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THE KREMLIN PLAYBOOK

UNDERSTANDING RUSSIAN INFLUENCE
IN CENTRAL AND EASTERN EUROPE

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A REPORT OF THE
CSIS EUROPE PROGRAM AND THE CSD ECONOMICS PROGRAM

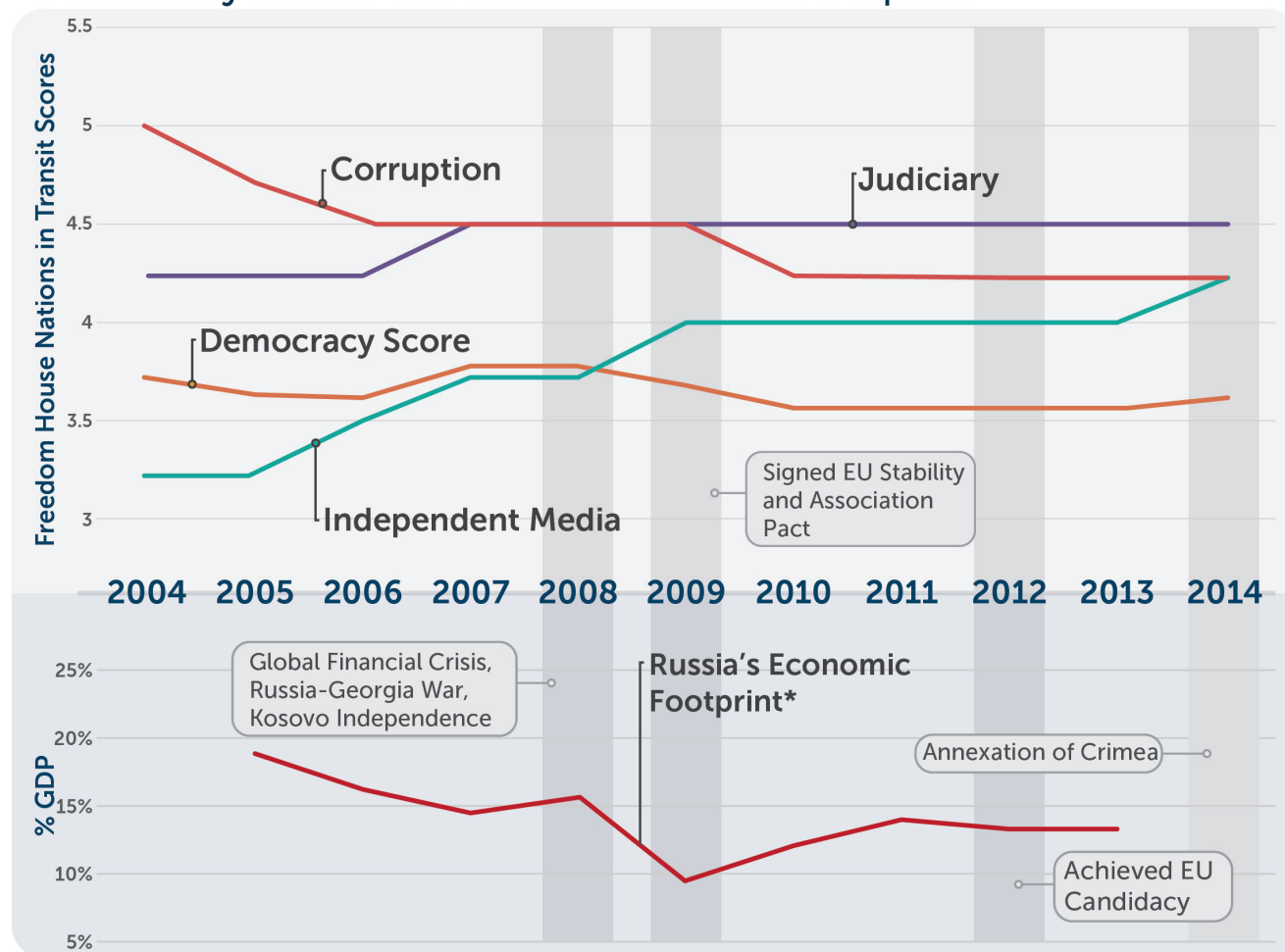
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SERBIA: PREVIEW OF COMING ATTRACTIONS

Figure A.5. Serbia

Democracy Scores vs. Russia's Economic Footprint



Source: Freedom House, CSD Calculations

Economic Data

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
FDI stock from Russia as share of GDP (%)	0.3	0.3	0.3	0.3	0.3	2.6	2.3	2.6	2.5	2.8
Operating Revenue of Russian Controlled Companies as a share of Total Operating Revenue for the Economy (%)	11.6	9.2	8.3	8.2	4.3	5.2	5.8	5.4	6.1	N/A
Oil and Gas imports from Russia as a share of GDP (%)	5.4	5.7	4.9	5.6	3.6	4.3	4.4	3.7	2.8	4.1
Exports to Russia as a share of GDP (%)	1.0	1.2	1.4	1.5	1.0	1.7	2.2	2.5	2.9	2.9
*Russia's Economic Footprint	18.4	16.3	14.9	15.6	9.3	13.7	14.7	14.2	14.2	N/A

Source: CSD Calculations based on data from EUROSTAT, National Central Banks, and Corporate Registers and Databases.

Shaped and bound by their shared Slavic, Orthodox Christian, and linguistic heritage for centuries, Serbia and Russia have maintained a strong partnership, with Russia serving as the traditional sponsor and protector of its Slavic Balkan cousins. In the 1800s, Russia's support of pan-Slavism and Serbian nationalism encouraged and enabled the Serbs to break free from Ottoman rule and gain independence. In 1914, Russia came to Serbia's aid after Austria-Hungary declared war against it in response to the assassination of Archduke Franz Ferdinand by a Serbian nationalist—the very trigger that ignited the “Balkan powder keg” and the First World War. Although Yugoslav leader Josip Broz Tito distanced himself from Soviet patronage, following the breakup of Yugoslavia, Russia again assumed its historic role as champion of the Serbian cause, providing Serbia with a powerful voice at the United Nations Security Council by blocking UN resolutions in response to its wartime offenses, condemning U.S. and NATO-led military interventions against Serbia, and attempting to prevent the breakaway and eventual independence of Kosovo. The Kremlin has continued to deepen and enhance its bilateral ties with Serbia even as Serbia has sought to become a member of the European Union.

One clear manifestation of these deep ties is Russia's economic relationship with Serbia. Over the past two decades Russia has heavily invested in strategic sectors of the Serbian economy and Russia is Serbia's single most important supplier of natural resources—80 percent of Serbia's natural gas demands are met by Russia.⁵⁶ As a result, Serbia pays one of the highest gas import prices in Europe. In 2008 Russia and Serbia concluded an intergovernmental agreement on energy cooperation that envisioned Russian firms funding large-scale infrastructure and utilities projects, including the acquisition of the largest local oil and gas company, Naftna Industrija Srbije (NIS), by Russia's state-owned Gazprom Neft.⁵⁷ The latter finalized its acquisition of a 51 percent stake in the company in 2009.⁵⁸ Through NIS, Gazprom gained access to other enterprises in the Serbian economy, including its 12.7 percent stake of the state-owned chemical company, HIP-Petrohemija.

Russian's Lukoil also has acquired a dominant position in Serbia's oil industry through its \$134 million acquisition of the largest distributor, Beopetrol, and its network of 180 filling stations. Russia is also invested heavily in large-scale infrastructure projects in Serbia; for example, by committing \$800 million for enhancements to its railway system.⁵⁹ In the financial sector, Russia's largest state-owned banks Sberbank and VTB have become prominent players. Since 2003, Sberbank has opened 33 branches and acquired almost €1 billion in assets. VTB only entered the market in 2012, and despite being a small player on the market, it brokered Serbia's sale of \$750

56. Bernd Rajal and Aleksandra Petrovic, “Serbia,” in *Oil & Gas Regulation 2016* (London: International Cooperative Legal Guides, 2016), <http://www.iclg.co.uk/practice-areas/oil-and-gas-regulation/oil-and-gas-regulation-2016>.

57. Neil MacDonald, “Serbia Backs Russia Gas Deal,” *Financial Times*, January 22, 2008, <https://www.ft.com/content/c845c9d4-c942-11dc-9807-000077b07658>.

58. Gazprom Neft, “Gazprom Neft Completes the Acquisition of 51% of NIS Shares,” February 3, 2009, <http://www.gazprom-neft.com/press-center/news/2739/>.

59. Andrew Byrne, “Serbia Caught between Russia and the West,” *Financial Times*, December 3, 2014, <http://www.ft.com/cms/s/0/b44d6260-7ac6-11e4-b630-00144feabdc0.html#slide0>.

million in Eurobonds that same year.⁶⁰ The former prime minister and head of the Socialist Party of Serbia, Ivica Dacic, also considered creating a joint investment fund with VTB for the acquisition of assets in Serbia and facilitating Serbian exports into Russia.⁶¹ While this investment has been positive for Serbian growth, the mutuality of the benefits it provides is ambiguous. For example, according to its privatization agreement Lukoil pledged to invest an additional €93 million into the Beopetrol's infrastructure after making the acquisition; however, Serbia's Anti-Corruption Council⁶² reported that instead Lukoil used Beopetrol's funds to "give itself a €105 million loan," which is around 90 percent of what it had just paid to purchase the state-owned company.⁶³

Russia may have relied on a network of local affiliates to exploit its economic relationship with Serbia. For instance, the director of Serbia's gas company Srbijagas, Dusan Bajatovic, is also the deputy chairman and an MP for the Socialist Party of Serbia and one of the country's leading pro-Russian voices. It is interesting that in recent years Srbijagas has become heavily indebted to the tune of €1 billion—a vulnerability that Russia may have used to exert pressure on Belgrade, particularly since the onset of the Ukraine crisis. Shortly after the official state visit of President Putin to Belgrade in 2014, Gazprom cut the gas deliveries to Serbia by 30 percent, citing outstanding debt by Srbijagas to the Russian major as justification.⁶⁴ The Panama Papers also highlighted the connections between several prominent Serbian businessmen and Russian entities and individuals. Most notably, the leak revealed Milan Popovic "formed a partnership" with Konstantin Malofeev, a member of Vladimir Putin's inner circle.⁶⁵

As Russia tightens its economic grasp over Serbia, Belgrade has attempted to deepen its economic engagement with the European Union. In 2008, Serbia signed a Stabilization and Association Agreement (SAA) with the European Union and has since become an EU candidate country. A newly reelected Serbian Prime Minister Aleksandar Vucic, who campaigned on a pro-EU and anticorruption platform, promised that his country would aim to accede to the union no later than 2020. Serbia's EU membership is growing in popularity, with a recent poll suggesting that 48 percent support Serbia's EU aspirations (while the population is very skeptical of potential NATO

60. Djordje Daskalovic, "VTB Capital Steps into CEE Eurobond Market as Lead-Manager of Serbia's Issue," SeeNews, November 26, 2012, <https://seenews.com/news/vtb-capital-steps-into-cee-eurobond-market-as-lead-manager-of-serbias-issue-318366>.

61. Government of the Russian Federation, "Talks between Dmitry Medvedev and Serbian Prime Minister and Minister of Internal Affairs Ivica Dačić," transcript, April 10, 2013, <http://archive.government.ru/eng/stens/23855/>.

62. Anticorruption Council, "The Privatisation of Beopetrol," Government of Serbia, September 30, 2013, <http://www.antikorupcija-savet.gov.rs/sr-Cyrl-CS/izvestaji/cid1028-2379/izvestaj-o-privatizaciji-beopetrola-ad>. As of 2016, the Council still upholds its claims despite vehement objections from Lukoil. See, for example, Dusan Pavlovic, "Beopetro Literally Bought Itself," *Danas*, April 27, 2016, <http://www.antikorupcija-savet.gov.rs/sr-Cyrl-CS/radio-televizija-i-stampa/cid1037-3112/beopetrol-je-bukvalno-kupio-samog-sebe>.

63. Stefan Dojcinovic, Dragana Peco, and Atanas Tchobanov, "The Mayor's Hidden Property," Organized Crime and Corruption Reporting Project, October 19, 2015, <https://www.occrp.org/mayorsstory/The-Mayors-Hidden-Property/index.html>.

64. "Russia Reduces Gas Flow to Serbia over Unpaid Debt," Novinite, November 1, 2014, <http://www.novinite.com/articles/164467/Russia+Reduces+Gas+Flow+to+Serbia+over+Unpaid+Debt>.

65. Organized Crime and Corruption Reporting Project, "Serbia: Local Businessmen Show in Leaked Data," April 5, 2016, <https://www.occrp.org/en/panamapapers/serbian-businessmen-in-leaked-data/>.

membership).⁶⁶ However, Serbia's economy has stagnated as it transitions from a centralized to a market economy and lags behind other Western Balkan economies; Serbia's 2015 per capita GDP is significantly lower than Croatia's and Slovenia's (\$5,143 compared to \$11,536 and \$20,714, respectively).⁶⁷

It is important to note that to many Serbs, pro-European sentiment is not incompatible with pro-Russian sentiment. Serbian public opinion appears to be closer to that of Bulgaria, where it is preferred that closer relations with Russia can occur from within the European Union. But, from a geopolitical standpoint (without the physical border with Russia), Serbia seems to be in a similar situation to Ukraine, where the former government desired strong ties with both East and West without sacrificing the relationship with the other. Does Serbia pit its traditional defender against the liberal West? How will Serbia now balance the requirements placed on it by the European Union with its long-standing support of Russia?

Thus far, the direction of Serbian foreign policy has favored Russia. Serbia has refused to participate in the EU sanctions regime against Russia after its annexation of Crimea and military incursions into Eastern Ukraine, despite the request that EU candidate countries follow EU policies.⁶⁸ Serbia has also enhanced security cooperation with Russia, has been linked with the purchase of a Russian-made S-300 air defense system,⁶⁹ has conducted bilateral military exercises with Russia, and has obtained observer status in the Russian-led Collective Security Treaty Organization (CSTO) in 2015.⁷⁰

Russia has sought to keep its closest European partner within its geopolitical orbit, which culminated in Russian President Putin's official state visit to Belgrade in October 2014. But Russia continues to underscore its fidelity toward Serbia by its ongoing backing of Serbia's international claims following the breakup of Yugoslavia. In 2015, Russia vetoed a UN resolution condemning the massacre of Bosnian Muslim men and boys by Serbian forces in the city of Srebrenica as genocide. Russia has also demanded that Kosovo, a primarily ethnic-Albanian region that in 2008 declared its independence from Serbia and was supported by the United States and a majority of European countries, remain part of Serbia's territory and refuses to recognize its independence. The European Union, however, has made the normalization of relations with Kosovo a mandatory condition for Serbia's eventual accession to the bloc. While there has been positive steps to advance

66. "48% of Serbian Citizens in Favor of Joining the EU," *European Western Balkans*, February 1, 2016, <https://europeanwesternbalkans.com/2016/02/01/48-of-serbian-citizens-in-favor-of-joining-the-eu/>.

67. World Bank, "GDP per Capita: Slovenia, Croatia, and Serbia," http://data.worldbank.org/indicator/NY.GDP.PCAP.CD?contextual=default&end=2015&locations=RS-HR-SI&name_desc=false&start=2015&view=bar&year=2013.

68. "Serbian Envoy Rejects NATO or Endorsing EU Sanctions against Russia," Radio Free Europe/Radio Liberty, February 13, 2016, <http://www.rferl.org/content/serbia-wont-join-nato-endorse-eu-sanctions-against-russia-moscow-ambassador-says/27549850.html>.

69. Jaroslaw Adamowski, "Serbia Names New Defense Minister, Eyes Missile Defense Deal with Russia," *Defense News*, March 4, 2016, <http://www.defensenews.com/story/defense/international/europe/2016/03/04/serbia-defense-minister-missile-deal-russia/81323174/>.

70. "Парламентские делегации Республики Сербия и Исламской Республики Афганистан получили статус наблюдателей при Парламентской Ассамблее ОДКБ," Организация Договора о коллективной безопасности, December 4, 2013, http://www.odkb-csto.org/news/detail.php?ELEMENT_ID=1776.

Serbian-Kosovar dialogue and recognition, the issue remains politically volatile in Serbia, and Russia has effectively used it to enhance public support for Russia's policies and to support irredentist Serbian politicians who are Euroskeptic and hope to delay Serbia's EU accession. Kosovo is also effectively used by Russia to highlight the hypocrisy of the West's commitment to preserving states' territorial integrity in some cases while supporting the principle of self-determination in others. This has served to both discredit the West as well as justify Russia's own foreign policy actions in Georgia and Ukraine, with Russia citing Kosovo as a precedent.

It is not surprising that Serbia's nationalist parties are in sync with Russian policies. Russian Duma members have called Serbian nationalists accused of war crimes as "Serb martyrs." The ultranationalist far-right Serbian Radical Party (SRS) is the most vocally pro-Russian proponent in the Serbian political spectrum. SRS maintains close ties to Russian political parties from across the spectrum, and although it denied receiving funding from the Kremlin in 2011, its deputy chairman noted, "We get political support from Russia; we need no other kind of support."⁷¹ This support had not translated into popular support in Serbia until recently when the SRS, which was shut out of the National Parliament in the 2014 elections, returned to the political scene in April 2016, winning 22 seats and showing a marked resurgence in public support. Many pro-European Serbian political parties are also sympathetic toward Moscow, however. The Socialist Party of Serbia—which commands just 29 out of 250 seats but is Serbia's second largest political party—and its leader, current Foreign Minister Ivica Dacic, have repeatedly defended Serbia's close relationship and has credited Russia with bolstering Serbia's international position vis-à-vis Kosovo, noting that "if it were not for Russia, Serbia would be in a much more difficult situation."⁷²

The Serbian Progressive Party, which is currently the largest party in the parliament with 96 out of 250 seats, has a more balanced policy approach between Russia and the European Union and for the past several years has become the Serbia's leading proponent of EU membership. But the Progressive Party maintains active ties with President Putin's United Russia. Serbian President Tomislav Nikolic has stated that Serbia is a "declared friend of Russia in the Balkans."⁷³ In 2013, Nikolic signed a Strategic Partnership Agreement between Russia and Serbia that committed to "promote large-scale collaboration in all key areas."⁷⁴ Prime Minister Aleksandar Vucic has visited Moscow following his party's electoral victories (including the most recent one in 2016)⁷⁵ and Moscow called for Vucic to "include people who are determined to maintain and strengthen

71. "Re: US/RUSSIA/BELARUS/SERBIA—Serbian Parties, Far Right Groups Deny Receiving Funds from Russia," WikiLeaks, March 11, 2013, https://wikileaks.org/gifiles/docs/72/723539_us-russia-belarus-serbia-serbian-parties-far-right-groups.html.

72. Ministry of Foreign Affairs of the Republic of Serbia, "Ministers Dacic and Lavrov Discuss Bilateral Relations, Political Situation and Migrant Crisis," April 1, 2016, <http://www.mfa.gov.rs/en/press-service/statements/15304-ministers-dacic-and-lavrov-discuss-bilateral-relations-political-situation-and-migrant-crisis>.

73. Marija Ristic, "EU, Russia Pressure Serbia over Ukraine Crisis," *Balkan Insight*, May 6, 2014, <http://www.balkaninsight.com/en/article/eu-russia-pressure-serbia-over-ukraine-crisis>.

74. President of Russia, "Interview to Politika Newspaper," October 15, 2014, <http://en.kremlin.ru/events/president/news/46806>.

75. Gordana Knezevic, "Moscow's Long Arm in Belgrade," Radio Free Europe/Radio Liberty, June 1, 2016, <http://www.rferl.org/content/moscow-long-arm-belgrade/27772003.html>.

further relations between Serbia and Russia” in his future cabinet.⁷⁶ It was recently announced that the Socialists would return again as a coalition partner, with Dacic as foreign minister.

Prime Minister Vucic has taken tangible steps to advance Serbia’s integration with the European Union, including enhanced cooperation with Kosovo. Yet Serbia’s democratic performance has failed to improve during his premiership, despite his strong rhetorical commitment to accelerate Serbia’s EU aspirations. Serbia’s score for media independence declined after Vucic’s assumed the premiership, related to the government’s efforts to restrict and control the country’s already opaque media sector. In fact, since 2008 Serbia has failed to significantly improve its governance standards at all. Judicial independence slightly improved in 2007 but has plateaued since (see Figure A.5). Media independence has steadily declined, and anticorruption measures have barely improved over the past decade. Despite its political rhetoric about its desire to be a future member of the European Union, Serbia’s democratic governance performance does not match this rhetoric.

If there is stated political will at the most senior levels of the Serbian government to reform, why isn’t more progress being made on its reform agenda? Much of Europe’s attractiveness emanates from the appeal of its perceived economic and democratic success; if Serbia draws closer to the European Union yet does not reform, EU credibility is weakened. Are there forces that wish to prevent reform, making Serbia ineligible for future EU membership? Is this an attempt to demonstrate that “joining the EU does not bring any desired outcomes” such as enhanced governance and representation?⁷⁷

Making the European Union and the West an unattractive alternative seems to be a key thematic approach the Kremlin has exploited through its extensive media presence, official rhetoric, and through the Eastern Orthodox Church. By highlighting the West’s economic and political dysfunction while simultaneously highlighting a better and more historically authentic and traditional approach that is fully compatible with Serbia’s (and indeed, the broader region’s) interests, culture, and values, Russia erodes the credibility of Western institutions and norms and offers itself as a solution. For example, Russian Orthodox Patriarch Kirill has accused the West of launching a mass propaganda campaign that “intentionally twisted information about the [Slobodan] Milosevic regime’s atrocities against Kosovar Albanians”⁷⁸ during the NATO bombing campaign, further stating that Kosovo Serbs are the victims of the “unacceptable injustice, double standards and lies of the policy that declares commitment to ideals of humanism, protection of human rights.” During an April 2016 meeting with Serbian Foreign Minister Dacic, Russian Foreign Minister Sergey Lavrov, commenting on Europe’s migration crisis, said, “We know that Serbia is under pressure . . . we will provide assistance . . . to help it overcome the problem,” alluding to Europe’s mismanagement of the crisis and Russia’s willingness and ability to help when Brussels has clearly

76. “Serbia under Pressure from Russia over Its EU Goals,” AP News, May 26, 2016, <http://bigstory.ap.org/article/0e586a4ba43c4e0caafd2a68e4b67acf/serbia-under-pressure-russia-over-its-eu-goals>.

77. Jelena Milic, “The Russification of Serbia,” in *Mapping of Russian Influence in Serbia during 2013 and 2014* (Belgrade: Center for Euro-Atlantic Studies, 2014), <https://www.ceas-serbia.org/Mapping-Russian-influence-in-Serbia.pdf>.

78. Vecernje Novosti, “K. Serbs Victims of Geopolitical Game—Russian Patriarch,” B92, January 29, 2012, http://www.b92.net/eng/news/politics.php?yyyy=2012&mm=01&dd=29&nav_id=78525.

failed to do so.⁷⁹ The most recent polls available show that sowing the seeds of doubt about the West has had an affect: Only 30 percent of Serbs believe that EU membership would be “a good thing” for their country,⁸⁰ while 94 percent believe that “Serbia’s interests are best served by maintaining strong relations with Russia.”⁸¹

79. Ministry of Foreign Affairs of the Republic of Serbia, “Ministers Dacic and Lavrov Discuss Bilateral Relations, Political Situation and Migrant Crisis.”

80. “48% of Serbian Citizens in Favor of Joining the EU.”

81. Center for Insights in Survey Research, “Survey of Serbian Public Opinion,” December 3, 2015, http://www.iri.org/sites/default/files/wysiwyg/serbia_november_2015_poll_public_release.pdf.