Russian Policy Towards Ukraine, Belarus, and the Baltic States in the Putin Era

Arkady Moshes
April 2000
PONARS Policy Memo 123
Institute of Europe

Russian policy towards Ukraine, Belarus, and the Baltic States depends primarily on domestic factors. Western influence is important in terms of setting well-known limits for what Russia should not do, rather than affecting decision-making on what it should. Compared with Russia's quickly evolving domestic context, Western policy seems static and relatively insignificant to the dynamics of Russian policy. Accordingly, this memo gives little attention to the role of Western policy.

Three domestic factors are examined: Russia's economic relations with individual countries, public opinion, and the approaches of economic and political elites. Only this last factor is directly impacted by the change of president in Russia. It is very difficult to analyze Vladimir Putin's personal views on any given relationship, since he has not spoken on these matters in detail and explicit statements are unlikely to follow. However, there are grounds for analysis. As Prime Minister Putin and as Acting President, Putin initiated a number of steps (listed below), which might indicate future intentions.

Several features of Putin's domestic policy stance are relevant:

- Putin is not considered responsible for the Soviet Union's dissolution and therefore need not maintain the image of a successful Commonwealth of Independent States (CIS), which Yeltsin had to do in order to justify his behavior in 1991;

- Putin seems to differ from typical post-Soviet leaders, which is logical since his political career was made after 1991. He is more formal and probably legalist--it is unlikely that CIS leaders and Putin will reach non-binding "fireplace agreements;"

- Putin is not a public politician. He does not need to manipulate near-abroad issues in order to raise public support or boost his popularity at home: he wins or loses on other grounds;

- Putin's regime, unlike the previous, is not anti-Communist, as demonstrated by the January 2000 deal between pro-presidential and Communist factions in the Duma. Again, this means that policies towards the CIS should no longer be divisive since it is now unnecessary to use this card to outplay the left opposition in the integration field; and

- Putin's current image of an "order-bringer"--though it may well disappear after the elections--requires that he look tougher in making claims and negotiating deals. Altogether, these features permit a cautious prediction that Russian policy towards the region in question under Putin will be more pragmatic and consistent than before.

Russian Policy Toward Ukraine

Russian-Ukrainian economic relations are in decline. From 1995-1999 bilateral trade was almost halved. Before 1998 it was mostly Ukrainian exports that suffered; since then, Russian exports--except energy--have started to decrease as well. One reason for this decline is protectionism on both sides, which is unavoidable taking into account their identical enterprises and unemployment in similar branches. Russia sent Ukraine a list of 89 complaints against trade impediments to Russian goods; Ukraine presented an analogous list of 8. The major problem, however, is very low labor productivity, which makes Russian and Ukrainian goods not competitive even on each other's markets. Out of 600 thousand metric tons of sugar that Ukraine was entitled to sell on the Russian market duty-free, it managed to sell only 15 thousand because it was still cheaper to buy on the world market.

Russia, contrary to its wishes, remains Ukraine's largest economic donor both in terms of state debt (the Paris Club) and energy. Russia estimates the energy debt to have reached 3.5 billion dollars. Exploiting its near monopoly on Russian gas transit, Ukraine for years continued the policy of non-payment for deliveries and annual siphoning of 2-3 billion cubic meters of gas, combined with non-recognition of state responsibility for the indebtedness of private companies, even when deliveries were made under state-provided guarantees. Schemes of debt payment were frequently agreed upon, but Ukraine never implemented them, not even payments in kind. The new government of Ukraine (like the previous) refuses to pay the debt with assets on Ukrainian territory. After Ukraine defaulted on its Eurobonds in February 2000, Russia's prospects of receiving the money are gloomier than ever. Given the current state of its own economy, Russia can no longer afford to subsidize Ukraine.

A rather negative attitude towards the present Ukrainian state--not toward an independent Ukraine as such and certainly not toward the people of Ukraine--is gaining ground within Russian public opinion. According to an October 1999 opinion poll, 41% of respondents agreed that Ukraine pursued an unfriendly policy toward Russia (23% disagreed). Such an attitude does not come as a surprise after years of disputes over the Black Sea Fleet, the status of the Russian language in Ukraine, and other matters. At the moment, the policy of no more "free lunches" for Ukraine is much more popular than former brotherly attitudes, which were based on Russian acquiescence to economic assistance.

Leading Russian economic actors are taking measures aimed at the gradual dismantling of the donor-recipient model of economic relations between Russia and Ukraine, primarily by decreasing Russian dependence on Ukrainian transit. Russia's main gas

trader Gazprom is especially active in building alternative routes for Russian exports. The pipeline through Belarus and Poland has been completed, and the construction of another from Poland to Slovakia is being considered. The Blue Stream project (a pipeline to Turkey on the Black Sea bed) is being implemented. According to some estimates, up to 70 bn cubic meters of Russian gas exports can be rerouted (Ukrainian annual transit is currently 110-120 bn). Electricity supplies and deliveries of fuel for nuclear power stations have been stopped or suspended by Russian producers who did not receive payments.

Among Russian political forces, only the position of the Communists is of importance. Other politicians--save Moscow Mayor Yury Luzhkov, who is famous for speaking in favor of the Russian status of Sevastopol--do not have a platform on Ukraine at all. Previously, the Communists were rather opportunist. They used to take steps they thought would either prove them to be better integrationists than Yeltsin or help their left allies in Ukraine (for example, the sudden ratification of the political treaty in the Duma in December 1998 after the visit of then Rada Speaker and leftist leader Arkady Tkachenko). With Ukraine and all the CIS ceasing to be an electoral issue in Russia, the Communists are likely to be passive and silent on this issue. However, Kuchma's attempts to crack down on the leftist forces in Ukraine may make their Russian comrades critical towards the official Kiev--and even more so since a pretext to do this already exists (i.e., increased efforts to further raise the status of the Ukrainian language at the expense of Russian).

The Putin government has taken three steps that are indicative of future policy. First, in early December 1999 Russia imposed on Ukraine an oil and electricity embargo (the latter was not supplied anyway) in order to persuade it not to steal gas from the pipelines. The Prime Minister sent a letter to President Kuchma, where he explained this unprecedented step. This action brought no immediate results--Ukraine kept siphoning and in February 2000 the Russian government lifted the embargo. However, it demonstrated the seriousness of Russia's intent to defend the interests of Russian businesses and the Russian economy. Second, during debt negotiations with Ukrainian authorities in January and February, Russia consistently tried to pursue an agenda that seemed to be coordinated with business. This contrasted with the earlier tradition in which all talks ended in Ukraine's promises to pay later and Russia's readiness to accept payments in (almost any) kind. Third, the Russian Foreign Ministry (MFA) sent a note to the Ukrainian Embassy in Moscow and issued a statement expressing concerns over the rights of people in Ukraine to receive an education in Russian. It is difficult to say whether this is a sign of Russia's turn towards a more active policy on so-called humanitarian issues, but it is hardly incidental: the MFA earlier tried to play down controversies with Ukraine on this particular matter. (During the ratification of the political treaty the MFA lobbied, it was strongly criticized for the provisions regulating the Russian language and the cultural rights of minorities.)

Russian policy towards Ukraine under Putin is likely to be more economically driven and aimed at promoting Russian business interests in Ukraine. It will probably no longer be possible to use strategic partnership rhetoric as a substitute for a lack of progress in

economic relations. Russia's negotiating stance will be more maximalist--in terms of reaching the reachable--and Ukraine's implementation of agreements will be a larger preoccupation than before. Russia may support international efforts to ensure that market reform takes place in Ukraine, since only a democratic Ukraine with a free market will be able to free itself from its current addiction to Russian subsidies. At the same time, alternative export capabilities will be developed and this will be done particularly quickly if an acceptable deal on debt payments with property in Ukraine is not reached.

Russian Policy Toward Belarus

Contrary to widespread impressions--which hold that Belarus is simply a black hole for Russian subsidies--in reality Russia has large economic interests in Belarus. In 1998 Belarus was the third biggest Russian trade partner after Germany and the US. In 1999 bilateral trade shrank, but Belarus remained in the top group. As of August 1999, 79 out of 89 Russian regions had direct trade links with Belarus and 67 had bilateral trade agreements, although the main consumers of Belarusian exports were still Moscow and Moscow region at 43%. The transit role of Belarus is growing. In addition to the previously mentioned pipelines--where transit tariffs are much lower than in Ukraine and no cases of theft have ever been reported--according to some estimates, 80% of Russian road transit to Western Europe also goes through Belarus. As for the energy debt, thus far Minsk has managed to keep it well below the level where it could become a political problem: the debt usually oscillates between 160 and 250 million dollars and is not increasing in the long run. Gas prices have been lowered several times, most likely in order to compensate Belarus for its low tariffs and its disciplined payments, which are commendable by post-Soviet standards. There is certainly indirect subsidizing due to inefficiency of the Customs Union, but it seems to be decreasing with the decline in Russian imports after the crisis.

The process of political integration, including reunification of Russia and Belarus, is very popular. According to two polls conducted in October and November 1999 by the Public Opinion Foundation and VTSIOM, if the reunification referendum took place in Russia, 68% and 71% respectively would be for it, with only 17% and 13% against.

The popularity of the issue strongly affects publicly espoused views of elites, which are tempted or forced to express supportive attitudes. Politicians, however, very often have a hidden agenda and tend to manipulate the issue. For example, the Communists are concerned with President Aleksandr Lukashenko's participation in Russian politics in the event of real reunification, because he--exploiting the image of effective practitioner and consistent integrationist as well as his personal charisma--would deprive the left forces of their traditional electorate. While he was in power, Yeltsin constantly played the Belarusian card whenever he needed to retake the initiative in the integration field from the Communists; at the same time he and his bureaucracy were also afraid that Lukashenko might use his chance to come to power in Russia, should he get one. Yabloko-oriented people have nothing against integration with Belarus, but oppose Lukashenko for reasons of principle. Though politically marginal, liberals expressed their

opposition against what they thought would be increased Russian subsidies through their representatives in power (Kirienko and Chubais). On the one hand, regional elites like to deal with Lukashenko as the head of a sovereign state directly as long as they believe this raises their own status and promotes the economic interests of their regions. On the other hand, they are implicitly or explicitly concerned that incorporation of Belarus would make their regions and their personal positions inferior. In general, opposition to genuine political integration was strong, and the political willingness to achieve it remained low. All this resulted in a policy of a process, rather than a policy of goals. The treaty signed in December 1999 does not establish a single union state, instead it is a document regulating the long process of creating the union. The differences between this treaty and the one on the Union of Russia and Belarus signed in 1997 are mostly semantic, not substantive.

There are two reasons to believe that Russian policy towards Belarus may be de-politicized under the new administration. The first reason is that there is currently no need to exploit the issue in domestic politics. Therefore, it will be easier for the administration to admit at least implicitly that:

- the basic principles of current political integration--creating a new state with supranational powers and preserving full sovereignty--are incompatible and so unlikely to be a success;
- President Lukashenko's apprehension to lose even a smidgen of his power in Belarus will seriously impede the political process; and
- the very important tasks of fostering foreign policy cooperation and defense integration can be solved without setting overarching political goals.

The second reason is that the February 2000 visits to Minsk by First Deputy Prime Minister Mikhail Kasyanov and Chairman of the Central Bank Viktor Gerashchenko demonstrated that Moscow really cares about and was not going to concede on economic matters: Russia refused to give Belarus a stabilization credit and to deliver an additional 2 billion cubic meters of gas, and insisted on having only one money emission center in Moscow after the introduction of a single currency. Even the agreed contribution of Belarus to the Union budget (one third) is disproportionately large, if one assumes that Russia is ready to pay an economic price for the creation of the political union.

Russian Policy Toward the Baltic States

Russian trade with the Baltic states is too insignificant to stimulate consistent attention, although economic actors in neighboring Russian regions or gas and oil exporters may have important interests there. Ice-free Baltic ports, servicing Russian exports and often considered an element of interdependence between Russia and the Baltics, in reality constitute a far more controversial issue. There is a risk of sudden tariff increases. In fact, in spring 1998 Latvia attempted to raise service fees (at the worst possible moment, taking into account the fall in world oil prices), which triggered a crisis in bilateral

relations. Combined with the willingness to keep transit money inside the country, this strengthens the constituency in Russia for rerouting oil transit and building port capacities of its own.

The average Russian lacks interest in events in the Baltics or in Russia's bilateral relations with these states. Even the situation with Russian minorities draws little attention, mostly due to the fact that immigration of repatriates from the Baltic states has almost stopped. The issue can still be exploited for political purposes, but it is unlikely to rally long-lasting electoral support. On the contrary, any steps that can be viewed as justifying Nazi connections as freedom-fighting or revision of World War II immediately provoke a negative reaction (which is natural, since the 1945 victory is one of the main positive references in Russia's nation-building process). In 1998 the televised participation of the Latvian Commander-in-Chief in a march of SS veterans mobilized across-the-spectrum support for a tough Russian stand on Latvia. Weaker but similar attitudes arose in 2000 when a Russian WW II-era anti-fascist partisan Kononov was convicted on the charge of war crimes.

The approaches of political elites to a large extent reflect public opinion. There is not consistent will to improve relations and to exercise pressure in order to reach goals that are not clearly defined. This is why the progress of 1997 was followed by the Russian-Latvian crisis of 1998 and then by stagnation in 1999. The policy is usually conducted by the Foreign Ministry in a routine manner with rare involvement by political leaders. The view of elites, except perhaps the left, differ from public opinion in one respect, namely that they distinguish between Lithuania--which granted citizenship to all its residents, thereby fulfilling an important precondition for bilateral interaction--and Latvia and Estonia, where the problem of Russian-speaking non-citizens is far from solved.

Economic elites connected with the Baltic states mostly pursue their business interests. As mentioned before, their agenda can become political, but they are not interested in long-term political destabilization, if or once economic interests are ensured. A good illustration of this point is the case of the Mazeikiai oil refinery, which Lithuania sold to Williams, a US company. The decision was made on political grounds, since the buyer had no crude oil of its own. A rejected contender--Russian LUKoil, coordinator of all Russian oil deliveries to Lithuania--used economic leverage, but did not ask for political assistance. As a result, no deterioration of political relations took place and the final settlement between LUKoil and the Lithuanian actors is likely to guarantee acceptable profits to the former (its effects on the Lithuanian economy are a separate matter).

Under the new administration, Russian policy toward the Baltic states will most likely remain in its present paradigm, which over the long run keeps the relationship stable. At the same time, Putin's personal involvement in the Kononov case (he sent a letter to Latvian President Vaira Vike-Freiberga) and his meeting with representatives of the Russian community of Uzbekistan in January 2000 in Tashkent show Moscow's rising attention to the whole problem of the Russian diaspora, which may have implications for Russian relations with Latvia and Estonia. The possibility of negative and destabilizing

reactions to strong irritants (be it NATO enlargement or policies that can be interpreted as discriminatory towards Russian-speaking non-citizens) should not be excluded.

PONARS 2000