprom, the Russian state-controlled gas company, which not only behaves in a less than transparent manner but has a business model predicated on control of the entire 'value chain' of production, transport and sales. In September this year, 12 months after invading the premises of 20 Gazprom

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*The EU's intention to impose strict market rules on all energy suppliers will pose problems for Gazprom, which is accused of monopolistic practices*









Vladimir Putin, centre, and the former German Chancellor Gerhard Schröder, left, pay a site visit to Russia's Nord Stream pipeline project

affiliates on suspicion of pursuing 'exclusionary' and 'exploitative' monopoly practices, the European Commission announced the start of an investigation into suspected market abuses by Gazprom.

It is not surprising, then, that the EU's vulnerabilities have been of acute interest to Moscow. EU integration has expanded liberty and prosperity, but the process had upset a number of vested interests in Europe, even before the crisis. The United States' promotion of democracy has added its share of tension. In response to this 'Western messianism', Russia has resurrected a 19th century view of policy, emphasising the sacrosanct distinction between domestic and international affairs. Although this stance flies in the face of the 'privileged interests' that Moscow claims in the former Soviet Union, it has resonance elsewhere. The eurozone crisis has sharpened fault lines. It has placed further burdens on new member states, in which old Soviet networks, Russian diasporas and corruptible politicians sometimes assist Russia's opaque business practices.

Russia's currency of influence has appreciably altered since the Cold War, but the evolution of its modus operandi has been far less striking. Putin has not resurrected the totalitarian state, but he presides over one in which power and money are difficult to distinguish, in which security services have become commercialized and intelligence methods of business proliferate. The instinct to turn everything, even culture into an 'instrument' of foreign policy, the simultaneous employment of hard and soft methods, a morally uncomplicated approach to rules and a Darwinian approach to competition: all these things make Russia a very different type of partner.

Russia's mega-pipeline projects, Nord

Stream and South Stream, illustrate the costs that the state is willing to assume for geo-economic gain, as well as its determination to extend across Europe the 'system of understandings' that links business and government in Russia. These two pipelines – the northern one through the Baltic Sea to Germany and the southern (yet to be built) through the Black Sea to Bulgaria and on to Central Europe or Italy – are intended to diminish the leverage and independence of transit states, such as Ukraine, and tie Europe to Russian energy supplies for decades to come.

South Stream has initiated a cat-and-mouse game to secure strategic stakes in companies and facilities that might otherwise support rival EU-sponsored Southern Corridor projects.

In April this year, Gazprom stitched together three obscure proxies to circumvent EU legislation and bid for Greece's core energy assets after austerity forced their privatization. Croatia has come under remorseless pressure to join South Stream before it joins the EU, and Bulgaria has been told bluntly that until it formalizes its stake in the project, it will continue to pay the highest gas prices in Europe. Yet the backdrop to all of these measures is the decline of Gazprom's market share in

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Europe and the unconventional gas revolution, thanks to which shale gas reserves could amplify that decline.

In other domains, it is clear that Moscow aims to gain from the eurozone crisis rather than simply preserve what it has. On assuming the EU presidency in July 2012, Cyprus announced that it had asked Russia for a €5 billion loan (on top of €2.5 billion received the previous year) to repair the country's finances. As noted by President Demetris Christofias – a Communist who calls himself the 'red sheep' of Europe – Russia's money, unlike that of Brussels, comes without strings.

Yet strings can be attached later. Russian interest in the country's offshore energy resources is no secret. Its loans, which could put two-thirds of Cyprus's gross domestic product in thrall to Russian lenders, are not one-off transactions; they are ties – and there are other ones. Russian expatriates play a substantial role in the economy, and companies based on the island account for up to 20 per cent of 'foreign' investment in Russia. Cyprus is considered a permissive environment for Russian intelligence services, and in January a Russian ship laden with ammunition for Syria was allowed to sail in and out of the country despite the EU arms embargo.

In Montenegro, which has been cleared for EU accession talks, Russia's expatriate community enjoys an even greater influence. According to a 2011 study by the Russian newspaper, *Noraya Gazeta*, over 40 per cent of property is in Russian hands. Coincidentally or otherwise, the European Commission states that 'corruption is still an issue of serious concern.'

But it is in Ukraine and other European newly independent states that Moscow expects the biggest dividends. The root of the problem is that the EU and IMF no longer provide a sufficient counterbalance to Russian pressure. The Eurasian Customs Union, which Russia is actively promoting to post-Soviet states as an alternative to integration with the EU, is the first coherent, rules-based trading entity to be sponsored by Russia. Yet in contrast to the EU Association Agreement negotiated (but not signed) with Ukraine, it demands nothing by way of democratic standards or 'good governance'. Ukraine is the pivot of Russia's geopolitical design in Eurasia. It is waging an obdurate defence of its

sovereignty. But Moscow calculates that the West will not play its own cards and that Ukraine in the end will have no choice but to join Russia's integration projects.

There are several noteworthy aspects of this picture. First, there is virtually nothing new in it. Russia is doing little now that it has not done before. Second, no geopolitical sea change has taken place. Russia's gains have been modest. It has scored its biggest triumph against President Alexander Lukashenko, when it secured control of Belarus's gas pipeline system in 2011. Yet it would be rash to say that even he has been brought to his knees. Third, while the EU has lost its aura of infallibility, its approach towards Russia has become tougher since the crisis began.

Russia's biggest geo-economic gains were secured with the co-operation of former Chancellor Gerhard Schröder, who now serves as chairman of Nord Stream's shareholders committee, at a time when Europe was at the peak of its prosperity. Although his successor, Angela Merkel, is battling for the euro's survival and her own, she has done nothing to oppose the Commission's robust energy policy, and Germany's energy companies can no longer be expected automatically to toe Gazprom's line in Europe.

Finally, the EU's refusal to do battle with Russia in Ukraine owes less to Putin's efforts than President Viktor Yanukovich's refusal to accept the principles on which European integration is based. His agreement with China to modernize Ukraine's agricultural and coal sector introduces an entirely new element in the equation. The days when China deferred to Russia's claim to a 'sphere of privileged interests' are coming to an end.

The truth of the matter is that while the EU has been weakened by the crisis, Russia has also been weakened by the ossification of its system of power. Between 2001-8, Vladimir Putin not only restored order to Russia's affairs, but collective self-respect, and he accomplished both on the basis of prosperity and defiance of Western orthodoxy. Today, Russia's strongest card is defiance. Its principal strength lies in prolonging the life of outmoded practices. It obstructs and suborns, but it does not attract. Neither the EU, Russia nor the countries between them are likely to gain from this state of affairs. ●

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# Still writing the online rulebook

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## Keir Giles on Russia's ambivalence to internet censorship

The lower house of the Russian parliament passed a Bill in July on regulation of the internet which allows the blocking of websites containing specific banned content. The 'Internet Blacklist' Bill provoked widespread condemnation, including protests by freedom of speech advocates, and blackouts of Russian Wikipedia.

Protesters portrayed the new law, due to come into force next January, as a draconian new tool for the authorities to suppress freedom of speech and block internet sites they found politically undesirable. Yet the true picture is far more nuanced.

The almost unanimous passing of the Bill obscured the fact that earlier readings had seen fundamental revisions, on the grounds that previous drafts had been ambiguous giving the judiciary and government precisely the powers that activists are now concerned about. Previous references to 'harmful content' were amended to a specific list of websites containing child abuse imagery, or assisting in drug manufacture or the promotion of suicide.

Although the technical implementation of the blocking has been subject to informed criticism by industry bodies, the powers granted over Russian website content are in fact nothing new. The ambiguous nature of web control in Russia, and the misleading nature of reporting about the 'blacklist', which creates the impression of rigid censorship, are illustrated by the fact that the Russian authorities already possess extremely strong legislative tools for controlling content, but ordinarily apply these with a very light touch.

The law 'On Police', for example, introduced in early 2011, allowed for the summary closure of internet resources providing 'conditions which assist the commission of a crime or administrative violation'. This in effect constitutes a reversal of the burden of proof for the legality of internet content; before the passing of this law, one legal route for authorities wanting

to block a website would be to seek a court decision banning it for being 'extremist'. The new law requires no court order.

In addition, the rules for registration of domain names allow for an internet address to be deleted 'on the basis of a decision in writing by a head, deputy head, or equivalent public official' of one of Russia's several law enforcement agencies. Again, the decision is administrative, with no judicial involvement.

And overshadowing all internet activity in Russia is the SORM system – the 'system for operational search measures', which automatically collects information on internet use by subscribers within Russia and makes it available for law enforcement purposes. Installed compulsorily by all internet service providers, SORM provides a ready-made evidence trail for prosecutions of any online activity.

Russian authorities, therefore, already have all necessary tools for a clampdown on freedom of expression – should they choose to use them.

The protests over election results in Russia at the end of 2011, in large part organized using social media, provoked an apparent mixed response from the authorities. Pressure on websites, including online attacks which were allegedly sponsored by the authorities, was occasional and unsustainable, and in at least one case, subject to successful legal challenge: the Russian Facebook equivalent VKontakte refused to supply subscriber information to the Federal Security Service on the grounds that the request was illegal.

This is not the first instance of collision between the authorities and the law over what should and should not be allowed online: in March 2011, Russian parliamentary commission hearings on legislative control of the internet noted that 'at the level of regional authorities and law-enforcement agencies, excessively severe and often unfounded restriction of the internet continues' – a vignette of how legislators in Russia see the internet as an enabler and excessive restriction as undesirable, while the security authorities consider online content a potential threat.

This is an indication that far from being rigid, the overall Russian attitude to online dissent is still to crystallize. As put by Prime Minister Dmitry Medvedev, the internet 'should be regulated by a set of rules, which mankind has yet to work out. It's a very difficult process.' ●

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