

Russian — European Centre for Multidisciplinary Research “Baltic Practice”

# Russia and the EU: Uneasy Relations A Look From Belgium

Academic Papers  
of the 9<sup>th</sup> International Session  
of the HSE Russian – European Centre  
for Multidisciplinary Research  
Brugge, 2 – 9 August, 2009

Edited by Nina Belyaeva  
Academic Director of the “Baltic Practice” Centre



Vytautas Magnus University Press  
Kaunas, Lithuania  
2010

This Academic Papers Collection has been published with the support  
of State University — Higher School of Economics (Moscow)

www.hse.ru  
<http://balticpractice.hse.ru>

Academic Papers  
of the 9<sup>th</sup> International Session  
of the HSE Russian — European Centre  
for Multidisciplinary Research  
Brugge, 2–9 August, 2009

This publication is a continuation of the series of yearly Academic Papers, published since 2006, by the ‘Baltic Practice’ interdisciplinary research Center, in a form of structured and edited collection of research papers of participants of the International HSE Summer School "Practice at the Baltic Sea" or simply “Baltic Practice”, submitted by the students of State University - Higher School of Economics, as well undergraduate and graduate students from several European universities, complimented by the commentaries and research articles by research groups academic leaders and experts.

The book is not intended for sale, is a scientific publication and is distributed free of charge.

The volume was prepared by Baltic Practice Editorial Group:  
*Maria Shabanova*, Secretary of the Editorial Board  
*Ann – Sofie Nyman*, English Language Editor  
*Shota Kakabadze*, Managing Editor

© 2010 Nina Belyaeva, idea, selection and editorial matter  
© 2010 Design. INTEL CORP Publishing House  
© 2010 Vytautas Magnus University Press

All rights reserved. No part of this book may be reprinted or reproduced or utilized in any form or by any electronic, mechanical, or other means, now known or hereafter invented, including photocopying and recording, or in any information storage or retrieval system, without permission in written from the  
Russian – European Centre of Multidisciplinary  
Research “Baltic Practice”, Higher School of Economics

ISBN 978-9955-12-579-2

## Editorial Board

*Nina Belyaeva*, professor of Higher School of Economics, Head of Public Policy Department; Academic Director of the HSE Russian — European Centre for Multidisciplinary Research “Baltic Practice”

*Stefano Bianchini*, professor of Politics and History of Eastern Europe, University of Bologna, Italy

*Vladimir Bryushiknkin*, professor at the Kantian Russian State University; Kaliningrad, Russia

*Thomas Bull*, professor in Public Law at Uppsala University; Sweden

*Aleksander Chepurenko*, professor and Dean of the Sociology Faculty of the SU-HSE; Moscow, Russia

*Katia Dolgova-Dreyer*, Secretary to the Steering Committee for Higher Education and Research, Directorate of Education and Languages of the Council of Europe; Strasbourg, France

*Leonidas Donskis*, professor and Dean of the Faculty of Political Science and Diplomacy at Vytautas Magnus University (Lithuania); a Member of the European Parliament; Strasbourg, France

*Michel Grossmann*, professor of Physics at the University of Strasbourg, France.

*Carsten Herrmann-Pillath*, professor of Business Economics at the Frankfurt School of Business and Management; Frankfurt, Germany

*Neil Jarman*, Director of the Institute for Conflict Research, leader of the Expert Panel on Freedom of Peaceful Assembly at the OSCE/ODIHR; Belfast, UK

*Sergei Kuznetsov*, professor, Head of the Data Analysis and Artificial Intelligence Chair, SU-HSE; Moscow, Russia

*Rustem Nureev*, Honorary professor of the SU-HSE, Chair of the Department of Economic analysis of organizations and markets; Moscow, Russia

*Stanislav Tkachenko*, professor at the St.Petersburg State University, School of International Relations; St. Petersburg, Russia



---

# CONTENTS

FOREWORD FROM THE ACADEMIC DIRECTOR.....	7
<b>EXPERTS' CONTRIBUTION .....</b>	<b>9</b>
<i>VLADIMIR ZUEV</i>	
EU-RUSSIAN RELATIONS: IN SEARCH OF A NEW CONTRACT WITHIN A CHANGING GLOBAL ENVIRONMENT .....	16
<i>ALEXANDER NIKITIN</i>	
EUROPE AND RUSSIA IN INTERNATIONAL PEACE OPERATIONS .....	21
<i>ANITA SOBOLEVA</i>	
INSTITUTES FOR HUMAN RIGHTS PROTECTION: HOW EFFECTIVE.....	28
<b>CHAPTER ONE. RUSSIAN-EUROPEAN COOPERATION: CHALLENGES AND OPPORTUNITIES .....</b>	<b>35</b>
<i>NINA BELYAEVA, SERGEY TKACHENKO</i>	
INTRODUCTION BY THE GROUP'S ACADEMIC LEADERS .....	35
<i>MILENA MARIN</i>	
NORMATIVE VALUES IN RUSSIA-EU INTERACTIONS .....	37
<i>PETER NOVIK</i>	
RUSSIA AND THE EU — COOPERATION OR RIVALRY .....	51
<i>NATIA EJOSHVILI</i>	
EASTERN PARTNERSHIP ANALYSIS.....	66
<i>MILAN ALEKSIĆ</i>	
NABUCCO VS. SOUTH STREAM IN RUSSIAN-EUROPEAN COOPERATION.....	81
<b>CHAPTER TWO. DEMOCRACY VALUES AND PRACTICES: GETTING DOWN TO BASIC FEATURES .....</b>	<b>92</b>
<i>DMITRIY ZAYTSEV, VLADIMIR LEDYAEV</i>	
INTRODUCTION BY THE GROUP'S ACADEMIC LEADERS .....	92
<i>ANNA SHKURATOVA</i>	
DEMOCRACY: PROS AND CONS. DEMOCRATIZATION PROCESS .....	94
<i>EKATERINA BALOBAEVA</i>	
NATION-STATE AND GLOBALIZATION.....	102
<i>KONSTANTIN ANCHIN, MARIA MERKULOVA</i>	
THE INTERACTION OF POLITICAL PARTIES AND CIVIL ORGANIZATIONS: CASES OF RUSSIA AND NORWAY .....	112
<i>RAMON VAN BRUCHEM</i>	
NO DEMOCRACY: WHY THE RUSSIAN PARTY SYSTEM FAILED .....	124
<i>NIKITA ROMASHKIN</i>	
TEXTUAL ANALYSIS OF THE FRENCH SOCIALIST PARTY MOTIONS PRESENTED AT THE 2008 PS CONGRESS .....	146
<b>CHAPTER THREE. HUMAN RIGHTS: FROM PHILOSOPHY TO LEGAL INSTRUMENTS .....</b>	<b>152</b>
<i>ANITA SOBOLEVA, CHUCK HIRT</i>	
INTRODUCTION BY THE GROUP'S ACADEMIC LEADERS .....	152
<i>BENJAMIN MOLS</i>	
PHILOSOPHIC FOUNDATIONS OF HUMAN RIGHTS.....	156
<i>EKATERINA TARASOVA</i>	
THE EU-RUSSIA DIALOGUE ON IMPLEMENTATION OF THE RIGHT TO FAIR ENVIRONMENT ...	166

<i>ELENA SOROKINA</i>	
LEGISLATION ON NGOS IN RUSSIA AND EUROPE .....	175
<i>TATIANA MILACHEVA</i>	
COMPARISON OF THE EU AND CE HUMAN RIGHTS INSTRUMENTS ON THE EXAMPLE OF DISCRIMINATION OF FOREIGN NATIONALS ON GROUNDS OF NATIONALITY .....	182
<i>MARIA SHABANOVA</i>	
RIGHTS OF LGBT MINORITY IN RUSSIAN LAW AND PRACTICE .....	190
<b>CHAPTER FOUR. CORPORATE GOVERNANCE: BETWEEN MARKETS AND POLICY .....</b>	<b>196</b>
<i>OLGA MELITONYAN, VLADIMIR ZUEV</i>	
INTRODUCTION BY THE GROUP'S ACADEMIC LEADERS .....	196
<i>YULIA SONINA</i>	
CORPORATE GOVERNANCE PRACTICES. IS IT IMPORTANT FOR COMPANIES? .....	198
<i>NATALIA CHURKINA</i>	
INTEGRATING INTERESTS OF BUSINESS AND GOVERNMENT IN SOLVING THE PROBLEM OF CLIMATE CHANGE MITIGATION .....	209
<i>MARIA SINICHKINA</i>	
EU-RUSSIA RELATIONS: CHALLENGES AND OPPORTUNITIES FOR RUSSIAN INVESTORS IN THE EUROPEAN UNION'S MARKET .....	215
<i>SVETLANA BORISOVA</i>	
TAXATION OF SMALL ENTREPRENEURSHIP IN RUSSIA UNDER THE CONDITIONS OF THE ECONOMIC CRISIS: WHAT CHANGES ARE NEEDED? .....	225
<i>DENIS KURAKIN</i>	
DECISIONS OF MANAGEMENT AND SHAREHOLDERS OF THE COMPANY: HOW THEY INFLUENCE COMPANY MARKET PRICE .....	236
<b>CHAPTER FIVE. ENTREPRENEURSHIP: FRAMEWORK AND PRACTICE IN RUSSIA AND EUROPE .....</b>	<b>242</b>
<i>ALEXANDER CHEPURENKO, MIGUEL MEULEMAN</i>	
INTRODUCTION BY THE GROUP'S ACADEMIC LEADERS .....	242
<i>ELENA SUBBOTINA</i>	
EDUCATING MANAGERS AND ENTREPRENEURS: COMMON FEATURES AND DIFFERENCES IN THE PRACTICE OF RUSSIAN AND FOREIGN BUSINESS-SCHOOLS IN DEVELOPED COUNTRIES ..	243
<i>ELENA CHURILOVA, VLADIMIR SHUKLIN</i>	
ENTREPRENEURIAL POTENTIAL OF RUSSIA AND BELGIUM: COMPARATIVE ANALYSIS OF ENVIRONMENT FOR EARLY ENTREPRENEURSHIP ACTIVITIES .....	259
<i>MAXIM MARKIN, ELENA NAZARBAEVA</i>	
WHAT IS MORE IMPORTANT FOR EARLY STAGE ENTREPRENEURS IN RUSSIA AND BELGIUM: HUMAN CAPITAL VS. SOCIAL CAPITAL .....	271
<i>EKATERINA YARYGINA, MARIA KARPASOVA</i>	
ACCESS TO REAL ESTATE AS RESTRICTION OF SMALL ENTREPRENEURSHIP DEVELOPMENT IN RUSSIA .....	279
<i>DENIS BOLDIN, ANDREI KUZMINOV, KONSTANTIN ROZANTSEV</i>	
SME AND INFORMATION RESOURCES FOR IT IN RUSSIA (A CROSS-REGIONAL COMPARISON) .....	286
<b>APPLICATIONS .....</b>	<b>297</b>
HSE RUSSIAN — EUROPEAN CENTRE FOR MULTIDISCIPLINARY RESEARCH "BALTIC PRACTICE" .....	297
UNIVERSITY-HIGHER SCHOOL OF ECONOMICS .....	299
THE AUTHORS .....	302

---

## ***Foreword from the Academic Director***

Introducing the volume, that is a result from the NINTH academic summer session, -is quite a challenge: each time, speaking about a new book, I am asked to highlight something particular, something surprisingly new, unusual, and, definitely, ‘better’, than the previous “Baltic Practice” session and volume.

This is no surprise. If you take an effort to run an academic project for ten years in a row, you HAVE TO make it more interesting and more attractive each year, just to keep the old team members “on board” and get the new participants involved. So, like it or not, we have to be better each year, otherwise the project would not develop — in terms of its geography, disciplinary diversity and academic quality, -given the fact, that most of it is self-supportive.

This time, however, I do not need to search for the particular ‘unusual features’ of our summer session in Dudzele-Brugge in august 2009, that had provided content and structure to this volume, because it was — altogether — most unusual and unique, as no one before, and only a solid academic tradition of the joint work of our Academic Council and responsibility of the research group Supervisors — makes it look “as if it is a regular research papers collection”.

Let me briefly list just some of those peculiarities, so that the readers can appreciate amount of effort and collective work, invested in this volume.

First of all, the unique was the place of the summer session itself. For a Russian-European research Center, moving its academic sessions each year to a different country, and having already visited all the Baltic States, Finland, Germany and Sweden — it was almost like “living a dream” to have next session in Belgium — in the very heart of United Europe, home to major European Institutions, and on a side of the “jewel” of medieval European architecture — in Dudzele-Brugge. It came with a challenge of “informal study-place”, but created a unique atmosphere of warmth and friendliness of Belgian country-side.

That summer was also unique for the level of political challenge, that we found ourselves ready to meet: in the whole history of Russia-EU relations, that we were monitoring since 2001, when Baltic Practice started in Kaliningrad, the climate of those relationships was, probably, the worst and “close to freezing”, particularly after the Russian-Georgian war. This is not to mention the fact, that that the long-awaited New Strategic Agreement between Russian Federation and the EU was, once again, put on hold and the future of it is still very vague. Clearly, this is environment is not the best to discuss Russia-EU relations. Nevertheless, we decided to face those challenges with our analytical instruments, not to avoid difficult issues, but, instead, focus on them in our debates and in our papers — trying to address those issues in scholarly manner.

Another unique feature of this volume — for which we have to praise our Student Organizing Committee — is the broadest possible representation both by

authors and the summer session participants — of different disciplines and different faculties : Law, economics, sociology, management, world economics and world politics, psychology, philosophy, political science, municipal government and business informatics — almost all faculties of HSE were working together in Bruges! This created an interactive and creative knowledge-sharing space and truly interdisciplinary scholarly environment, that greatly contributed to our collective wisdom .

More to this : in this volume we were able to present much broader spectrum of young scholars from different European countries — Belgium, Netherland, Slovenia, Serbia, Georgia and Belarus.

But the most unique accomplishment of this year's volume — in my personal consideration — is the devoted and cooperative work of the members of our International Editorial Council, whose names you see on the inner-cover of the book. Each of them took their responsibilities of “second readers’ very seriously , which significantly contributed to the papers academic quality.

I want to take this chance to express my most sincere thanks and appreciation — to the members of International Editorial Council for their rigorous comments, to working groups Academic Supervisors for the inspiration they give to participants as well as patience in correcting their mistakes, to Student Organizing Committee for their energy and enthusiasm , to HSE Administration for their continues support — and to all the authors and project participants for their interest to the theme of Russian-European relations.

It is a great honor for me to present this volume as a result of our common work.

*Nina Belyaeva,  
Prof., Chair of Public Policy Department,  
Head of Master Program in Public Policy and Political Analysis  
of the State University — Higher School of Economics (Moscow),  
Academic Director of the HSE Russian — European Centre  
for Multidisciplinary Research “Baltic Practice”*



---

# Experts' Contribution

*Vladimir Zuev*

## ***EU-Russian relations: in search of a new contract within a changing global environment<sup>1</sup>.***

The PCA had a very important impact on EU — Russian relations. That was a milestone of the period and meant a breakthrough in relations. But today the situation has changed dramatically, both within EU and inside Russia, as well as outside them — the global economic and political landscape is completely different. A new breakthrough is badly needed, but seems unlikely for the moment.

### **1. Impact of change of the global environment on the Russian-EU dialogue**

Since the start of the EU-Russia dialogue in the year 2004 to conclude a new agreement to substitute the PCA the situation in the world has changed dramatically.

World financial and economic crisis reversed the already established perceptions of sustainable economic growth.

The rise of the new economic powers pushes sides to change their external economic relations priorities.

The world energy prices first rose dramatically from 2000 till mid 2008 up as high as to around \$150 per barrel of crude. And afterwards fell to a low of around \$50. (Just imagine, that a decade ago in 1998 oil prices were at a low of \$9 per barrel!)

Russian companies have started the new aggressive policies of acquiring western assets.

Climate change prevention has become a priority of the international agenda, Kyoto protocol has been ratified and implemented, new Copenhagen arrangements are about to follow.

Political inputs for the relations are not “working for” the intensification of economic links. An intention to place AMD components in Eastern Europe, a military conflict in Georgia and other political developments of the kind rather create further lines of tensions in Russian relations with the West.

EU Eastern partnership program has been very cautiously met in Russia.

Hopes for progress in Russian relations with major global institutions have not been materialized (WTO entry talks at a stall), while efforts to push forward regional integration (other than with the EU) has been intensified (SCO).

All of these changes brought new dimensions to the Russian — EU economic dialogue and made it substantially more complex.

---

<sup>1</sup> The study is being carried out with the financial support of the State University-HSE Scientific Fund.

## 2. EU new strategies on markets and partners

EU is looking everywhere for new reliable partners in a search of a more secure economic position. Eastern partnership, Mediterranean alliances, Central Asia, Northern Africa projects — all of them are supposed in a way to lower the energy dependence from Russia.

The EU priorities are well known and expressed in many of the recently adopted documents. Just to summarize the essentials, which are of the importance to the logic of this study, we should mention:

- Irrespective of new regulative anti-crisis measures, within the EU the policy of liberalization of markets and opening up of economies for European and foreign competition remains an uncontested priority;
- EU is aiming an increased security and reliability of the energy supplies and a puts a task to establish a more concise EU energy policy<sup>2</sup>;
- Different proposals of the "climate-energy package" to transform the EU industrial fabric into a low-carbon clean and green economy. Adopting the "climate-energy package" is the manner in which EU credibility is demonstrated in the international arena<sup>3</sup>;
- A set of market liberalization measures to make the whole EU idea work;
- Specific energy efficiency packages;<sup>4</sup>
- Reciprocity becomes all the more introduced principle of economic relations. For a sustainable future, the EU has agreed to meet the following objectives:
  - saving 20% of projected energy consumption by 2020;
  - increasing to 20% by 2020 the share of renewable energies in overall energy consumption;
  - increasing to at least 10% the share of biofuels in overall petrol and diesel consumption by 2020, provided that sustainable, 'second-generation' biofuels from non-food crops become commercially available;
  - cutting greenhouse gas emissions by at least 20% by 2020;
  - an internal energy market which provides real and effective benefits to every person and company;
  - better integration of EU energy policy with other policies, such as agriculture and trade;
  - more international cooperation.

One of the significant changes in the EU policies, with the prospect of influence on the economic partnership arrangements with Russia, has started their way since September 2007, when the European Commission has adopted a third package of legislative proposals to ensure a real and effective choice of supplier and benefits to every single EU citizen. The European Commission package includes a number of measures to complement the existing rules<sup>5</sup>.

Separation of production and supply from transmission networks: Network ownership and operation should be "unbundled". This refers to the separation between

---

<sup>2</sup> Council of the European Union, 7224/07, CONCL 1, Brussels, 9 March 2007

<sup>3</sup> <http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/08/567&format=HTML&aged=0&language=EN&guiLanguage=en>

<sup>4</sup> The Energy Efficiency Action Plan. CEC. Europa.eu.int 19 October 2006

<sup>5</sup> CEC Reference: IP/07/1361, Brussels, Date: 19/09/2007

the network operation of electricity and gas from supply and generation activities. The proposals make it clear that the Commission's preferred option in this respect is ownership unbundling — in other words that a single company can no longer own both transmission and be occupied in energy production or supply activities. In addition, the Commission proposes a second option, the "independent system operator" which makes it possible for existing vertically integrated companies to retain network ownership, but provided that the assets are actually operated by a company or body completely independent from it. Either one of these options will thereby help avoiding black-outs and unnecessary price surges.

The Commission recognizes the strategic importance of Energy Policy. Therefore the package contains safeguards to ensure that in the event that companies from third countries wish to acquire a significant interest or even control over an EU network, they will have to demonstrably and unequivocally comply with the same unbundling requirements as EU companies. The Commission can intervene where a purchaser cannot demonstrate both its direct and indirect independence from supply and generation activities.

Facilitating cross-border energy trade: The Commission proposes to establish an Agency for the cooperation of National Energy Regulators, with binding decision powers, to complement National Regulators<sup>6</sup>. This will ensure the proper handling of cross-border cases and enable the EU to develop a real European network working as one single grid, promoting diversity and security of supply.

More effective national regulators: the Commission proposes measures to strengthen and guarantee the independence of national regulators in Member States.

Promoting cross border collaboration and investment: The Commission proposes a new European Network for Transmission System Operators. EU grid operators would cooperate and develop common commercial and technical codes and security standards, as well as plan and coordinate the investments needed at EU level. This would also ease cross border trade and create a more level playing field for operators.

Greater transparency: Steps to improve market transparency on network operation and supply will guarantee equal access to information, make pricing more transparent, increase trust in the market and help avoid market manipulation.

Increased solidarity: by bringing national markets closer together, the Commission foresees more potential for Member States to assist one another in the face of energy supply threats.

There are, of course, many other important issues of the EU policy. But the already mentioned ones help showing the way and the manner the EU would lead the dialogue with Russia, and illustrates, how many important issues for the future geometry of relations these items may bring.

### 3. Russia: new concepts, based on the old thinking

Within the Russian Federation, the role of the state in economy has increased substantially. Both direct involvement and indirect control of the state expanded over the key industries and key companies, partially due to the world economic crisis, partially as a result of the domestic trend, set long before the crisis.

---

<sup>6</sup> A Regulation establishing the EU Agency for the cooperation of National Energy Regulators

That was especially visible in the banking and in the energy sectors, which are considered as critical for the success of the state policies.

At the same time, Russia continues to formulate mostly protective policies in external trade, banking and energy, limiting and controlling the access of the foreign capital in the national economy.

The rise of Russian oil and gas has been the most influential new force in the world energy market since the Organization of Petroleum Exporting Countries (OPEC) consolidated power in the 1970s<sup>7</sup>. Russia holds more oil and gas than any other country outside of OPEC and runs with Saudi Arabia for global leadership in oil production and export.

While the EU energy markets (gas and electric power) have been opening up for competition after years of intense regulations, the Russian market was still in the process of reforming and a direction of reforms is far from being similar to the EU.

Hindrance to integration, reluctance to ratify the Energy Charter, monopolization of the industry and control over export prices and energy transportation networks, alongside with other protectionist measures on the part of Russia create serious obstacles on the way to the introduction of market mechanisms in the industry and to further increase of investments in the extraction sector from the partner countries. The role of government as compared to the role of business community and NGO in Russia is extremely high, with no similarity to Europe.

With the absence of progress in liberalization of markets, important role to stimulate the EU — Russian dialogue could have played a new topic of the introduction of the new energy sources to backup industrialized economies. It looks more like a paradox, but Russia was not so much interested so far in the fast and revolutionary technical progress in the field of discovery and use of the new energy sources. Be it solar energy, wind generators, or bio energy of the second generation. The progress along these lines will mean the downgrading of Russia, as a major energy super-power. And economic incentives to switch to new energy in the hydrocarbon reach country are low. These could be the explanations, why Russia remained relatively inactive in promoting the research in the field.

However, energy-saving could be an issue of common concern between the two parties. In the summer of 2008, Russian President D. Medvedev signed a decree which called for new laws to create 'energy-efficient' technologies and set a goal of slashing the country's energy wastefulness in the GNP by 40% by 2020<sup>8</sup>. Within the Russian Climate doctrine, adopted on the 17 December 2009, the general task to move to an energy efficient economy has been confirmed as one of the priorities<sup>9</sup>. This is an extremely lofty target. Yet to date no legislative framework has been set up. So far, renewables account for less than 1% of the energy generated in Russia<sup>10</sup> (the plan is to increase their share to 4.5% by 2020, while the EU wants renewable energy to account for 20% of its output by 2020).

---

<sup>7</sup> John D. Grace. Russian Oil Supply. Performance and Prospects. Oxford Institute For Energy Studies, Oxford University Press, 2005; 161.

<sup>8</sup> Decree of the President of Russian Federation of June 4, 2008, N889. [www.kremlin.ru/transcripts/4697](http://www.kremlin.ru/transcripts/4697)

<sup>9</sup> Climate Doctrine of the Russian Federation. [Kremlin.ru/news/6365](http://Kremlin.ru/news/6365), point 23, 17 December 2009

<sup>10</sup> Bloomberg 20.01.09

As the economic and energy dialogue is at a low with the West, Russia is actively seeking new partners among the energy consuming countries in the South East, and energy producing countries in the Middle East.

Major gas exporters have met informally for several years at the annual Gas Exporting Countries Forum, a grouping including Russia, Iran, Qatar, Venezuela, Nigeria, Algeria, Egypt, Indonesia and Libya. Iran, and Russia, wanted to turn it into a more formal body akin to the Organization of the Petroleum Exporting Countries, the cartel that makes output decisions.

Russia, Iran and Qatar moved on 21 October 2008 in a meeting in Moscow to strengthen cooperation, and Tehran said there was consensus to set up an OPEC-style group. Russia, Iran and Qatar are ranked the first-, second- and third-biggest holders of natural gas reserves and together accumulate more than half of the global total. "We have agreed to hold regular -- three or four times per year -- meetings of the 'big gas troika' to discuss key issues of gas market developments," Gazprom CEO A.Miller said in a statement.<sup>11</sup> "We have a common vision of the goals of the forum and we need to transform it into a permanent organization as quickly as possible." the statement said.

The long denied gas-exporting countries cartel finally has been set up with permanent headquarters in Qatar and Russian citizen at the head of the new organization. Russia wants to play an active role in the new organization. On December 9, 2009 a representative from Russia Leonid Bohanovskiy has been chosen to be the General Secretary of the Forum. Making comments on the issue, K. Simonov, who heads the Russian National Energy Security Fund, pointed out that Russia will try to actively lobby its interests in the world gas market.<sup>12</sup>

Even long-time debated cooperation with the OPEC is on the list of possible ventures.

The largest Russian private oil company LUKoil vice president Leonid Fedun went so far as to say Russia should join OPEC to help buttress global prices, which have crashed to levels that jeopardize investment.<sup>13</sup> This is the first such important statement to advocate joining the organization. And the Russian President D. Medvedev held his first-ever meeting with OPEC's secretary-general in October 2008.

We should add to the picture the growing wish of the Russian politicians to redirect part of the oil and gas supplies, as well as economic links in general, to Asia.

One of the numerous examples — Moscow and Seoul on 29 October 2008 signed a deal to send Siberian gas to South Korea, an estimated \$90 billion project.<sup>14</sup>

A series of negotiations with the same aim is permanently held with other countries of the region, like China, or Indonesia. The set up in February 2009 of the LNG facility on the island of Sakhalin to assure supplies to Japan and other countries of the region can also be considered as part of the strategy to diversify to the East. The second major move in this direction in the year 2009 was the creation of the East-Siberia — Pacific Ocean oil transportation network.<sup>15</sup> These movements by Russia are

---

<sup>11</sup> The Wall Street Journal -Financial Times — Vedomosti, 22 October 2008.

<sup>12</sup> Simonov K. Electing Russian citizen as a General Secretary of GECF is an indication of the Russian leadership in the world gas market. [Minenergo.gov.ru/news/experts/2506](http://Minenergo.gov.ru/news/experts/2506), 07.01.10

<sup>13</sup> [Anatoly Medetsky](#). Producers Warn of Oil Output Cuts. *Moscow Times*, 30 October 2008 / [Staff Writer](#)

<sup>14</sup> [Anna Smolchenko](#). *Moscow Times*, 30 September 2008

<sup>15</sup> [www.minenergo.gov.r/news/experts/2624](http://www.minenergo.gov.r/news/experts/2624) 07.01.10

a logical step in assuring supplies of energy to the emerging markets, which already account for a 70% rise in world energy consumption the past several years. This trend is clearly reflected in the new energy strategy of Russia, adopted in November 2009.<sup>16</sup> The goal of the strategy is to increase the share of the Eastern markets in the total Russian oil exports from the current 6% to 20-25% and for gas exports from the current 0% to 20%. The major increase in exports is to be assured by rising supplies to the East.

If one takes a look at the new conception of the Russian external policy, adopted on July 15, 2008, one would nevertheless notice a mention of the EU in the list of external relations geographic priorities and a paragraph describing the need to establish advanced forms of cooperation with it.<sup>17</sup>

But having said this, we should understand under what difficult circumstances the negotiations within the economic dialogue between the EU and Russia will be held.

We are still only at the beginning of the long and difficult bargaining process, where energy related topics will have crucial importance in forming the future geometry of relations.

Is it possible at all to find the common ground? Will Russia definitely lose the status of a reliable partner to the West?

#### 4. Energy is in the heart of the new EU-Russian contract

Currently, Russia exports around 250 million tons of crude oil annually to Europe. Of this amount, 100 million tons goes through Belarus by way of the old *Druzhba* Soviet pipeline, 75 million through the Baltic pipeline system, and the other 75 million tons goes through the Black Sea and Ukraine.

Energy transportation security is a critical condition for stable energy deliveries to the EU market and to a secure economic development of the EU members.

Cooperation in infrastructure development apparently should be of vital importance. But the reality is “slightly different”. There is rather a competition in projects like it is in the case of South Stream and Nabucco.

The political component of economic relations and energy security dominates relations. A major factor fueling the instability is Russia’s lack of willingness to lose direct control over oil and gas export transportation networks.

Part of the explanation lies in the purely economic domain. There was a high rent for Russia’s geographical position. Gazprom took Turkmen gas for around \$100 and resold it to European countries for around \$300 per 1000 cubic m. \$200 of a difference explained a lot in the Gazprom monopoly conduct. But the market competition diminishes the rent and makes the access to networks more realistic in the future. Turkmenistan itself wants to bypass Russia, as seen in a new policy priorities, announced in the summer of 2009 and called “multi-directional exports”, where supplies towards Europe, India and China are considered to be assured without involving Russian transportation network.<sup>18</sup>

---

<sup>16</sup> Russian energy strategy to the year 2030. [www.minenergo.gov.ru/documents/zakon](http://www.minenergo.gov.ru/documents/zakon)

<sup>17</sup> External policy concept of the Russian Federation. [www.kremlin.ru/acts/785](http://www.kremlin.ru/acts/785), 15 July 2008, p.12.

<sup>18</sup> Tertyakova N., Derbilova E. Turkmenistan is looking for alternatives to Russia. *Vedomosti* June 1, 2009.

Monopolist policy potentially is dangerous for Russia itself.

Another concern facing Russia is diversification of export transit routes. Currently, the largest among such projects is the Baltic Pipeline System (BPS), the Eastern Siberia — Pacific Ocean oil pipeline (ESPO) and the North-European gas pipeline (Nord Stream). The capacity of the BPS, which became operational in 2001, is 75 million tons. Due to time from time worsening relations with Belarus, however, the government inspired Russian company, which deals with transportation — Transneft — to develop proposals in order to increase the transfer capacity of the BPS to 120 million tons. The ESPO is being built with the purpose of creating a direct connection to China (30 million tons per year) as well as to the Primorie Region (50 million tons per year). Nord Stream will eventually allow for 55 billion cubic meters of gas per year to go under the Baltic Sea to Germany and, further on, to Great Britain.

By the way, the growing wish of Russia to sell oil to Asia, especially to China, is fully taken into account within the EU. For example, in one of the Council's directives there is a direct reference to the matter of this concern. "In an unstable geopolitical environment where the balance between supply and demand is generally uneasy, particularly due to growing demand from new mass consumers such as China, the European Union's dependency on imports of petroleum products is an increasing cause for concern for European economic prospects"<sup>19</sup>.

An alternative, or an additional instrument, of increasing security of supplies could be brought by the ratification of the Energy Charter. The mechanisms of the Charter can be involved both for the protection of the Russian exporters' interests and the creation of equal conditions for entering the high-yielding markets for the European Union companies. That could help solving the problem of physical protection of Russian gas and oil in transit to third-party countries. For example, a problem with illegal take away of gas from the Ukrainian export gas pipelines would be a question not only within the jurisdiction of bilateral relations between Russia and Ukraine, but a case to be solved on a multipartite basis under the aegis of the Energy Charter Treaty (ETC) or under international jurisdiction. In addition, there will be guarantees of transit on non-discriminatory principles and an application of objectively proved and fair tariffs.

Nevertheless transit problems regarding energy supply remain a serious obstacle to both sides of the energy dialogue.

Russia is trying to assure supplies, avoiding dependency from Ukraine, Belarus, or other neighbors, which used to be close allies to Russia.

EU is trying to avoid Russia itself as a transit country, while assuring supplies from Central Asia. The EU also has a roadmap — known as the Baku Initiative — with 13 Black Sea and Caspian countries to diversify its arrangements. The partnership with seven countries of southeast Europe also plays a role, as it is particularly close and the EU and these countries have formed a single Energy Community.

Not feeling secure enough, primarily with regard to supplies from Russia, the EU made obligation on the Member States to build up and maintain a minimum petroleum reserves. Council Directive 2006/67/EC of 24 July 2006 imposing an obligation on Member States to maintain minimum stocks of crude oil and/or

---

<sup>19</sup> Council Directive 2006/67/EC of 24 July 2006, <http://europa.eu/scadplus/leg/en/lvb/l27071.htm>

petroleum products provides for more security of supply of petroleum resources to the European Union (EU).<sup>20</sup> It requires Member States to build up and constantly maintain minimum stocks of petroleum products equal to at least 90 days of the average daily internal consumption during the previous calendar year.

Given the importance of oil in the EU's energy mix, the EU's strong external dependence for supply of petroleum products and the geopolitical uncertainty in many producer regions, it is felt vital for the EU to guarantee consumers continuous access to petroleum products.

Thus, the trust between Russia and the EU is far away in energy transit relations, especially when we compare these links with the above mentioned ones within the Energy community, for example.

The truth is that most of the traditional hydrocarbon energy resources are located not in the safe countries. How to assure the energy security in a world, where everybody has no trust in the partner countries, involved in the energy trade links?

Interdependence seems to be the safest way to assure the level of reliability of supplies. But the countries, rich in energy, are only willing to grant a very limited access, if at all, to their resources.

## 5. Moving in the opposite directions, where would we arrive to?

As it was already pointed out, Russian and the EU economic strategies have been moving in the opposite directions. Be it the role of the state in economy in general, or in energy market functioning namely. Be it the task to lessen monopolization and to foster competition. Be it the policy to introduce renewable energy sources. Be it a search for the ways to solve the energy-transit problem.

Russia tends to use natural resources as a tool of influence and economic might. There is a list of 42 “strategic” sectors that will not be left to the free market and will be subject to a limited access of foreign capital. In September 2007 a bill on strategic industries has been passed in the 1st reading in State Duma. The 2nd reading was in March 2008. Since 7 May 2008 it was enacted. Among the listed sectors in the first run we find oil and gas fields, transportation, ownership of subsurface minerals and, generally, the right to export natural resources from Russia.

The view of oil and gas as strategic resources under close state control not only sets limits on Russian companies, it also defines the boundaries to foreign firms seeking to enter the Russian market. The current administration restricts foreign firms' participation in the Russian energy industry. Although foreign firms that contribute to, or are in the process of making remote, high-cost and technically complex projects will continue to be tolerated and even encouraged to some extent.

Restricting foreign participation in national energy sector, the Russian state at the same time is in support of the Russian business expansion abroad.

Since the start of this decade, Russian energy, banking, metal sector companies do not just simply sell natural resources or services, but also acquire actively assets in international refining enterprises and invest money in other lucrative projects in the West. This process started roughly a decade ago, when LUKOIL

---

<sup>20</sup> Strategic oil stocks. <http://europa.eu/scadplus/leg/en/lvb/l27071.htm>



bought Petrotel, a Romanian oil refinery and a network of gasoline stations in the USA. Since then, the volume of external investment by Russian companies has risen steeply. For example, the international refining capacity of LUKOIL (including two refineries in the USA and excluding Russian refining capacity) amounts to 16.7 million tons, as compared to 41.8 million tons in just Russia<sup>21</sup>. LUKOIL's international gasoline service stations network exceeds the total number of service stations in the Russia. State energy companies are also keeping pace. Gazprom and Rosneft are partners in trading, gas-distributing and oil refining companies in Latvia, Lithuania, Estonia, Serbia, Great Britain, Italy and other countries around Europe<sup>22</sup>.

The natural European reaction to this new trend of Russian expansion is a search for implementation of the reciprocity principle towards the reverse direction access of capital on the markets.

Introducing energy security topic into the agenda of the G 8 Summits could not produce a breakthrough in negotiations. At the contrary, under the Russian presidency within the G 8 in 2006 the energy security started to be treated as a security not only for importing countries, but for exporting ones, as well. That makes a compromise even harder to achieve. In contrast to formal official reports, which include a lot of nice words on the prospects of cooperation,<sup>23</sup> every key issue of the economic dialogue seemed to be in a deadlock.

## 6. World economic crisis: is there a hope?

It looks as a paradox, but the latest trends in the world economy since the second half of the year 2008 may soothe in a way the diversions in economic and energy dialogue of the previous decade, which seemed to be of the no-solution-possible kind just in the very near past.

In the fall of the year 2008 intervention of the state, primarily in the financial sector, but also in general in economy, has also increased in the West, and in Europe, as well. The role of the state in economy becomes a big issue, both theoretical and practical, on either side of the continent.

EU has changed the policies in a way, seeking the reciprocity. The most illustrative measure of this kind is a third energy directive with an aim to disconnect the producing and distributing units in the gas sector of the EU. The French President N. Sarkozy proposal to establish the EU sovereign funds and creating the French national sovereign investment fund to protect the local enterprises in economic trouble from being bought up by foreigners is having the same protective-reciprocity impact.

Oil prices dropped more than twofold in the fall of 2008 — first half of 2009 to around \$60 per barrel. The new world energy prices' conjuncture is a factor, which may push Russia to be more inclined to look for a compromise.

Russian companies were in search for liquidity, both abroad and on domestic market, to refinance their debts and to continue their foreign expansion policies.

---

<sup>21</sup> Renaissance Capital. Oil and Gas Russia. 2006 Oil and Gas Yearbook Equity Research. M.: Renaissance Research, July 2006; pp11-14.

<sup>22</sup> Gazexport, RPI FSU Oil and Gas Statistics Yearbook. M.: Gazprom, 2007

<sup>23</sup> Tenth progress report, November 2009. [ec.europa.eu/energy/international/bilateral\\_cooperation/russia/progress\\_reports\\_en](http://ec.europa.eu/energy/international/bilateral_cooperation/russia/progress_reports_en)

Energy efficient economy becomes a priority not only for the climate change reasons but an economic necessity of the day for financial reasons, as well.

Russian production output in the year 2009 declines by more than 10 percent. The wave of pessimism comes, as Russia faces its first annual decline in output in a decade, despite government efforts to engineer an increase by cutting taxes and giving investment incentives.

What is the significance of all of these changes? May they bring a new air in the economic dialogue between Russia and the EU and other major industrial countries? — The answer may be a positive one in some of the scenarios.

## 7. Increased interdependence — key to future partnership relations.

It may seem a paradox. Normally any contracting party would seek to avoid dependence from a partner. And that would be considered as more secure in a given field. It is absolutely true, if we talk about one-sided dependence.

It is a different story, if it is mutual.

Countries of the EU are extremely economically interdependent in all the fields — trade links, capital investment, labor force movement, services. But they feel secure altogether. Interdependence induces them to find common solutions and adopt common regulatory measures to assure the common development in a compromise fashion, which finally suits everybody.

The EU has stated on numerous occasions, that it does not look for a reduction in the level of supplies from Russia. In parallel the EU wants increased level of investment in the Russian economy, including the energy transportation networks.

Russian economic policy still remains protective and restrictive, so far. No significant move to meet the partner's needs and aspirations are registered, so far.

Sophisticated models of cooperation could have been considered. Similar to the type of the Energy Community, for example. The Energy Community Treaty creates an internal market in electricity and natural gas bringing together the 27 Member States of the European Union (EU) and 7 European states and territories in the Balkans. The Treaty entered into force on 1 July 2006.<sup>24</sup>

The objectives of the Energy Community are:

- to create a stable legal and market framework capable of attracting investment in order to ensure a stable and continuous energy supply;
- to create a single regulatory space for trade in network energy;
- to enhance security of supply in this space and develop cross-border relations;
- to improve energy efficiency and the environmental situation related to network energy and develop renewable energy sources;
- to develop network energy market competition.

It is just exactly what is needed in relations between Russia and the EU. But definitely it is not realistic to manage such a project in between the two.

Here in Russia, the predominant way of thinking is that EU in particular, and the West in general, is more interested to establish close economic links with Russia to

---

<sup>24</sup> The Energy Community Treaty. <http://europa.eu/scadplus/leg/en/lvb/l27074.htm>

have an access to the domestic market to sell goods and to have an access to the exploration of the raw materials.

I can provide lots of proof to this statement.

On the other hand, there are a lot of studies into the situation within the EU as far as the energy policy is concerned<sup>25</sup>. The general impression that I have out of these studies is that energy security level is not that much a disaster, as many may think it is, especially here, in Russia.

The EU supplies of traditional hydrocarbons, of oil and gas are increasingly diversified. There are some of the inner resources, primarily from Britain, the Netherlands and Norway. There are supplies from the Middle East, Central Asia, Russia and a growing potential from Africa. Gas deliveries in a liquid form (LNG) provides for another alternative to diversify the routes of supply. The energy balance consumption is shifting in the direction of an increased use of new energy sources, like solar, wind, biofuels of the new generation. Those are first steps: the EU is aiming for 2050 to obtain more than 50% of the energy for power generation, industry, transport and the home from carbon-free sources, i.e. from sources other than fossil fuel. That will include wind power, biomass, hydro and solar power, biofuels from organic matter and the use of hydrogen as fuel. EU-funded research programs help push these developments forward and develop new technologies for using energy more efficiently.

Carbon and hydroelectricity remain an important input into the balance. Nuclear energy is experiencing a second wave of rebirth. All in all it looks not bad at all.

Russian economic interests regarding cooperation and development of close links with the EU are based on the fundamentals, that these countries have always been a traditional and receptive market for Russian energy resources, as well as a supplier of equipment and technology. The flow of hard currency from the EU is badly needed for the Russian economic prosperity.

The Russian stance: "let's ask from the EU, as a dependent side, something big in return for an access to the local energy market" may occur to be absolutely counter-productive.

Russia, apparently, should be no less interested in close links with the EU, than the EU itself, and in massive investments into its national energy sector, as well.

And it should be in the interest of Russia to assure such a climate, that the character of bilateral economic and energy links should be perceived by the EU countries as sufficiently secure. Otherwise there will be an inevitable "forced" shift of the EU to other destinations of supply of traditional hydrocarbons and a more extensive transfer into the use of renewable and other energy sources, different from the traditional ones.

Judging by the events of the year 2009, we can already see the demonstration of this trend. After the interruption of the energy supplies from Russia to Europe via Ukraine, the EU new initiatives eventually should lessen the energy dependence from Russia.

That may mean that the EU may drive far away from Russia in its energy policy.

---

<sup>25</sup> The EU-Russia energy dialogue. M.: RSPP study, 2007.

Thus the logic of the Russian strategy is not fully clear.

Building up hydrocarbon transportation networks across the country's huge territory requires enormous investments, which should be backed up by long-term supplies to make returns.

The world financial crisis already has put a big question mark on the existing expectations on the rate of returns. First, the steady flow of fresh air into the Russian oil pump has stopped as a result of the collapse of oil prices. Second, the pump has been broken down as a result of the paralysis in the global financial system.

Should there be a breakthrough in the use of fusion, thermonuclear energy or other alternative sources, like the solar ones, one day the whole infrastructure network might turn out to be nuts. Why not share the risk with foreign investors — eager to participate!? Why not create a sufficient level of inter-dependence, that will suit both sides and will create common ground for a more secure and reliable world energy and economic order!?

The question is addressed to politicians, scientists, economists, business community, participants to this discussion with a hope of stimulating debate and thinking to bear fruits for our safe future in this fragile world.

---

*Alexander Nikitin*  
***Europe and Russia in  
International Peace Operations***

International peace operations in the narrow sense of the word is a system of operations by the United Nations in conflict regions conducted on behalf of the international community on the basis of the principles of Chapter VI (mediation and safeguarding of already established peace) and Chapter VII (peace enforcement) of the Charter of the United Nations. The system of collective operations by states in conflict regions began to take shape in late 1940s soon after the establishment of the United Nations, has been developing for about 60 years, and encompasses over 60 operations of varying natures. In 2009, 20 UN operations employing 110,000 people were in progress on four continents. As the United Nations has no armed forces of its own, the operations have always been performed by military contingents temporarily dispatched for the purpose by (all-in-all) 118 countries.

Along with operations conducted by the United Nations proper, a practice of conflict intervention (including use of force) by regional organizations has emerged over time. Such operations have been conducted by the African Union and other African sub-regional organizations, the Organization of American States (OAS), and in Eurasia by the European Union, NATO and the CIS. One of the trends of the 1990s has been the emergence of coalitions of countries, which on behalf of international organizations (or by their own collective decision) realized an international mandate to intervene (for example, the US-led coalitions in Iraq and Afghanistan, the Australia-led coalition in the UN operation in East Timor, etc.).

Some states, in particular the United States, have created their own general guidance documents on peacekeeping operations. The United States as well as a number of other countries have started to use the term “peacekeeping” to describe certain action in conflict regions conducted on a multilateral basis (and sometimes also unilaterally) even without backing from the United Nations or an international regional organization. Moreover, the term “peacekeeping operation” has by extension started to be used occasionally to describe de facto police operations to stabilize the situation inside a country’s borders.

As, in contrast to “classic” international wars and conflicts, an ever-growing number of modern conflicts are of a non-interstate nature and happen inside states or involve non-state actors, the issue of peacekeeping and peace enforcement operations gets ever more tightly entwined with the problem of intervention by the international community (or its members) in the internal affairs of states. The issue of the legitimate/illegitimate nature of various types and forms of intervention has become very acute.

## Intervention involving armed force

The principles and the practice of the use of armed force by international organizations in conflicts have seriously evolved over the last two decades. Serious differences of approach have become apparent between Russia and other countries, first and foremost the United States, regarding the goals, the nature and the legitimacy of intervention in conflicts on foreign territory, including conflicts in newly independent states.

Replacing the standard practice of UN-sponsored peace operations under a UN Security Council mandate and with equal and joint participation by the countries of the East and the West, two basic and ever-diverging models of international conflict intervention have established themselves.

The first is the continuation of “classic” UN peacemaking under the mandates (political resolutions) of the Security Council or the General Assembly. It has seen failures (Rwanda, Somali) as well as universally recognized successes (East Timor, for example).

The second professes conflict intervention by regional organizations and coalitions of countries without UN authorization. The 2003 Iraq invasion by the international coalition is not the only and not the first instance of such intervention. The same has happened at least ten times throughout the decade. NATO, the United States, Russia and the CIS have all acted in certain cases in the absence of a UN mandate.

The grounds for the conflict intervention may be categorized as follows.

- During the Kosovo crisis the formula of “humanitarian intervention” prevailed (military intervention aimed at averting or stopping a humanitarian disaster, genocide), which was widely quoted by Western countries in their doctrinal and political messages and conceptually finalized in the “Responsibility to Protect” Report to the United Nations.
- After September 11, 2001 and during the military campaign in Afghanistan a new formula was born — conflict intervention on the grounds of conducting a “counter-terrorist operation”.
- During the preparation stage for the Iraq invasion and after North Korea’s withdrawal from the NPT, a new type of intervention legitimization emerged — to prevent proliferation of weapons of mass destruction (WMD). It was proclaimed that that goal could be achieved by means of a preventive strike against a country arousing suspicion.
- On the same grounds and with the additional motivation of the “export of democracy” has appeared the formula of coercive “regime change”. The specter of “regime change” in Iran, North Korea, Sudan and even Pakistan some time further down the line was raised.

## A Russia-West “battlefield” or field for mutual cooperation?

Military intervention in a series of conflicts by the United States, NATO and Western countries on one side and Russian involvement in certain conflicts (sometimes with CIS authorization) on the other look like two divergent lines and are mutually rejected as having nothing to do with “true” peacekeeping.

The West refused to recognize as legitimate peacekeeping Russian efforts under a CIS mandate in Tajikistan and Abkhazia (up to 2008) as well as under bilateral agreements with Moldova (Transnistria) and Georgia (South Ossetia up to 2008). After the events of August 2008 the issue of Russian peacekeeping with regard to South Ossetia and Abkhazia is seen by the West as not making any sense.

Russia does not recognize the legitimacy of Western and especially NATO-led action against the Federal Republic of Yugoslavia in 1999 and the US-led invasion of Iraq in 2003 (in both cases up until the issue of a UN mandate).

Military intervention in conflicts, both legally sound and infringing on traditional international law has become a tacit “norm” of international life. Many operations conducted over the last 15 years in conflict regions are questionable and controversial as far as international law is concerned — both for the West and for Russia.

Russia may have vehemently contested the formula of “humanitarian intervention”, which it still rejects, but it is exactly that formula that presents the most compelling argument for legitimization of Russian intervention in the 2008 South Ossetia crisis. Despite berating the “regime change” formula, Moscow made a tacit exception for the “removal by force of the Taliban regime” in Afghanistan, operation Russia backed both politically (in the United Nations) and practically (by providing aid to the Northern Alliance).

The instances of military intervention in conflicts multiply, providing new material for a thorough examination of the ensuing political results. The multilateral structures that aspire to a tangible international presence, including NATO, the EU, the CSTO, are testing the instruments of intervention at their disposal or are creating new instruments for the future. NATO has set up the NATO Response Force (NRF), the European Union its own Rapid Reaction Forces, the CIS/CSTO has Collective Rapid Deployment Forces (CRDF) for Central Asia and a decision has been made to create Collective Forces for Operative Reaction (CFOR). Both Russia and NATO, the EU, the United States and the West as a whole are in search of new forms and acceptable norms for conflict intervention.

On this background it is important to make the interaction between Russia and the West on international peacekeeping proceed along the road of cooperation rather than competition and, worse still, confrontation. Engaging on that path involves resolving one after the other a number of tasks.

- Russia and the West must take steps towards each other to get over their mutual refusal to recognize the other's peacemaking efforts. It is necessary to get to see the controversial situations through the eyes of the “other side”, and look for joint or mutually acceptable formulae for forceful conflict settlement.
- Both Russia and the West could turn their attention to the same conflicts and world regions. In such cases cooperation could come in really handy — up to coordinating peace operations and parallel use of some of their elements.
- Eventual creation of a common peace operations mechanism as an instrument of ensuring European security (with potential for use outside Europe in the more distant future) could serve as a beacon.

That course of action appears possible. Despite a serious impasse in Russia-NATO relations, their peacekeeping interaction in conflict regions seems to be a likely perspective in the medium term. It is worth recalling that the crises in former

Yugoslavia have allowed Russia and NATO to gain some joint experience of field peacekeeping.

The Russia-NATO Council worked out a concept of joint Russian-NATO peacekeeping operations. It was the result of three years of consultations in a special working group set up for the purpose. Unfortunately, that document has never been presented to the public and remains secret. To all appearances, it may come in handy in the new environment as far as the tasks of upgrading the architecture of European security are concerned. It is important, however, to make sure that work on the conceptual development of the issue involves stakeholders outside the Russia-NATO linkup.

### Reforming the mechanism of peacemaking to promote the new security architecture: possible models

We consider the formation of a mechanism of joint conflict settlement as the goal of such reform. Virtually any new system (architecture) of international security will be faced with tackling not just one but a complex of tasks.

- Form a system of early conflict warning monitoring and preventive (aimed at averting armed conflict) action.
- Put in place a system of effective international mediation.
- Set in motion a mechanism of political decision-making on conflict intervention (necessary to legitimize the intervention).
- Make possible the selection of the right level and format of international intervention.
- Provide for the creation and maintenance of an arsenal of tools of intervention (from humanitarian aid to military force).
- Make advance provisions for the measures of post-conflict settlement, stabilization, humanitarian aid, and restoration of peaceful life in the conflict region.
- Make sure that the problem of eradicating the roots of the conflict (social, economic, political, etc.) is addressed so as to avoid any recurrence.

It is doubtful that all these tasks can be solved with the help and within the framework of a single organizational format. It seems more likely that the international crisis response and conflict settlement forces could be multi-component — comprising the existing international organizations and elements with tasks distributed and coordinated among them.

One other basic point concerns the operating field of the peacekeeping mechanism. Applicability for such a mechanism could be envisaged on different levels:

- to be applied first and foremost in Europe;
- to be available for deployment across the whole OSCE area;
- to be ready for use on a larger scale.

Obviously, in a situation when several regional structures each with a different list of participating countries and a history of competition against the others co-exist in the same geo-political space, it would be logical for the United Nations to play the role of key reference structure, to which any mechanism of peacemaking would be tied. It is also true that the OSCE in its current political and organizational state would have



problems performing the important coordinating peacekeeping functions in the new security architecture. To do so, it must get its second wind by giving a new quality to the mechanisms of its first “basket” (politico-military and disarmament issues). To define it, the OSCE-2 or OSCE-Plus formula could be used.

Three models of possible reform of the mechanisms of conflict settlement and crisis response in the architecture of European security may be put forward.

**The model of joint conflict monitoring** with independent follow-up action by various international structures.

As the security structures in the Euro-Atlantic space are rather heterogeneous, Russia could suggest within the framework of this model to create a mechanism of joint monitoring in the zones of regional conflicts on the basis of a common UN mandate.

In particular, observers dispatched by common agreement and on the basis of a common coordinated UN mandate could be present in regional conflict zones on behalf of the main Euro-Atlantic security-related organizations (the United Nations, the OSCE, the EU, NATO, the CSTO, possibly, the Shanghai Cooperation Organization (SCO) and the Council of Europe). It would help better organize and coordinate conflict settlement efforts. Further action with regard to the conflict in question would be undertaken by each international organization independently on the basis of its own special procedures, mandates and mechanisms.

That is a watered-down version of the joint approach to crisis response providing for better mutual communication and transparency but leaving it to individual parties to make their decisions and choose the course of action. The advantage of this approach is the possibility of setting it in motion relatively quickly and with no additional bureaucratic, political and financial efforts.

**The Russia-USA-EU model.** This model takes account of the existing objective limitations to the powers of international organizations and focuses on the traditional role of states as the main protagonists in the international political space.

We would suggest proposing to the United States and the EU a joint action program based on a clear understanding and delimitation (geographically and functionally) of each other's spheres of interest and areas of responsibility — individual as well as common. At the same time we are proposing joint rather than competitive action by Russia, the EU and the United States to settle conflict situations. That will require overcoming serious political and psychological barriers and stereotypes by both the West and Russia.

The chances of this option in the security architecture are seriously hindered by a lack of interest and possible passive resistance to it from other players on the territory of the former Soviet Union (including some participating states of the CIS and the CSTO). Some post-Soviet states benefit from certain tension between the three centers of power, which provides them with a wider playing field (multi-vector policy) and allows them to exploit the contradictions between Russia, the United States and the EU.

**The OSCE-2 model.** This model presumes overhauling the role and functions of the existing organizations and security mechanisms. Unlike the first of the above-

mentioned models, which provides for joint monitoring but separate action, this model implies setting up a mechanism of deeper coordination in regional conflict situations that would go beyond mere observation and involve joint decision-making and practical steps by the powers of the region. We are talking about upgrading, increasing the role of the first OSCE “basket” or even using it as a foundation for an independent regional mechanism of crisis response and conflict settlement — with universal representation of all the countries of the region.

The OSCE-2 format could comprise a number of principles and “formulae”, such as:

- regular (possibly, even annual) OSCE-scale summits and emergency summits of the countries of the region in the event of a sharp deterioration of a conflict in the region;
- creation of a mechanism of pan-European political consultations on the issues of security;
- development of the monitoring role of the Conflict Prevention Centre;
- creation of an autonomous or integrated within the OSCE coordinating structure on the issues of conflict settlement and crisis response in the region;
- agreement on the selection of a tool from the existing set of instruments of emergency response (at the disposal of the EU, NATO and the CSTO) depending on the location, type of conflict, etc.

In the event of the formation of a new security and conflict settlement structure (organization) on the basis of the transformation of the first OSCE “basket”, it appears relevant to:

- ensure the continuity of the practices and the legal basis of the system of the United Nations and the OSCE;
- employ all the existing OSCE elements dealing with the issues of security (conflict prevention, counterterrorist and anti-drugs activities, etc.), having provided for their enlargement and a more tangible mandate, which could be formally issued by an OSCE summit;
- look into the possibility of creating additional mechanisms: the Centre for the Monitoring of the Politico-Military Situation (in conjunction with the consultations and conciliation mechanism involving stakeholders — as a mechanism for a new adaptation or radical upgrade of the CFE); the Coordination Service for Regional Peacekeeping Operations, including those authorized by OSCE-2 (this service would seek agreement of the participating states on the joint or separate use of the instruments of crisis response by the regional organizations — first of all the EU, NATO and the CSTO); the International Regional Organizations Coordinating Committee (involving the EU, the Council of Europe, NATO, the CIS, the CSTO, the SCO, the Organization of Islamic Conference (OIC), etc.) — to exchange information and agree a common position on the issues of peacemaking and conflict settlement.

Campaigners for the promotion of OSCE-2 could dwell on the following advantages of the structure, based on the upgraded first “basket” of the Helsinki Final Act.

- Its functional objectives will directly tackle the most acute aspects of the issue of European security.
- It will not be designed to counterbalance NATO or the EU, but interact with them as actively as possible with the option of them taking center stage if that is necessary and acceptable.
- It will “add value” to the system of European security provision by taking on board all the main multilateral structures operating the region;
- Its continuity and organizational link with the OSCE will lift some objections regarding the new “institutional construction” in Europe.

The scheme leaves no room to suspect Russia of self-seeking maneuvering (claims over its “sphere of influence”, demands that NATO expansion be halted, etc.) while paving the way for a fresh start in combining efforts to uphold European security, something that is quite in line with Russian interests.

---

*Anita Soboleva*  
**Report for the next round of consultations on Human  
Rights: how effective**

European Union — Russia. Institutes for human rights protection, created by the state

In Russia there are 3 main types of independent institutions, specially created by the state with a purpose to assist the protection of human rights, which may act on federal or regional levels:

Plenipotentiary for Human Rights (ombudsperson) on federal level and Ombudspersons in regions,

Council at the President of the Russian Federation (former Human Rights Commission) and Human Rights Commissions or Councils at the Heads of Administration on regional level,

Public Chamber on federal level and Public Councils or Chambers on regional level.

At some ministries and administrative agencies Public Councils or Expert Councils are created by the initiative and with participation of the executive bodies. These public councils consist of representatives of state bodies, research centers and human rights NGOs.

### **Ombudspersons**

Federal Ombudsman (Plenipotentiary for Human Rights) is the only institute, which is mentioned in the Constitution, namely in art. 103 “д”, which says, that the State Duma approves his appointment and dismissal and that he acts in accordance with the Federal Constitutional Law. Regional ombudspersons act on the basis of regional laws and are appointed by regional legislatures. At the moment they exist in 50 out of 83 constituent parts of Federation. Their powers generally fall within the following four areas: (1) restoration of rights of individuals who bring petitions, (2) protection of vulnerable groups, by acting on their behalf by ombudsperson’s own initiative both when information about violation of rights came to his knowledge and when preventive measures are needed; (3) submitting recommendations and statements of general character to the state and municipal bodies on improvement of administrative procedures and addressing bodies, which have a right to initiate legislation, with proposals to amend legislation when it is a source of judicial or administrative decisions, which violate human rights; (4) raising public awareness on human rights.

The effectiveness of this institution heavily depends on the personality of the ombudsperson — his or her past career, personal background, relations with the

federal or regional authorities. As far as ombudspersons are appointed and reappointed by legislature, their independence is defined by the political climate in the region and their personal plans for future career. Their background usually includes service in law enforcement (Ministry of Interior or Prosecutor's Office), work for the executive (vice-governors, vice-heads of administration) or being deputies in regional legislatures. Academic career or career in NGO is rather a rare exception than a rule.

Taking into consideration limited powers of ombudspersons and their background, independent experts evaluate the real function of this institute as being "a lightning conductor", "an inhibitor", an analytic center rather than a strong force, which must influence state policy in the sphere of human rights and limit encroachment of administrative bodies to basic rights. The analysis of annual reports of Federal Ombudsman and regional ones shows, that most of complaints were on violations of welfare rights, which are not traditionally included in the notion of "human rights" in the sense, which it has in international documents and treaties.

But it should be pointed out, that a significant change was made in the approach of Federal Ombudsman to his annual report on his activities in 2008 (presented to public on April 16, 2009). This time Vladimir Lukin (reappointed for his office on February 18, 2009) devoted significant part of it to constitutional rights: right to dignity, to freedom and personal inviolability, to freedom of movement, freedom of conscience and religion, freedom of association, electoral rights. His report was based not only on the complaints to his office, but also on his personal conversations with the applicants, materials of his inspections, research materials and presentations at seminars and conferences, information from NGOs and publications in press. He paid attention to mass violations of political rights, such as right to assembly and right to association. It is important, because in these particular cases complaints from individuals are not numerous and cannot serve as an indicator of the scale of the problem. Participants of the "unsanctioned" manifestations and pickets are usually administratively detained and pay a fine from 500 to 1000 Roubles (15-25 EUR). They prefer not to challenge these decisions in court, because it is time consuming and in most cases meaningless. But the results of monitoring, publications in press, complaints from political activists convincingly showed, that there was a need for the ombudsperson to interfere.

The reaction of State Duma and the President to this new report will be known later, and we hope, that this time Ombudsman's report will not be ignored. The State Duma agreed to give floor to Federal Ombudsmen Vladimir Lukin on April 24, 2009 for presentation of this report, though in previous years it refused to do so on the grounds, that the Regulations of the State Duma do not contain any rules, which put on it such an obligation.

In many other cases federal and regional ombudspersons draw attention of the legislatures and public to the problem areas, where mass violation of human rights occur. Thus, only mass complaints to ombudspersons allowed revealing such systematic problems as non-payment of debts in delayed salaries in cases of bankruptcy of enterprises, manipulations with land shares of former collective farmers and unlawful deprivation them of their land property, seizure of Russian passports from many citizens during the passport exchange process under pre-text that public officials had mistakenly issued these passports many years ago. In the area of socio-economic rights many complaints were about unjustified increase of prices for utilities

by local monopolist suppliers, violation of the right to health and medical care due to the flaws in programs of social support to disabled persons and of free delivery of medication to people with serious deceases.

In cases of mass violations of basic rights ombudspersons write Special Reports. They allow to reveal the problem, but, unfortunately, in most cases are ignored by legislatures and executive, — especially by law enforcement and administrative agencies. In 2007 Vladimir Lukin published the report “On observing the constitutional right to peaceful manifestations on the territory of the Russian Federation” — nothing has changed. Earlier in 2007 he published a Report “On practice of seizures of Russian passports from the former USSR citizens, who moved to the Russian Federation from CIS countries”, in which he criticized the administrative practice of taking away Russian passports (altogether with Russian citizenship) from those, who were born outside Russia, moved to Russia after 1992, received Russian passports and came to exchange them for the new ones. They were deprived of their old documents and denied new ones under pre-text that previous passports had been issued to them by Russian authorities “mistakenly”. There were no guilt of persons themselves, there were no judicial decisions — thousands of people came into the departments of police to exchange their documents as Russian citizens, and left them without any documents at all. Many regional ombudspersons also presented special reports on this problem — the practice to seize passports continued. In 2009, at least, departments of Migration Service of the Ministry of Interior stopped to seize old passports, though they still continue to refuse to issue new ones to this group of people.

There is no mechanism, which would enable ombudspersons to force the administrative agencies to change their practice or to force legislature to amend laws, by which these agencies justify their practice. Ombudspersons can only propose amendments by addressing those bodies of power, who can initiate legislation. The power to initiate legislation by an ombudsperson in his own capacity could have definitely become a good tool to increase effectiveness of this institution. At the moment ombudspersons can pose a problem and reveal deadlocks, but lack of real power does not allow this institute to solve the problem, if it is rooted in bad legislation or politically motivated unconstitutional application of law in practice; to conduct investigations; to impose sanctions on the executive; to issue orders or other documents, which would be obligatory for the administrative bodies and their officials.

Recommendations and ombudsman’s public statements on non-compliance of national law or its application in practice with constitution and international standards does not lead to immediate response from executive and to its decision to cure the situation. The restricted independence of ombudspersons, caused by their inability to put the executive and bureaucracy under control, significantly undermines the effectiveness of this institution.

The positive change in the attitude of the state bodies to this institution is that its necessity became apparent for the regional authorities, and regional ombudspersons increased in number (from 33 in 2007 to 50 in 2009). This institute finally appeared in Moscow (though the independent institute of Human Rights Commissioner on Children’s Right in Moscow was eliminated and became part of the common office, which cannot be regarded positively).

However, ombudspersons can solve individual problems of people on regional level and force administrative agencies or law enforcement in certain cases to fulfill their duties. They can also articulate the problems and make them public. They serve as a medium between the state and civil society and assist them in building partnership and cooperation. 1/3 of the regions, however, do not have regional ombudspersons, and it should be strongly recommended to facilitate the process of creation of this institute in those regions, where it is absent. It should be recommended also, that the powers of ombudsmen were increased and their independence supported. At the moment, they avoid contradictions with the political power and their effectiveness depend not on their competence and powers granted to them by law, but rather on political climate in general and their personal ability to build relationships with political elites.

In ¼ of the regions there are specialized ombudsmen on children's rights. There are proposals to create other special institutes, such as ombudsman on patients rights. And it can be recommended to create specialized ombudsman's offices for the areas, where the rights are most frequently violated. One of the practical solutions can be establishment of Ombudsman on socio-economic rights. It will allow to separate labor, welfare, housing cases from human rights cases and to solve more effectively the problems in each of these two areas.

## Public Commissions and Councils at the Heads of the State and Regions

Public commissions may have different names in different regions, but what they have in common is that they have the status of a consultative body to the President or a Governor and that its personal composition is approved by these political figures.

“Council at the President of the Russian Federation on the Assistance to the Development of the Institutes of Civil Society and on Human Rights” (formerly called Commission on Human Rights) under the leadership of Ella Pamfilova has a consultative status and is created with a purpose “to provide assistance to the Head of the State in realization of his constitutional powers in the sphere of securing and protection of human rights and liberties of a person and a citizen, to inform the President of the Russian Federation about situation in this filed, to assist the development of the civil society institutions, to prepare proposals to the Head of the State on issues within the competence of the Council” (Regulation on the Council at the President of the Russian Federation....”). Its powers include drafting proposals for submitting to the President, providing expertise of Federal laws and other normative acts, informing the President on regular basis about situation with human rights protection in Russia and abroad, analyzing the information received from the individuals and legal persons. It neither considers individual complaints on violations of somebody's rights, nor reviews court decisions. But its importance is defined by the fact, that for today it is the only channel for direct communication between human rights movement and the President. At the moment, it is too early to judge about the effectiveness of the Council, because it started its activities in a new composition only in April 2009, but the start has already been promising. The Council consists of 36 members — most of them are widely recognized human rights activists, leaders of the

most prominent NGOs and authoritative representatives of academic circles, who are known for their liberal views and active support to civil society groups. The agenda of its first session, in which President Medvedev participated, included discussion of NGO legislation, corruption, situation in law enforcement and penitentiary, tortures, restriction of competence of jury trials, increasing wave of xenophobia and hate crimes, and other acute problems. But the Council has no other leverage except for appealing to the President. And, thus, effectiveness of this institute will depend on if the Council and its leader have a possibility for direct communication with the President, avoiding “the third link”, and if the members of the Council are heard and any positive actions follow their requests and recommendations.

### Public Chamber

The Public Chamber is visible mostly through interference into concrete acute situations, which draw public attention and require urgent measures. Its members on behalf of the Chamber try to protect certain people in certain situation, but Public Chamber in general avoids making public statements to call the state bodies to observe the law and root out illegal practices, such, for instance, as mass administrative detention of the participants of public manifestations without due reasons and without documenting the process of detention. Public Chamber is not seen as a political actor and public have vague idea about its role and activities. Those NGOs and experts, who cooperate with the Public Chamber, know about its activities in reviewing draft laws and making recommendations to the state bodies, organizing round-tables and discussions, but it is obvious, that human rights issues are not a priority for this body. By its composition it looks more like an expert council, consisting of experts acting in their personal capacity, than like an assembly of commonly recognized human rights activists, having moral authority to speak on behalf of the wider circle of different civil society groups. As far as its members are not proposed and elected by civil society groups or NGO community in open and fair procedure, Public Chamber is dependent in its choices and has only limited discretion. In general this body confines itself to presenting problems and expressing concerns instead of being pro-active and demanding accountability from the government and its agents. It was originally created with a purpose to introduce a new concept of civil society, closely affiliated with the state and dependent on it, and to promote an image of “the true human rights defenders” (working primarily in GONGOs) as opposite to “so-called human rights defenders, begging foreign money”. With changes in political climate its role may change, but for being a real human rights actor it must gain support from a wider range of human rights organizations, build partnership with independent NGOs, be more visible in political life and public policy — that is to become really “public”. Existing status can hardly enable it to become this kind of institution.

### Public Councils at the Ministries and Agencies

Some ministries and agencies create Public Councils, which consists of representatives of the executive, academic circles and research institutes, and independent experts from the civil society groups. Such Public Councils exist, for instance, in the General Attorney’s Office (Prokuratura), Federal Security Service (FSB), Agency on Supervision in the Area of Public Health (Roszdravnadzor) and



some others. In composition of these bodies NGO activists do not prevail, and the process of their selection is not public or transparent. These councils are created by the head of the agency and are dependent on him. For instance, the Public Council at FSB includes 7 security officers and 8 “public activists” (4 of them from Public Chamber), none of them from press or human rights NGOs. List of its activities on the web-site shows a wide range of round-tables, conferences and discussions on topic of combating terrorism. Issues of transparency of closed institutions and mechanisms of public control over them are not in the agenda.

The purpose of the Public Council at the Head of the Central Administrative Okrug, as it is stated in its regulations, is a formation of the conditions for the development of constructive dialogue between power and society. Moscow Public Council is created for uniting the efforts of public associations and other non-governmental non-commercial organizations for their constructive dialogue with the bodies of state power on issues, concerning improvement of living environment for Moscovites. This council is composed of bankers, deputies, school principals, businesspersons, masters of art and culture, representatives of charity organizations.

These councils do not have any particular powers and serve exclusively as a consultative body without any obligation from the respective body of power to follow its recommendations or to take into consideration its concerns. That is why this institute, in the form in which it exists today, rather serves a purpose to legitimize certain decisions of the government agencies and create an impression of public participation, than to be a body of public control over the activities of these agencies.

In general, the most influential independent institute of human rights protection is the institute of ombudspersons (though true independence is lacking anyway). Powers of Public Chamber and the Council at the President are more dispersed and vague, though in liberal political climate these institutes may gain strength and have potential to become influential. However, their sustainability and effectiveness depend solely on political will, and in absence of such will they will vanish de jure or de facto.

## Recommendations

To create the institute of ombudsman in the regions, where it is absent

To create the institute of Ombudsman on socio-economic rights (it will decrease the number of complaints to Ombudsman on Human Rights and will allow to solve more effectively problems in both areas)

To grant power to ombudspersons to initiate legislation both on federal and regional level

To grant power to ombudspersons to impose administrative sanctions on state officials, whose actions or failure to act caused violation of individual human rights, and to issue official notice on failure of a certain administrative agency or its department to observe human rights or follow the law, which caused violations of human rights of an individual or a group. These notices should be taken into consideration for further law enforcement measures against the violators and for further appointments and reappointments of the public officials involved.

To grant ombudsmen, Council at the President, Public Chamber and their representatives the power to intervene as a third party into judicial and administrative

procedures in cases of public interest or when a particular case raises serious human rights question and judicial or administrative decision may create a precedent or influence the future law implementation practice (right to submit “amicus curiae” briefs); their briefs should be enclosed to the court documents and analyzed in the court decision.

To grant powers to members of the Council at the President to request information from any administrative bodies on federal or regional level and prescribe responsibility of public officials for failure to provide this information or provision of incomplete or false information.

To provide for mechanism of realization of decisions made by the Council.

Change the process of appointment to Public Chamber in order to make it transparent and independent from the executive.

---

## Chapter One. Russian-European cooperation: challenges and opportunities

*Nina Belyaeva, Sergey Tkachenko*  
***Introduction by the Group's Academic Leaders***

Integration of the Russian Federation into the European political and economic space is among the highest priorities of post-Soviet Russian foreign policy. However, the predominance of cooperation or conflict in Europe-Russia relations is nowadays not related to ideological or geopolitical considerations of a global scale. It is rather increasingly a function of concrete developments in security relations between Moscow and its Western partners in the European Union and its member-states. Neither the trend towards cooperation nor conflict has ever been absolute. Both trends are permanent; sometimes they are more visible, sometimes less visible, but they are almost always closely intertwined.

It should be noted that some modern Russian politicians strive for multipolarity at the European continent and globally, considering it the most advantageous architecture of international security and economy. Other Russian politicians, however, use this slogan as a means to wrestle more favorable conditions from the West for inclusion in the transatlantic community and the European economic system.

The four papers included in this section deal with different aspects of EU-Russia relations, as well as broader relations inside Europe between its Western and Eastern parts. A broader theoretical perspective for analyzing European politics and economy is provided by different theories of international relations, international political economy and integration studies. The four papers in this chapter demonstrate different theoretical approaches commonly used in the analysis of the European Union's emerging foreign policy, which got a legal basis with the entry into force of the Lisbon Treaty on 1 December 2009.

An international team of students, who represent different European countries, analyzes some of the hottest and strategically most important issues of East-West cooperation at the European continent.

In his paper, Peter Novik studies general issues of EU-Russia relations and put them into a broader perspective of cooperation or rivalry assessment. A significant part of his research is devoted to analyzing the perception of the Russian Federation abroad, as well as to a critical analysis of the political system of Russia, which the author calls a "system of personal power of a 'no alternative' president". Partly this research is based on an interesting interpretation of the results of opinion polls on EU-Russia relations conducted in Russia.

Milena Marin's article on "normative power" Europe and Russia's attempts to retain its "great power" status compares two different approaches to defining real

assets, on which both Russia and the European Union are trying to rely while developing their foreign political and economic strategies. Both the theoretical aspects of the “normative power” nature of the EU-centered Europe and studies of its implications for Russian foreign policy are highly valuable for understanding the current state and the future prospects of EU-Russia relations.

Natia Ejoshvili’s article is devoted to an analysis of the rather ambitious but still not very successful attempt of the EU to modernize its policy towards its Eastern neighbors. This attempt has involved a transition from the loose “partnerships” of the mid-1990s to more concrete prospects of free-trade zones, visa-free regimes and broader integration for the Eastern partners, although the cooperation still does not entail any perspective of membership in the EU for them. In this context, we should emphasize the usefulness of examining the four main foreign policy approaches used by the EU, i.e. enlargement (towards core states), stabilization (towards neighbors), bilateralism (towards big powers) and interregionalism, in order to understand the current state of the EU’s European Neighborhood Policy and its Eastern Partnership initiative.

Milan Aleksić study of energy cooperation and competition add important empirical elements to the chapter. Starting from a discussion of the strategic objectives of the EU’s and Russia’s energy policy, the author concentrates on Gazprom’s interests at the European markets. He concludes that the competition between the Nabucco and South Stream projects reflect a complex mixture of economic and broader political interests of European and Russian elites.

The four papers in the chapter provide the readers with a comprehensive overview of some highly important issues in EU-Russia political and economic relations from bilateral and multilateral perspectives. The authors demonstrate analytical skills and ability to consider the complex socio-economic reality of modern Europe from both theoretical and practical perspectives.

---

*Milena Marin*  
***Normative power Europe and Russian Great Powerdom:  
the Challenges of a Strategic Partnership<sup>1</sup>***

## Introduction

The objective of this study is to analyze the profound interconnection between normative and material power by looking at the relationship between the European Union and the Russian Federation. Against the background of obvious rising tensions between Brussels and Moscow, it is essential to thoroughly study the factors influencing the EU-Russia relationship.

The EU-Russia relationship is one of the core focuses of international relations research. This is due to the fundamental importance of both actors at the international, and especially at the European stage. Numerous academic papers have been written on this subject and there is specialized literature on EU-Russia interaction in diverse fields such as economy, energy and geopolitics.

We will assess the quality of EU-Russia cooperation in particular through an analysis of the ongoing negotiations for a new partnership agreement. In our analysis, we will look at political and legal aspects of EU-Russia cooperation, but also assess economic, geographic and historical factors.

Our ultimate goal will be to provide an explanation of persistent and escalating difficulties in the EU-Russia relationship. To this end, we will engage in a philosophical analysis of the specificity of both actors in international relations and identify problematic issues in their practical-level cooperation. The analysis will have two dimensions: analysis at the ideational meta-level and analysis at the level of quotidian interaction.

While developments at the level of daily interaction and negotiations are important, we believe that the deadlock we are now witnessing in EU-Russia relations is the consequence of a more profound rupture at the level of how international relations are conceived. This is why we will depart from the hypothesis that *clashing interpretations by the EU and Russia of their status and role in world affairs are responsible for their problematic relationship*.

The first part of this paper will review the specificity of the European Union in the international context. The concept of “normative power Europe” will be used as the main theoretical starting point for this discussion. The second part will assess Russia as an actor in international relations and as a partner of the EU, focusing on the overall increasing assertiveness of the Russian Federation in its foreign relations. After this, we will analyze the EU-Russia Partnership and Cooperation Agreement (PCA) currently in force before we proceed to analyzing the negotiations for a new EU-

---

<sup>1</sup> This paper has been adapted from the author's master's thesis written in the framework of the MIREES (Interdisciplinary Master's in East European Research and Studies).

Russia strategic partnership. In the conclusions, we will argue that the EU is applying an integrationist logic in its relationship with Russia, which implies the adoption by Russia of EU norms, values and standards. Due to the peculiarity of Russia as a partner for Europe, this strategy is doomed to failure. As an alternative strategy, we advocate for a common EU-Russia approach to finding solutions and for active involvement of Russia in the decision making process on specific issues of collaboration. We make a few recommendations, which in our opinion would help the EU to achieve a qualitative boost of its cooperation with Russia.

## 1. The European Union as a Normative Actor

### ***Conceptualizing EU's relations with third states***

In order to understand EU-Russia relations it is important to analyze the EU's foreign policy objectives. Over a short period of time, the EU has become a major player at the global level, with an economic strength that has enabled it to promote its own world vision outside its borders. We believe that the "normative power Europe" theory is the driving force behind all the EU's current external relations and a major cause of uneasiness in EU-Russia relations.

Despite a large quantity of research dedicated to the concept of "normative power Europe", this concept does not provide an adequate approach to the way in which the EU relates to various partners. We seek to address this shortcoming by developing an alternative conceptual framework for understanding European norm diffusion. In order to map the relations of the European Union with third countries, we expand the well-known concept of *acquis communitaire* (used to describe the body of EU law) and adapt it to EU foreign policy. Thus, we introduce the concept of "acquis of association", by which we mean a variety of political, economic and legal provisions used in the EU's contractual relations with third countries to "project" EU norms and practices. It is important to emphasize that the term association has been chosen because it emphasizes the requirement for conformity with EU standards by third states. The scope of the *acquis of association* varies from the absorption of third states into the EU system to external relations based on trade and aid.

Conditionality, which is better known as the stick and carrot approach, is a fundamental instrument used by the EU in relations to non-European actors. In accordance with this approach, economic incentives and support are offered in exchange for the implementation of certain reforms and policies. The conditionality approach has a positive component, which contain measures such as trade preferences, financial aid, access to the EU internal market and ultimately to EU membership, but also a negative aspect, which includes for example suspension of trade preferences or of financial aid, economic or political sanctions or delay in negotiation (Gstöhl 2009, p.66). Conditionality is usually applied to political and economic criteria, but also to core values promoted by the EU, such as respect for human rights.

Legal approximation, which is also as legal "harmonization" or "conversion" or the promotion of "equivalent standards", is another instrument used by the EU to "project" its standards outside its borders. It comprises efforts to promote the integration of parts of the EU *acquis communautaire* into the legislation of partner states. The scope of harmonization varies. It is implemented by various means such as

international treaties, bilateral treaties and national laws consistent with European standards.

### ***Partnership and Cooperation Agreements***

The EU's relations with Russia, as well as with other former Soviet republics (Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Ukraine and Uzbekistan) are regulated by Partnership and Cooperation Agreements (PCAs).

According to the European Commission, the general objectives of the PCAs are to "provide a suitable framework for political dialogue, to support the efforts made by the [partner] countries to strengthen their democracies and develop their economies, to accompany their transition to a market economy and to encourage trade and investment". In essence, the PCAs, which were signed in the mid 1990s, reflect the unpreparedness of the EU to get more actively involved in the region and are "soft" on political matters, while stronger on economic and pragmatic matters.

The PCAs provide the legal basis for cooperation between the EU and the signatory states in the legislative, economic, social, financial, scientific, civil, technological and cultural fields. In terms of conditionality, we can find here cross-cutting issues of democracy, rule of law and respect for human rights (PCA with Russia, Title I, art.1), similarly as in EU agreements with other third states.

## **2. Russia — an Awkward Partner for the EU**

It is generally held that the relationship between the EU and Russia has quickly deteriorated in the context of growing assertiveness of Russian foreign policy and the "rebirth" of Russia as a great power and a center of global politics.

The most important question for us concerns the grounds for Russia's great power aspirations since these aspirations cause uneasiness in EU-Russia relations. The tensions between the EU and Russia that we are currently witnessing are not due to individual events such as energy crises or military frictions, as some may argue. The major reason for the tensions can instead be found in fundamental misunderstandings between the two actors.

Russia's ambition to again become a relevant actor in world politics is reflected in official documents that define Russia's national interests and establish strategies for promoting and securing these interests domestically and internationally. According to the Russian National Security Concept (2000), Russia is "one of the most significant powers of the world", with centuries of history and cultural tradition. Furthermore, according to the same document, Russia plays a crucial role in global processes on the basis of its substantial economic, military, scientific and technological potential, as well as through its unique strategic position in the Eurasian continent. We can, thus, argue that power capabilities play an important role in Russia's self confidence in the international arena. The Russian power is built upon the greatness of its territory and its geostrategic reach, its possession of natural resources and nuclear arsenal, and of its participation in international decision making forums such as the UN Security Council and the G8.

In reality, Russia's position in the international arena is not very strong. In terms of life standard, mortality rate and economic prosperity, Russia is not a global leader (Baev, 2003). From an economic point of view, Russia is now facing the consequences of the international financial crisis, which has seriously affected its

energy revenue dependent economy. In military terms, the only strategic potential Russia has is the one offered by its nuclear capabilities. However, irrespective of its real potential, Russia is now demanding an equal role with the US and the EU in global politics (Gomart 2008, p.3).

In order to understand Russia's great power behavior, we believe that it is necessary to move beyond realist analyzes. The historical status of Russia as an empire is of paramount importance. The historical past is frequently brought up by Russian politicians and, in general, there is a trend of glorifying it. The statements made by then President Putin at the 2007 Munich conference on security policy is indicative of how Russia's current assertiveness is related to its past. According to Putin, "Russia is a country with a history that spans more than a thousand years and has practically always used the privilege to carry out an independent foreign policy". The most important aspect that needs to be considered when analyzing Russia's assertiveness in global politics is the "deeply rooted image of the soviet past as the golden age in the history of the Russian statehood" (Morozov 2008b, p.159). More specifically, as Putin underlined in his 2005 annual state of the union address, the collapse of the Soviet Union is seen as "the greatest geopolitical catastrophe of the twentieth century". Following the same line of argumentation, the current administration considers Gorbachev's Perestroika and the era of his successor to be the worst period of the Russian past.

Thus, what Russia is seeking to accomplish through its current assertive foreign policy is recognition of its perceived great power status by other global players. Russia is seen as one of the poles of power in the international system, whose interests should be taken into consideration by all other relevant actors.

Russia's aspirations complicate EU-Russia relations since the two sides have different views on what great power status constitutes (Neumann 2008). In the view of Western countries, great power status requires a governance model that meets the standards of a liberal democracy, while Russia's need for recognition as a great power cannot be satisfied by democratic reforms.

The recent trend of democratic deterioration in Russia, which has involved erosion of political plurality and fundamental freedoms, has negatively affected EU-Russia relations. However, in spite of this, Russia remains an important partner for the EU, especially for economic and energy dependence reasons.

In order to improve its relations with Russia, the EU needs to fully grasp how critical Russia's self-perception as a strong sovereign nation is and give due attention to Russian foreign policy priorities that reflect this perception. On the basis of the 2008 Russian foreign security concept, the following priorities can be identified:

(i) *Mutual respect* and recognition of Russia as a leading power within the new world order;

(ii) *Pragmatism* and action on the basis of joint interests in terms of economic cooperation;

(iii) *Respect for sovereignty, inter-governmental decision-making and sovereign interests*, including Russia's security concerns and Russia's own understanding of its neighborhood;

(iv) Multi-polarity and collective efforts to find solutions;

(v) Protection and assistance of Russian minorities in the countries of the EU, especially the Baltic States;



(vi) Respect for international law and for the Charter of the United Nations as the primary legal and political document guiding international relations.

### 3. The EU-Russia Partnership and Cooperation Agreement: A Critical Assessment

The EU-Russia Partnership and Cooperation Agreement (PCA) is a bilateral agreement that regulates cooperation between the two parties. It was ratified in 1997. It has later been extended to the new member states that joined the EU as a result of the 2004 and 2007 enlargements.

At the time when the agreement was negotiated, the EU clearly had a better negotiation position as Russia was experiencing deep structural changes in its political and economic system, which made it weak in relation to the EU. As a result, the PCA ultimately gave Russia the status of a “junior partner”.

The EU-Russia agreement was the first of a series of PCAs that were developed by the EU particularly for the newly independent states (NIS). Above all, it was intended to enable the EU member states to help Russia overcome the structural imbalances that resulted from the fall of the Soviet Union and to smooth its transition to western democracy. To this end, the EU applied a neo-functional “spill-over” mentality, which was based on the belief that intensification of trade relations would have a positive effect on political developments in Russia. The accord was designed to intensify EU-Russia cooperation in areas such as trade and investment, the establishment of companies, protection of property rights, the peaceful exploration of outer space, and education and science. It was also designed to facilitate political dialogue with the aim of reinforcing common values. As a whole, the agreement was ambitious in character and intended to provide a “framework for gradual integration between Russia and a wider area of cooperation in Europe” (PCA with Russia 1997, Preamble). The envisaged duration of the agreement was ten years, i.e. until 2007. After this, it has been renewed on an annual basis as no new agreement has yet been finalized. While the EU and Russia parties decided to open negotiations on a new agreement in 2006, so far they have not been able to reach any conclusions concerning either content or structure.

#### *Analysis of the PCA*

Especially given the recent deterioration of EU-Russia relations, it is worth asking whether and to what extent the PCA adequately reflects the reality of the EU-Russia partnership. In order to answer this question, we will look at some major aspects of the PCA, i.e. the principle of common values and normative convergence that it is based on, the political dialogue it established and its economic provisions.

#### *“Common” values and normative convergence*

In essence, the underlying idea of the PCA can be summarized as follows: “market access in exchange for normative convergence, based on the assumption of shared values” (Haukkala 2008, p.141). In other words, the PCA is consistent with the role assumed by the EU as promoter of democracy, human rights and rule of law in third countries and its guiding principles are those of legal convergence to European standards and conditionality on democratic values.

Already the preamble of the PCA ties the success of the EU-Russia partnership to “the continuation and accomplishment of Russia’s political and economic reforms”. The agreement also contains a suspension clause, which basically grants the EU the legal right to denounce the agreement should Russia fail to comply with “common values”. Moreover, the agreement stipulates that Russia commits itself to gradually making its legislation compatible with that of the European Community and includes a non-exhaustive list of areas in which approximation will be implemented.

### ***Political dialogue***

In the area of political cooperation, the PCA created the instrument of “political dialogue”. This dialogue is implemented through an institutional framework that includes EU-Russia summits at the highest political level, Permanent Partnership Council dialogue at ministerial level, Cooperation Committee meetings at senior official level, sub-committees or working groups comprised of experts on particular issues, Parliamentary Cooperation Committee meetings by members of the European Parliament and the Russian Federal Assembly, as well as regular consultations on human rights (since 2005).

This institutional structure has lately been strongly criticized by the Russian side, which argues that it reflects the institutional nature of the European Union without taking into account the specifics of the EU-Russia partnership.

### ***Economic provisions***

While the PCA introduced the mechanism of political dialogue and promotes common values, it primarily envisages the EU-Russia relationship as a commercial one. The agreement’s economic provisions account for more than 70% of all of its provisions.

There are two major features of the economic cooperation regulated by the PCA. First, Russia is ascribed the status of a “transit economy”, where political and economic freedoms need to be strengthened. Second, Russia is designed a “Most Favored Nation” (MNF) of the EU, thus ensuring that none of the parties will give better trade terms to other partners or discriminate products originating from the other partner in favor of those from a third party. It follows that any type of concessions granted to a third-party country ought to be conceded automatically to the other partner. In short, the PCA meant that trade barriers between the EU and Russia were removed. At the insistence of Russia, the PCA also encompasses a long-term perspective of creating an EU-Russia free trade area (FTA).

### ***Recent developments***

Since the time when the PCA was negotiated, the situation in both the EU and Russia has changed considerably for a variety of reasons. The most important changes are Russia’s economic development and the territorial expansion of the EU, which has resulted in increased influence in the Russian “near abroad”.

From the economic point of view, Russia has grown into becoming the EU’s third largest economic partner, immediately after the US and China. At the same time, the EU is Russia’s most important trade partner. While the current financial crisis has affected EU-Russia relations in this area, the major trend is unlikely to be reversed

mainly because of the EU's energy needs of Russia's growing demand for goods and services originating from the Union.

The EU-Russia partnership has partially undergone a qualitative change in recent years as a result of the introduction in 2003 of four so-called common spaces for cooperation. This step was taken to ensure that EU-Russia relations were more consistent with the EU's new status as a political union rather than a mere economic community. The four priority areas of cooperation are: economic cooperation; cooperation on freedom, security and justice issues; cooperation on external security; and cooperation in research, education and culture. In 2005, a set of legally non-binding roadmaps for the implementation of these freedoms were adopted. Generally, EU-Russia cooperation has been most successful within the common space for research, education and culture.

The introduction of the four common spaces, however, does not remove the necessity of adopting a new agreement to regulate EU-Russia relations.

#### 4. Towards a Strategic Partnership — Challenges and Opportunities

##### *Legal aspects of a new EU-Russia partnership*

The PCA is a mixed agreement, which covers both areas that are the competence of the European Community and areas that are the competence of the member states. Considering that this reflects the very nature and uniqueness of the EU, it is likely that the successor of the PCA will also be a mixed one.

There is a consensus at the level of the EU that the European Commission will lead the negotiations with Russia for a new agreement (interview with high-level EU official 2009). However, the Commission acts upon a mandate given by the Council. Furthermore, due to the mixed nature of the agreement, the Commission must permanently keep the member states informed about the status of negotiations. The member states have the right to intervene in the negotiation process in their areas of competence. Moreover, due to the lack of juridical personality of the Union, the agreed treaty needs to be signed by each and every member states and ratified by the national parliamentary assemblies before entering into force.

In addition to these procedural complications, a major complication is the disunity among the member states on how to deal with Russia. Although the idea is that EU should have a common position towards Russia under the Common Foreign and Security Policy developed since 1992, the member states have particular difficulties to “speak with one voice” regarding Russia.

##### *Economic aspects of a new EU-Russia partnership*

For the European Union, an upgrade of the PCA would not make sense without the creation of a FTA (Vandoren 2008). Numerous analyses have concluded that the adoption of an EU-Russia FTA would serve the commercial interest of both actors, even though it may not render an immediate positive impact for both of them. However, in the current setting, the adoption of an FTA is impossible due to WTO regulations. In accordance with WTO rules, any kind of concession made by a WTO member to a third state must be granted to all WTO members (GATT 1947 art 1).

Considering that Russia has not yet joined the WTO, this makes it virtually impossible for Brussels to even consider a free trade area with Russia.

The EU strongly supports Russian membership in WTO as it would prompt the Kremlin to undertake a series of fundamental reforms that would make Russian standards and regulations more compatible with European ones. For Russia, joining WTO is instrumental in terms of economic growth, especially considering that 95% of world trade is conducted by WTO members (Council for Foreign Relations, 2003). However, the present state of negotiations with respect to Russian WTO membership gives us grounds to be pessimistic. Russia applied for membership in 1993 and is now the only significant world economy which is not part of the WTO trading system. Lack of political will to liberalize and improve the investment environment, as well as the monopolistic structure of the subsidized Russian energy sector are the main impediments for Russian accession.

There is also opposition to the idea of an EU-Russia FTA at the level of regional and local businesses that benefit from low gas prices and non-transparent regulations and transactions. Furthermore, some powerful industrial oligarchs oppose this idea since they are against the introduction of new legislation on e.g. increased transparency and intellectual property.

### ***What kind of “strategic partnership”?***

The understanding of what a new EU-Russia partnership should look like differ considerably between the EU and Russia. They even disagree on fundamental aspects related to the purpose and structure of their further interaction.

Russia advocates for a short treaty, which would be more of a political declaration than a proper agreement. In the Russian view, the new partnership should be based on the principle of equality of the two actors in all respects, including the political and economic ones. In the 1990s Russia was happy to receive unilateral financial assistance from the EU in order to develop various sectors of its administration and economy, but now it insists on equal participation in joint programs. In this way, Russia claims ownership of common projects, which is unacceptable for the EU as it implies Russian supervision of the implementation of projects funded by the EU (Vandoren 2008).

Moscow would also prefer to avoid any kind of references to common values, or at least, to refer to them only in a declaratory fashion without enforcement mechanisms.

Russia argues that a short agreement would simplify the negotiation as it would be easier to reach consensus on a few pages than on a lengthy treaty. It believes that such a framework agreement could be complemented by sectoral agreements on technical matters of cooperation. Among others, it believes that energy cooperation should be regulated by a separate agreement.

The EU again favors a lengthy, all-encompassing and legally binding agreement that would regulate all aspects of cooperation and provide for far-reaching legal approximation and conditionality on the basis of common values. A mere declaration on human rights and democratic principles, as proposed by Russia, would be a step back from the PCA, which has a safeguard clause that allows the EU to take extra-ordinary measures and even to denounce the agreement if Russia fails to comply with its obligations in this area. Moreover, it is of fundamental importance for the EU to keep the economic, and especially the energetic sector linked to the political

dialogue. This is because the EU wants to balance Russia's political strength with the help of its own economic leverage.

### ***Contextualizing future EU-Russia cooperation — areas of confrontation***

In some respects, the EU — Russian relationship has improved in the last few years, among others as a result of the adoption of the four common spaces. However, the relationship has also been obstructed by a number of crises. As a result of these crises, EU and Russia have focused on finding solutions to immediate problems, thereby overlooking long-term issues. More than two years after the official expiry date of the PCA, this agreement continues to govern EU-Russia cooperation. This is not a good sign for the EU-Russia relationship and shows that there has been a lack of interest and engagement on both sides qualitatively boost cooperation.

In particular, a series of events that have taken place in the last few years have served to underline structural deficiencies in the EU-Russia relationship. These events include the so-called Polish meat crisis, when Poland vetoed the start of negotiation with Russia on a new agreement in 2006 in response to a decision by Russia to temporarily ban import of Polish meat, a measure that was justified with the alleged lack of appropriate sanitary standards in Poland. Lithuania subsequently joined Poland in blocking the negotiations with Russia, raising concerns related to Russian oil supply to this country. EU-Russia relations were also affected by the renewed tensions that developed between Russia and Estonia following the 2007 Estonian move to relocate a Soviet-era war memorial statue. Soon after the EU-Russia negotiations on a new agreement restarted in early 2008 when Poland and Lithuania lifted their veto, the talks again came again to a dead end with the outbreak of the war in Georgia in August 2008. In addition, numerous energy crises between Russia and neighboring countries have deeply affected EU-Russia relations. The most recent one was the Russia-Ukraine crisis in early 2009, which disrupted gas supply to many EU countries.

Over all, energy cooperation is one of the most important and also most controversial aspects of EU-Russia cooperation. At the international level, energy relations are regulated by the Energy Charter Treaty (ECT) and its Transit Protocol. This treaty is meant to guarantee energy security of its signatory countries in the spirit of open and competitive markets. Although Russia signed the ECT already at the beginning of the 1990s, it has so far failed to ratify it and implements it only partly. Furthermore, the Kremlin firmly refuses to sign the Transit Protocol. The ratification of the Treaty and the annexed protocol would basically mean that Russia would be obliged to offer transit services to countries that deliver energy resources to EU via its territory. In other words, by adhering to these international standards, Russia would lose its influence over Central Asian gas and, more painfully, would have to dismantle the politically profitable gas state monopoly. By refusing to ratify the ECT, and thus by refusing to comply with the international standards of energy security it establishes, Russia reserves the right to use energy resources as a political lever without any burden of liability or fears of sanctions. As highlighted by the recent gas crises between Russia and transit countries that have severely affected European consumers, the Russian refusal to comply with international standards in this area has become a great security problem for the EU.

Another major field of confrontation between Moscow and Brussels is the common neighborhood. After the breakup of the Soviet Union, Russia never abandoned its regional hegemony ambitions. The “near abroad”, which comprises the CIS countries, is traditionally seen by Moscow as part of its “sphere of influence”. Accordingly, its foremost foreign policy goal is to strengthen its influence in this region. Thus, the EU’s eastward expansion through enlargement and other regional integration policies have conflicted with Russian geopolitical interests.

In 2004, the EU launched the European Neighborhood Policy (ENP), a regional integration policy dedicated to sixteen neighboring countries of the EU from Eastern Europe to the Caucasus and the Mediterranean. Russia refused to be a member of the “European neighbourhood”, and the relations between Moscow and Brussels continued to be managed bilaterally. Moreover, the Russians were obviously bothered by the presence of Brussels in its backyard. Moscow’s irritation increased as the EU took steps toward developing additional strategies for boosting its influence in the CIS. This mistrust reached a climax in May 2009, when Brussels officially launched the Eastern Partnership (EaP), which is aimed at further promoting EU cooperation with Ukraine, Belarus, Moldova, Georgia, Armenia and Azerbaijan. The EaP is similar to the ENP, with the primary difference being that it has a more specific regional focus. Thus, whilst the ENP had a wide geographical scope encompassing both the CIS and the Mediterranean, the EaP is solely dedicated to the western CIS and the Caucasus.

## Conclusions

Current political realities and intensified economic interdependence between the EU and Russia have rendered obsolete the PCA, which hitherto has regulated relations between the two parties. The PCA was negotiated at a time when the international environment was favorable to the EU and the agreement reflects the aim of the EU to promote transformation of Russia in accordance with European norms and values. Today, the two actors are at a more equal level in terms of their position in world politics.

Also, even if the PCA in theory is auspicious for the EU, Brussels has lacked effective means to enforce it in practice. Above all, the EU has had limited success with respect to promoting the implementation of democracy, rule of law and human rights in Russia. As Schuette (2004) points out, every time when Russian politics have taken an undemocratic turn, the West has chosen to perceive this as a temporary development, hoping that Russia will eventually join the western democratic community of values. This has, however, not happened. Moreover, at different episodes of serious infringements of human rights by Russian authorities, such as the wars in Chechnya and Georgia, the EU has failed to take resolute action.

In spite of this, the EU has opted for closer cooperation with Russia. This is understandable considering the strong, strategic interests that the EU has concerning collaboration with Russia, namely to secure its economic interest, especially in the field of energy supply, and to develop a cooperative rather than a conflictual relationship with the Kremlin (Emerson et. all 2007, p.65). However, it has led to erosion of the normative basis of the EU-Russia partnership. The picture is no better when we analyze the results of the normative convergence initiated under the PCA.

More than half of the PCA provisions have not been yet implemented. Progress has in particular been slow in the area of legal harmonization.

In light of the above, we can conclude that the current EU policy towards Russia is inefficient. While PCAs are an effective instrument for EU cooperation with other NIS states, the results achieved in the cooperation with Russia have been disappointing.

A new EU agreement with Russia will need to upgrade cooperation between the two parties. This narrows down the available choices. If the EU was to make use of existing instruments, it would either have to treat Russia as one of its economically advanced partners from the European Economic Area or as a possible future member state. Neither of the two options is feasible. The membership option has been dismissed by the Russian leadership. The Kremlin would like to be part of Europe, but not on the terms suggested by the EU. On the other hand, especially in the aftermath of the recent financial crisis, the Russian economy is not ready for such far-reaching integration into European structures as the EEA countries have undertaken. The European Commission's solution has been to pursue a similar line as with the PCA in the form of a new and improved mixed legally binding agreement, which may be supplemented by detailed sectoral agreements (interview with high-level EU official 2009).

We will conclude with some recommendations on how the EU could better tackle its partnership with Russia. First, we will suggest two major changes at the meta-level of strategic approach and cooperation philosophy. Second, we will propose a set of measures to be included in the strategic partnership now under negotiation.

As concerns its meta-level approach to Russia, the EU should change its actions in two ways:

a) Political and strategic thinking

The EU should accommodate the Russian demand for equality in their mutual relations by making small concessions and giving Russia a chance to contribute to the creation of new cooperation institutions. By giving small victories to the Russians, the EU could continue focusing on its major mission of promoting democracy, human rights and rule of law in Russia and on containing Russian geopolitical ambitions and promoting peace and dialogue at both the global and regional level.

b) Strength through unity

One of the major problems of current EU policies toward Russia is that they lack coherence. There is no consensus in the EU on how to deal with Russia, with the member states profoundly divided on this issue given their past experiences of interaction with Russia. This benefits Russia, which is able to exploit internal divisions in the EU and bilateralize its relations with individual member states. Secondly, the lack of coherence derives from the employment of too many instruments of cooperation. In addition to the PCA, there is a myriad of internal documents and strategies related to EU-Russia relations and the new initiative of cooperation within the framework of the so-called four common spaces. The problem of lack of unity should be tackled in the new agreement under consideration, which from the EU side should be governed by unity and coherence.

As regards the content of the new EU-Russia agreement, the following issues should be taken into consideration:

a) Conditionality and legal approximation

The conditionality based model applied so far by the EU in its relationship with Russia was doomed to failure from the start. The reason is that the EU imposed the terms, which made Russia feel subordinate. The new partnership should be built upon a strong commitment of both sides to respect and implement human rights and democratic principles, without using the old language of conditionality and normative convergence. For example, in the framework of the four common spaces of the EU and Russia, reference is made not to European values but to internationally recognized standards and best practices of the UN, the CoE and the OSCE. In terms of legal harmonization, distinction should be made between core areas of cooperation and other areas. In the core areas, the EU and Russia should agree on major objectives for harmonization (especially with respect to economic and energy cooperation) and feasible deadlines for achieving these, accompanied by a set of sanctions that can be used if any of the partners fail to meet their obligations. In other, less sensitive areas of cooperation, the EU should promote “soft” harmonization through consultation and coordination, thus encouraging Russia to voluntarily adopt European standards. A good example is the common space of research, education and culture where Russia has already taken impressive steps toward harmonizing its practices with European ones.

b) Use the framework of the four common spaces

The new partnership should be built on the existing framework of the four common spaces, which is a fairly good achievement in EU-Russia relations. However, while the milestones set in the roadmaps for the implementation of these freedoms should be preserved, the EU should initiate a joint mechanism for enforcing them together with Moscow.

***Economy and trade***

As mentioned previously, WTO membership by Russia is a precondition for enhancement of economic cooperation between the EU and Russia. However, this may not realize any time soon. In the meantime, the two sides should make efforts to overcome external barriers. A compromise could be to include clauses equivalent to WTO ones in the new EU-Russia agreement. This would commit Russia to undertake various economic reforms, as well as considerable regularization and standardization of its international market.

As regards energy cooperation, the EU should insist on implementation of the standards established by the ECT. However, if implementation of this treaty is not satisfactory, it should consider proposing the inclusion of similar provisions in the new EU-Russia agreement.

d) External Security



In the area of external security, it is imperative for the EU and Russia to identify areas where they could work together in their common neighborhood. The EU should initiate dialogue on how the EU and Russia can coordinate their positions and actions with respect to other former Soviet republics.

### ***Institutions and enforcement mechanisms***

The PCA institutions have been subject to much criticism. According to the Russian side, they do not adequately reflect the nature of EU-Russia cooperation as they copy the internal mechanisms of the EU. EU officials have stated that some of the institutions function only on paper. Thus, it is essential to improve the institutional structure in order to better accommodate the special EU-Russia relationship.

A key point of the new agreement should be the establishment of a mechanism for settling disputes between the EU and Russia in sensitive areas, where their interests conflict. This mechanism should involve the international community.

In conclusion we can argue that the current situation represents a propitious moment for EU-Russia relations to take a step forward. We believe that the process of redefining EU-Russia relations will be a long and painful one and will require a great amount of good will, as well as readiness to compromise on both sides. However, time should not be the only factor influencing the negotiations as structural changes are not quick in coming.

### **References**

Baev, Pavel (2003) *Putin reconstitutes Russia's Great Power Status*, PONARS Policy Memo 318, Centre for Strategic and International Studies, [http://csis.org/files/media/csis/pubs/pm\\_0318.pdf](http://csis.org/files/media/csis/pubs/pm_0318.pdf) (retrieved on 18.09.2008)

Council for Foreign Relations (2003) *Russia — outside the EU, inside the WTO*, proceedings of the conference with the same name held in New York

Emerson, Michael & Tassinari, Fabrizio & Vahl, Marius (2007) *A New Agreement between the EU and Russia: Why, What and When?* In Emerson, Michael (ed) (2007) *The Elephant and the Bear Try Again: Options for a New Agreement Between the EU and Russia*, Brussels: Centre for European Policy Studies

The Foreign Policy Concept of the Russian Federation (2000) approved by Vladimir Putin, <http://www.fas.org/nuke/guide/russia/doctrine/econcept.htm> (retrieved on 10.10.2008)

The Foreign Policy Concept of the Russian Federation (2008) approved by Dmitry Medvedev, <http://www.kremlin.ru/eng/text/docs/2008/07/204750.shtml> (retrieved on 10.10.2008)

Gomart, Thomas (2008) *EU — Russia Relations: Towards a Way Out of Depression*, Centre for Strategic and International Studies and the Institut Francais de Relations Internationales, Washington DC, Paris

Haukkala, Hiski (2008) *Multi-Causal Social Mechanisms and the Study of International Institutionalisation: The Case of EU-Russia Strategic Partnership*, Turku: Turun Yliopisto

Morozov, Vyacheslav (2008b) *Sovereignty and democracy in contemporary Russia: a modern subject faces the post-modern world*, *Journal of International Relations and Development* 2 (11):152-180

National security concept of the Russian Federation (2000) Moscow

<http://www.bits.de/EURA/natsecconc.pdf> (retrieved on 10.10.2008)

Neumann, Iver (2008) *Russia as a Great Power, 1815 -2007*, Journal of International Relationships and Development 11: 128-151

Partnership and Cooperation Agreement between the European Union and Russia (1997)

[http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:21997A1128\(01\):EN:H TML](http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:21997A1128(01):EN:H TML) (retrieved on 13.09.2008)

Putin, Vladimir (2005) *Poslanie Federal'nomu Sobraniyu Rossiiskoi Federatsii* (Address to the Federal Assembly of the Russian Federation),

[http://kremlin.ru/appears/2005/04/25/1223\\_type63372type63374type82634\\_87049.shtm](http://kremlin.ru/appears/2005/04/25/1223_type63372type63374type82634_87049.shtm) l (retrieved on 04.10. 2008).

Putin, Vladimir (2007b) Speech at the Munich Conference on Security Policy

[http://president.kremlin.ru/appears/2007/02/10/1737\\_type63374type63376type63377type63381type82634\\_118097.shtml](http://president.kremlin.ru/appears/2007/02/10/1737_type63374type63376type63377type63381type82634_118097.shtml) (retrieved on 04.10.2004)

Schuette, Rolf (2004) *E.U.-Russia Relations: Interests and Values — A European Perspective*, Carnegie Paper (40), Carnegie Endowment for International Peace

<http://www.carnegieendowment.org/publications/index.cfm?fa=view&id=16269> (retrieved on 10.02.2007)

Vandoren, Paul (2008) *Personal interview*, St. Petersburg

---

*Peter Novik*

## ***Russia and the EU — Cooperation or Rivalry?***

### Political and Economic Problems of EU-Russia Interaction

During the past few years, Russia and the European Union have changed dramatically. The EU enlargement to 27 countries transformed the EU into an organization that includes most European states and has large ambitions, but also significantly increased the level of differentiation within the EU and created a number of economic problems. Russia has recovered from the crisis of the 1990s: its political system has stabilized and, for nine years prior to the current global financial crisis, its economy grew by 6-9% per year. This growth was not only due to high prices of energy resources, but also internal factors (such as growing investment in basic capital and increasing private consumption). The world also has changed. The sharp rise (and continuing hike) of oil prices, the global financial crisis, the prospects of a global food crisis and the growing political and military instability in some regions — all these factors are indicators of the development of the world system. One apparent trend is the gradual change in political and economic balance to the disadvantage of Western countries.

These changes have contributed to a transformation of relations between Russia and the EU. In the political sphere, the “teacher — pupil” and the “donor — beneficiary” schemes no longer apply, and in the economic sphere, the previously existing asymmetry has gradually been leveled, although the parameters of the Russian economy still remain “lower” than those of the EU. Overall, Russia is highly interesting for the European Union, as part of its geopolitical strategy.

In order to achieve clarity and reliability in the complex process of cooperation, it is important that different parts work well together and that some mechanisms are regulated and coordinated. At the moment, we can speak about a contrasting development of the relations between Russia and Europe. Despite many joint plans, development projects and forecasts, it is still very difficult to comprehend what Russia and Europe are trying to achieve in their mutual relations. In the current process of “rapprochement” between Russia and the EU, there are many contradictions and even insurmountable obstacles to implementing cooperation projects of various formats.

### Obstacles to the Construction of Mutually Beneficial Cooperation between Russia and the EU

Among the principal obstacles to mutually beneficial cooperation between Russia and the EU at present are:

- The existence of “historical stereotypes” and “lack of confidence”.
- Differences in political and economic architecture and views.

— Energy issues.

### “Historical stereotypes” and “lack of confidence”

According to President and CEO of the independent communications company Edelman David Brain, confidence is “an invisible glue that connects the enterprise with their customers.” In his view, companies in which partners and customers have high confidence are more successful than other companies. The same applies to relations between countries.

For many centuries, and still today, Europe has viewed Russia both as an ally and an enemy. Because of the differences between Europe and Russia in political and economic development, culture, science, education and history, the Europeans have a more negative than positive collective image of Russia. In general, Russia is perceived as an unpredictable and dangerous neighbor.

Modern research confirms the existence of fear and distrust of Europeans towards Moscow. On the basis of the study "Transatlantic Trends — 2009" that was conducted by the American non-governmental organization German Marshall Fund (GMF) in 11 European countries, as well as in Turkey and the United States, it is possible to conclude that the perception of Russia abroad has deteriorated. At present, Americans and Europeans are concerned about Russian policies toward its neighbors. The highest level of concern (78%)\_ was observed in the U.S. and Holland.[1]

Interesting results were obtained in Germany, which differs from other European countries in the sense that it has more friendly relations with Russia and it is the only European state that can take on mediation functions, for example, in the case of sharp disagreement between Moscow and Washington. Among the German respondents, 67% were concerned about Russian policies toward neighboring states, 76% about the eradication of democracy in the country, and 78% about Russian arms transfers to unsavory regimes in the Middle East. These figures are significantly higher than those in other European countries. Only the Poles expressed a higher level of concern. [2] It appears that Russia inspires fear among Germans, even more so than among other Europeans. It turns out that the artificially positive attitude of Germans toward Russia is based more on fear than on respect and friendship.

Most Europeans believe that it is necessary to resist Russian influence and, in particular, that the EU and NATO should provide support for the security of Ukraine and Georgia.

Thus, we can conclude that the current relations between Europe and Russia are influenced by historical stereotypes. Europe has for centuries considered, and continues to consider Russia, as a possible threat to its political and economic system. Russia still can not accept the loss of its leadership position and its influence over the political and economic life of the former republics of the USSR (this explains the tough Russian policy in relation to some of its neighbors). Many of the actions taken by Russia in its attempts to restore its status as a “power nation” irritate Europe and cultivate fear and distrust among Europeans.

The only positive aspect that can be mentioned in this context is that there is essential confidence on both sides of the Atlantic that current U.S. President Barack Obama and European leaders are interested in developing tighter relations with Russia.

Differences of political and economic architecture and the views of the EU and Russia

In Europe, political democratic values and market economy values have evolved over a long period of time, while Russia got a chance to build a democratic state system only after the collapse of the USSR. It is important to note that many former Soviet republics and, in particular, Russia were interested and eager to build a democratic society based on the Western model. However, as a result of the influence of many factors, distinctive political and economic systems were created in Russia.

There are two basic and essential characteristics of the modern Russian political system:

1. Personal power exercised by a president without alternatives. Power can not be transferred from the current president to an opposition rival, and the president can exercise as much power as he wants and transfer it to a chosen successor;

2. Personal power is not exercised openly as in non-constitutional, quasi-monarchy or military dictatorships, but through imitation of legal democratic mechanisms.[3]

On one hand, the formal characteristics of the Russian political system are similar to those of the most developed European democracies. Russian legislation guarantees freedom of political organizations, free and general elections, a multiparty system and press freedom. On the other hand, political and public institutions and society generally continue to function according to the rules of an administrative and authoritarian state and a distributional economy, which are determined by non-public and non-transparent priorities and reflect anti-democratic practice and governance.

In Russia, a two-level political system has emerged:

- The upper level includes formal parties and other political associations, electoral commissions, legislatures, the Federal Assembly, the CIS Interparliamentary Assembly and different kinds of president and government consultative structures formed on a representative basis (such as the Political Advisory Board, the Public Chamber, the Chamber of Information Disputes etc.), conciliation structures (such as the “Big Four” and the president “roundtable”) and other institutions associated with the new democratic discourse.
- The lower level is largely hidden, illegitimate and informal. On this level, major issues of political interests are coordinated and most government decisions are not only prepared but also adopted. What is important here is not so much the governance structure as the actors who are involved. A crucial role is played by various groups, associations and structures whose participation in political decision-making is prohibited or limited by law. These include various “interest groups”, “pressure groups” and “influence groups” that often have a well-defined structure and hierarchy but are not formalized by public policy standards, i.e. they have no juridical status, no state registration, no formal membership, etc. A special kind of “interest groups” are lobbying structures, which may be partially formalized (e.g. business clubs, various presidential councils, government ministries, governors and mayors) but have not been established on a representational basis. Rather, as practice shows, they have typically been formed on a personal and informal basis, in accordance with clear corporate objectives.

The contradictions between the two levels of the Russian political system are serious and the main cause of the current political struggle in the country (rather than “fundamental” differences in views or ideology). They cause conflicts of interest at all levels; between the executive and the legislative branches, between democrats and left-minded opposition parties, between “compradors” and supporters of a national oriented economy, between administrative and market methods of economy management, between the emerging civil society and oligarchs... [4, p. 66-67]

Conflicts of interests inside Russia often do not allow for adopting decisions in relations with the EU, or delays such decisions. Also, it is not in the spirit of the Russian government to pay great attention to details when developing a project or entering into an agreement. The fact that Russia does not pay enough attention to the details of its initiatives has caused numerous complaints from European partners. On the other hand, Europeans may use this specificity (some would say weakness) in their own interests. This again may eventually lead to a negative perception by Russia of the results of the implementation of a project, although it itself initiated it. [5]

Another aspect of the Russian way of life, which complicates the prospects for political and economic cooperation with the EU, is increasing corruption. The level of corruption has been steadily growing in recent years and has assumed a systematic character. In 1998, the INDEM fund published an analytical report entitled “Russia and corruption: who will win?”. Today, more than ten years later, there is still no clear answer to this question. In 1998, the two basic factors that caused corruption in Russia were identified as "instability of democratic traditions" and "undeveloped legal consciousness of the population". [6]

It will not be possible for Russia to join the European system as long as the present political regime is maintained. It is not a question of Russia's willingness or unwillingness to enter Europe, but the crucial factor is that Europe is hesitant to let Russia. The fact is that the Russian system of non-alternative governance and the western system (based on the rotation) are not compatible.

The developed political system of the EU, which integrates 27 states, is also an obstacle to building mutually beneficial relations between Russia and the EU. Paradoxically, the realization of European initiatives with respect to Russia is prevented by Europe itself. The lack of a coherent EU foreign policy leads to the fact that the national interests of some member states prevail over the interests of the Community.

For example, during the informal EU-Russia summit in Lahti (Finland) in October 2006, President Vladimir Putin proposed to replace the existing Partnership and Cooperation Agreement (PCA) with a new Treaty of Strategic Partnership. Negotiations on a new agreement were to begin in November 2006, during the following EU-Russia summit. However, Poland vetoed the mandate of the European Commission to negotiate, demanding that Russia lift its embargo on Polish meat. Only after Moscow and Warsaw resolved the problems concerning the export of Polish agricultural products to Russia in December 2007, the Polish government announced its readiness to lift the veto. After this, negotiations were further stalled by Lithuania. Vilnius demanded that the EU take into account questions related to the resumption of energy supplies through the Druzhba pipeline, the payment of damages to people deported from the Baltic countries and the settlement of the frozen conflicts in Moldova and Georgia in the negotiation process. [7]

This kind of lack of unity among the EU member states can cause a stalemate in EU-Russia cooperation or give Russia an opportunity to play games with individual EU members to achieve certain benefits.

The ways of Western Europe (in this context, it makes sense to include all countries of the European Union and the European Free Trade Association in this concept) and the ways of Russia were often or — more accurately — almost always different. The most influential political parties and governments of Western Europe share a belief in the possibility to establish an order based on cooperation, mutual understanding, common values and the absence of conflict both in Europe and the rest of the world. At the same time, many Russian politicians (including its political leaders) endorse a realistic view of international relations, according to which countries struggle for their own security alone, while the international arena is characterized by continuing competition and confrontation. In this case, the only solution is a zero-sum game, and fear and distrust are important factors in politics. Such an approach by Moscow inevitably affects its reputation in relations with European partners, creating a sense of unpredictability and making EU members doubt about Russia's true intentions ("trust deficit").

As a result, a complex situation emerges. Russia apparently does not believe in the strategy of the European Union or in Europe's long-standing plans to create a sustainable space for nonzero-sum games. Meanwhile, the West is divided into two groups: some Western countries do not trust Russia, while others believe that Russia can be persuaded in the future to abandon its “realist” approach and will see the benefits of international relations based on common interests and mutual benefit.

### Energy Cooperation

After the collapse of the Soviet Union, and in connection with the liberalization of the European gas market, the previous structure of energy cooperation between Russia and Europe effectively ceased to function. Over the course of several decades, this structure had ensured an uninterrupted supply of Russian gas to Europe. A new balance of interests and an appropriate institutional structure has not yet been found and energy cooperation between Russia and the EU develops painfully.

This process is complicated by the fact that increasing concerns of producers and consumers with respect to the reliability of demand and supply create a vicious circle. Manufacturers who do not have guarantees about the realization of energy projects postpone their investment decisions and look to new markets, which increases the concerns of consumers and forces them to seek alternative supplies.

In western Europe, the share of oil consumption is about 22% of total energy consumption, while Germany is the world's second largest importer of gas (14% of all gas imported globally). The territory of the EU Economic Zone has only 3,5% of all proven global gas reserves and less than 2% of all proven oil reserves (mainly in Norway and the UK). At the same time, oil and gas deposits are exploited much more intensively than in other regions of the world, which leads to rapid depletion of resources. The main problem for the EU is growing dependence on energy imports. Today countries such as the Czech Republic, Estonia, Poland, Austria and Finland are almost 100% dependent on gas supplies.

Currently the EU imports 40% of all natural gas and 76% of all oil it needs, with more than 32% of the total gas imports coming from Russia. By 2030, the EU demand for gas could reach 730 billion cubic meters a year, while the import will rise from 40% to 70%. The share of oil imports could rise from 76% to 90%.

Russia export gas through pipelines which cross the boundaries of 14 States. In early 2006, there was a “gas conflict” between Russia and Ukraine. The reason for this conflict was disagreement about gas price and transportation (seven major gas pipelines cross Ukraine). The consequence was increasing concern about the sustainability of Russia’s gas supplies to the EU. In 2007, the Belorussian-Russian confrontation over oil and gas prices and transportation confirmed these fears, again making EU politicians talk about the need of supply diversification. [10]

The European Commission has actively encouraged the development of alternative gas supplies from Central Asia, the Middle East, North Africa, as well as an increased role of imports of liquefied natural gas (LNG). In particular, there have been multidirectional talks with post-Soviet countries such as Kazakhstan, Azerbaijan, Turkmenistan and Ukraine. Negotiations have concerned conditions of access to oil and gas sources, as well as plans to build oil and gas pipelines, mostly bypassing Russia. It is important to note that the alternative suppliers other than Russia such as Iran, Central Asian countries, North African countries and Nigeria are countries characterized by relatively high political risks and unstable economic systems and the transit routes from them would have to go through many other countries. The remoteness of these suppliers from the market and the need of huge investments to set up production and transportation infrastructure would make these projects very expensive. The EU plans to make use of alternative energy supplies irritate Russian gas producers and have, in some cases, encouraged them to take decisive action.

One of the major alternative natural gas suppliers considered by the EU after the Russian gas conflicts with Ukraine and Belarus was Algeria. This country currently controls only about 10% of the European gas market. These plans caused Moscow to urgently step up its activities in the "Algerian direction". As a result, during the spring of 2007, Russia forgave Algerian national debt equal to \$4.7 billion, and this North African country agreed to purchase from Russia fighters, air defense and other weapons amounting to more than \$7 billion. Soon Gazprom and the Algerian state-owned Sonatrach signed an agreement of cooperation and exchange of assets. After that, the European Commissioner for Energy Andris Piebalgs openly admitted that "the context of negotiations between Russia and Algeria makes us nervous" [8].

A majority of Europeans are concerned about the behavior of Moscow as an energy supplier. While about 67% of survey respondents in Western Europe expressed alarm, the corresponding figure in Central and Eastern Europe was about 73%. A couple of years ago, dissatisfaction with Moscow in terms of energy supply was more pronounced in Western Europe [1].

In turn, Russia desires to develop the supply of energy resources not only in the western but also in the eastern direction. This has caused negative reactions among European consumers who are afraid that Russia may transfer financial and managerial, as well as geological resources to the Asian markets, thus causing damage to the European market. (It should be noted, though, that the Russian supplies provided to



eastern markets have a fundamentally different resource base than those provided to the European market as they originate from eastern Siberia and the Far East).

The desire of both Russia and the EU to diversify their energy supplies is of course completely justified. Such diversification is exactly what has historically been considered the most obvious way to increase national energy security. At the same time, it should be remembered that the talk about diversifying energy supplies concerns only additional supplies. EU-Russia relations on gas supply are mainly regulated under existing long-term contracts covering a period of up to 20-25 years. Revision of these contracts is possible only by mutual agreement; otherwise, significant penalties will be imposed.

In this context, it is necessary to again underline the stabilizing role of long-term contracts as the main tool of gas business. For example, European experts often express uncertainty about Russia's ability to provide for the necessary increase of gas supplies to Europe. However, while Russia will not be able to cover (and does not attempt to cover) the entire increase in European demand, it is also not clear what exact volume of gas the EU would like to receive from Russia in the future (which makes Russia doubt the EU's realism). The only way to define relations is through long-term contracts. According to existing contracts, violation of supply conditions results in severe penalties and this is in fact the main reason why Gazprom has complied with its obligations in the past. For each contract signed by Gazprom, there is a funding plan. The funding plans related to the development of Yamal and Shtokman must become more ambitious so as to ensure modernization of the former Soviet Union oil and gas transport infrastructure, which is in a critical state. According to Gazprom, about 14% of its pipelines have already been in use over 33 years and would need to be taken out of exploitation, while another 20% were built more than 20 years ago. [9]

Given the existing long-term contracts, there can be no doubt that Russia will fulfill what already has been agreed. However, it cannot be expected that Russia will make huge investments in the exploration of reserves or the expansion and modernization of its gas transportation system without having signed long-term contracts.

In connection with the discussions about diversification and long-term contracts that have taken place during the past few years, there has also been criticism of Russia as an energy supplier. Thus, the desire of Russian companies to enter the EU market of final consumption has caused a lot of negative comments in EU media. However, in this context it should be noted that a manufacturer who has invested heavily in acquiring the assets of a distribution network will make every effort to ensure secure supply. In addition, these assets are the best guarantee of adequate behavior as violation of the law of the host country may result in a penalty.

There is a negative attitude of some countries towards the construction of two new routes, i.e. the North Stream (a gas pipeline planned to be built through the Baltic Sea that will have the capacity to deliver about 55 billion cubic meters of gas per year from Russia to the European Union) and the Blue Stream (a pipeline planned to be built across the Black Sea that will link Russia and Turkey and will have the capacity to transport 16 billion cubic meters of gas per year). In particular, the Poles are seriously concerned about the North Stream, which will transport gas to Western Europe bypassing Poland and the Baltic countries, thus jeopardizing their energy

security. Fears for Moscow's energy plans are least widespread among the Bulgarians (56%). In Germany, in which direction Russia is building the North Stream pipeline, 84% of respondents believe that resource dependence on Russia should be reduced even if this requires additional investments. This opinion is shared by almost same percentage of the French. [1]

While these complicating factors are important, it is worth noting that none of them is insurmountable or can destroy the symbiosis between the fuel and energy complex of Russia and the EU. Russia's population is 2,5% of the world's total population, but it has about 10% of the world's proven oil reserves and 34% of its natural gas reserves. The energy resources of Europe, by contrast, will soon be exhausted. The energy sector of Russia and the EU are complementary by virtue of geographical proximity, established transport infrastructure and traditional ties.

Nevertheless, it was exactly the energy issue that caused disruption of the EU-Russia summit in November 2006, during which the two sides had planned to begin discussions on a new partnership agreement. As noted above, a scandal formally broke out as Poland blocked the negotiations because of the unresolved issue of meat imports. However, the real reason for the disruption was that the EU representatives in advance had sought to develop a common tough position toward Russia, linking the partnership agreement with Russia's ratification of the Energy Charter. Currently the Energy Charter Treaty has been signed by 51 countries and ratified by 46. The main objective of the Energy Charter Treaty is to strengthen the basis for cooperation on energy issues by creating unified rules to be followed by all participating governments, thus minimizing the risks associated with investment and trade in energy resources. Russia signed the treaty in 1994 but has still not ratified it and participates in it only on a temporary basis. Russia refused to ratify the agreement in the form it was proposed by Europe, referring to the economic disadvantage this would mean. The Energy Charter requires equal partner access to deposits and pipelines, but Moscow argued that the European partners can not offer Russia resources comparable with those of which Russia disposes. Moreover, Russia was not satisfied with the situation concerning its access to distribution networks in Europe (except for Italy). This is currently one of the main issues for the Russian government concerning its overall strategy of cooperation with Europe. However, increasing EU-Russia interdependence is blocked by Europeans, who believe that even the existing level of interdependence poses a threat to energy security.

Despite the sometimes openly negative language used by European political actors concerning dependence on Russian energy supplies, many European companies have signed new long-term agreements with Gazprom, thus reinforcing Russia's role in the European market. This means that market participants positively evaluate the reliability and economic efficiency of Russian supplies.

Thus, Russia and Europe agree on the need for energy security based on responsible relations between the supplier and consumer of energy. However, the EU wants to ensure responsible behavior by Russia by establishing direct access of European companies to Russian energy assets. Russia points to the economic inadequacy of such arrangements and also requires access to the assets of energy distribution systems, i.e. the domestic energy businesses of the EU, arguing that this would strengthen the integration of Russia and Europe. Europe, in turn, argues that growing interdependence may be a source of problems as the already existing level of

interdependence have created threats to its energy security, such as the crisis between Russia and Ukraine in 2006 and the one between Russia and Belarus in 2007.

However, the main obstacle to developing a coherent position is without doubt the absence of a strategic vision of mutual relations on both sides. In the case of the European Union, there is at least common agreement on what is the main priority for Europe, i.e. the need of large volumes of cheap energy from the east. With this in mind, as well as to expand the zone of its "soft" influence, the European Union tries to involve Russia in the maximum possible number of mutually binding agreements where the EU takes over the leadership role, as well as in countless eastern partnerships or associated participations.

What Russia in particular may want and is able to do is not entirely clear. No doubt, all possible expansion of cooperation with Europe is beneficial and sometimes vital to Russia's science, education and industry. However, its responsibilities as a superpower and the associated costs are not canceled and are not going to be canceled, as demonstrated by the events in Georgia in the summer of 2008. The harmonious combination of these two imperatives of Russian policy in the European direction could become the basis of strategic relations with the European Union.

#### Positive Trends in Relations between Russia and the EU

As mentioned above, for EU, Russia is at the same time a rival, an ally and a partner. Among the positive developments in Russia-EU relations, it is possible to highlight the following:

- The transition from a negative to a positive Russian public perception of the EU's role in Russia's development (mostly among young people);
- The development of partnerships in the financial and economic sphere; and
- Improvement of relations in the context of the recent financial crisis

The transition from a negative to a positive Russian public perception of the EU's role in Russia's development

At the end of 2007, a survey of Russian students and teachers of leading Russian universities was conducted in the framework of the research project "Russia — European Union: the evolution of relations and forms". The following results were obtained:

#### How do Russians relate to the EU?

(the number and % of respondents who chose different alternatives are indicated)

<i>Very good / Mostly good</i>	<b>86</b>	<b>81,1%</b>
<i>Mainly bad / Very bad</i>	<b>7</b>	<b>6,6%</b>
<i>Difficult to answer</i>	<b>13</b>	<b>12,3%</b>

#### 2. What is the EU for Russia?

number and % of respondents who gave different answers)

<b>1. Ally</b>	<b>8</b>	<b>6,2%</b>
<b>2. Privileged partner</b>	<b>17</b>	<b>13,2%</b>
<b>3. One of the most important partners</b>	<b>62</b>	<b>48,0%</b>
<b>4. Rather a partner than a rival</b>	<b>34</b>	<b>26,4%</b>
<b>5. Rather a rival than a partner</b>	<b>6</b>	<b>4,7%</b>
<b>6. Opponent</b>	<b>2</b>	<b>1,5%</b>
Difficult to answer	-	-

**3. How do you assess relations between Russia and the EU now?  
(number of respondents who gave different answers)**

Areas of relations	Good	Rather satisfactory	Rather poor	Bad
<i>The economy</i>	<i>19</i>	<i>72</i>	<i>13</i>	<i>-</i>
In foreign policy	<i>12</i>	<i>61</i>	<i>27</i>	<i>2</i>
In domestic politics: democracy, human rights	<i>8</i>	<i>43</i>	<i>44</i>	<i>8</i>
In science and education	<i>42</i>	<i>43</i>	<i>17</i>	<i>2</i>
In the field of culture	<i>49</i>	<i>44</i>	<i>11</i>	<i>1</i>
Total	<i>12</i>	<i>78</i>	<i>13</i>	<i>+</i>

The level of positive attitudes to the EU among students can be evaluated as being very high. It is significantly higher than among Russian citizens in general. According to a monthly all-Russia survey conducted by the Levada Center, in the first half of 2007, respondents' answers to a question about their attitudes to the EU were as follows: very good / mostly good — 65,2%, mostly bad / very bad — 18,5%; difficult to answer — 16,3%\*. Thus, the proportion of positive responses among the students surveyed was almost 16% higher, and the proportion of negative responses was almost 12% lower, than among the population at large.

These differences may be interpreted differently. First of all, they can be explained by differences in age and educational level between students and the general population. The younger the respondents are, the higher is typically their level of education, and the more positively they perceive western Europe and the EU. Another reason for the differences in the perception of the EU could be differences in the sources of information used, which reflect varying degrees of awareness about the EU and its relations with Russia. The general population primarily learns about EU-Russia relations from the media, which provides information regularly but recently has paid most attention to the controversies between Russia and the EU, as well to the internal difficulties of the EU. In addition to general information, students obtain knowledge about the EU and its relations with Russia during lectures and seminars, as well as by studying domestic and foreign academic literature and international media, including the internet, which has become an important source of information for students. [11]

All this suggests that future generations of Russian politicians, sociologists, scientists and businessmen will be better able to build positive and loyal relationships with the EU.

### Development of partnerships in the financial and economic sphere

#### *Trade*

The fact that a number of Central European countries, which have traditionally intensive trade relations with Russia, joined the EU in 2004 and 2007 led to the absolute domination of the EU in Russia's foreign trade. Its share currently exceeds 50%. The trade turnover between Russia and the EU grew rapidly in the first decade of the new millennium and reached 232.6 billion euro in 2007 (see Table 1.). At the same time, since 2003 Russia's exports grew very fast, mainly due to increasing prices

for energy resources. Russia's positive trade balance reached its peak in 2006 (68.2 billion euro). The situation changed in 2007, when Russia's imports from the EU grew by 23%, while exports remained almost at the same level (+ 2%). The growth of Russia's imports is due to an increase of supplies of machinery, transport equipment and finished products. Russia's largest trading partners in the EU are Germany, Italy, Netherlands and Finland.

**Table 1. Trade in Russia — EU (million euro)**

Year	Russian Exports	Russian Imports	Russian Trade of balance
2000	63 777	22 738	41 039
2001	65 875	31 602	34 272
2002	64 493	34 420	30 073
2003	70 663	37 206	33 457
2004	83 954	46 030	37 924
2005	112 613	56 880	55 733
2006	140 586	72 360	68 226
2007	143 520	89 050	54 470

Source: Eurostat.

### *Investments*

In recent years, Russia has experienced a boom of foreign investments that seemed impossible not long ago. According to a forecast of the Russian economy released by the government in late 2003, the inflow of foreign direct investment was expected to reach 7,8-8,5 billion in 2005 and 9.11 billion USD in 2007. The real figures were much higher (see Table. 3). It is characteristic that the aggravation of the situation on the world's financial markets caused by the crisis of mortgage lending in the United States had little impact on the level of foreign investments in Russia until August-September 2008. Moreover, according to Merrill Lynch, in June 2008, portfolio investors evaluated Russia's market as the most promising in the world, 84% of the respondents (who were managers of global investment funds) continued to increase investments in Russia.

The second phase of the global financial crisis that followed the collapse of the U.S. bank Lehman Brothers, decreasing confidence in the biggest U.S. insurer AIG and increasing political risks associated with the military crisis in South Ossetia led to a massive outflow of foreign capital from the Russian domestic stock market and to a critical drop of the stock indexes. While the macroeconomic indicators of the Russian economy and the fundamental characteristics of its companies gave no reason for panic, portfolio investors who acted on the basis of emotions started to escape from the market. At the same time, strategic foreign investors continue to maintain interests in Russian assets. Moreover, using the market terminology, this interest is evident not only in the strategy of "keeping", but also in the strategy of "buying". For example, by mid-September 2008 Fortum had consolidated a little more than 90% of the shares of TGK-10 and intended to buy 100% of the stakes in the company.

**Table 3. Foreign investments in Russia, billions of US dollars**

	2003	2004	2005	2006	2007
<b>The influx of foreign investments</b>	29,7	40,5	53,6	55,1	120,9

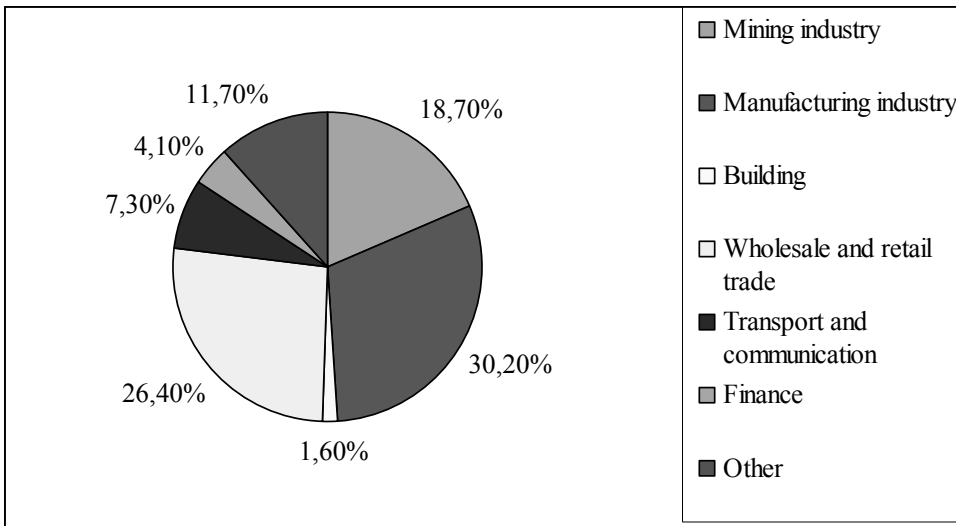
including FDI	6,8	9,4	12,1	13,7	27,8
FDI (forecast) *			7,8-8,5		9,0-11,0
including FDI from the EU-25 billion euro	7,7	6,0	9,6	10,4	n.a.
<b>Accumulated foreign investments</b>	42,9	57,0	82,0	142,9	220,6
including FDI	20,4	26,1	36,3	67,9	85,0 <sup>e</sup>
including FDI from the EU-25 billion euro	14,8	21,6	31,3	52,3	n.a.

Source: VNIKI, Rosstat, Eurostat

\* Forecast MEDT, 2003

e — estimate

**Figure 1. Structure of accumulated foreign investments in Russia by sectors, 2007; %**



Source: Rosstat.

The EU is the largest investor in Russia. Its share has steadily been about 80% of accumulated FDI. As a result, EU investments in Russia are becoming an important component of economic activity. Russia shares the fourth place with Turkey and China on the list of the largest recipients of FDI from the EU, and is thus ahead of the United States, Canada and Switzerland.

## Crisis

It may sound paradoxical, but the recent financial crisis has accelerated the convergence between different countries and groups in many different spheres of interaction. This is especially clearly manifested in the relations between Russia and the European Union. If a year ago, all observers confidently predicted that the consultations on a new EU-Russia strategic partnership agreement that began in June 2008 may continue for years, there are now more and more signals indicating the desirability of both sides to rapidly conclude them.

## Summary

Ten years ago Russia, from an economic point of view, was interesting for the EU as a supplier of energy and a potential market for European products. Today, due

to the increased income of the Russian population, the potential interest in the Russian market has been transformed into reality. Moreover, the Russian industry is gradually becoming a more advantageous partner for European businesses; a number of major projects of industrial cooperation have already been implemented.

The potential effectiveness of economic cooperation (and possibly partial integration) between Russia and the EU is due to complementarity of resources. Among Russia's competitive advantages are its relatively cheap and skilled labor force; its natural resources, including recreational potential and potential for the development of "ecological" agriculture; its developed fundamental science, which still produces high quality technical results; its transit location, which provides access to the Asia-Pacific region; its large national market with existing consumption capacity; as well as access to the markets of the CIS countries. The EU has such competitive resources as capital reserves; high technology and mechanisms for transforming scientific and technical developments into cost-effective technologies; skills and know-how in management; energy efficiency and economic mechanisms to encourage energy efficiency; and high potential to influence global economic rules. Pooling the resources of Russia and the EU could lead to a breakthrough in enhancing the global competitiveness of both economies.

However, to achieve effective cooperation, both sides must act.

The following reforms are needed in Russia to ensure rapprochement with EU positions:

1. Much more attention need to the paid to details than Russians like to do. The best example here is the question of a new European security system. Inadequate attention to the details of this and other Russian initiatives has caused numerous complaints from European partners. However, this is not so important in itself. Much worse is that the lack of detailed proposals from Moscow may lead to that the initiatives are interrupted by European partners. In that case, Russian negotiators have to restart the dialogue about the implementation of their ideas in a new political and judicial process. The good news is that, despite some delay, efforts to ensure adequate attention to the details of Russian initiatives have begun.

2. There is an urgent need to get rid of the bad tradition of lacking inter-departmental coordination and, in some cases, even of inter-departmental competition on issues concerning EU relations. A unified center for cooperation with the EU is still absent in Russia. Without coordinating the positions of different departments, the negotiating tactics of Russia look like a football team, where everyone at the same time is an attacker, a defender and a goalkeeper. The results are accordingly conflicting. However, this is not the most unpleasant aspect. The existence of a plurality of communication channels and interests has pushed the EU into using so-called "multi-output diplomacy", where every issue needs to be addressed with a specific Russian department. As a result of this, the integrity of the Russian approach, which for years has been discussed by experts and the political community, is disintegrating. Additionally, there is a need to resolve a countless number of commercial issues.

3. It would be good if Russian policies toward Europe could move away from the "project thinking" established over the last decade. Many representatives of Russian ministries, who are in contact with the administrative machinery of the EU, are guided by an objective to resolve specific problems at almost any cost, without

regard to the political significance and consequences that technical concessions or sudden changes in approach may have.

4. It is necessary to ensure total eradication of corruption in the Russian state system. Corruption is a consequence of excessive state intervention in the economy. However, limitation of the state's intervention does not lead to the eradication of corruption. It only alters its forms, adapting it to the conditions of self-regulatory organizations and to the requirements of the business community. Therefore, effective prevention of corruption should include a range of measures far beyond the budgetary sphere and public administration. The most dangerous forms of corruption emerge from within the judicial system, which by definition should fight against corruption. In this regard, it is important to develop anti-corruption programs for each specific ministry and government structure, such as those that already have been prepared by the ministry of justice and the ministry of interior. It should be made a priority for professionals in the field of public administration to monitor corruption both in law-making and administrative decision-making processes and in the application and execution of legal rules.

5. To reverse the negative trends in European and American public opinion, Russia should pursue consistent, predictable and moderate policies and cut back on loud statements and threats. For example, there is no need to shout about increased Russian defense capacity. It is better to keep quiet and do more in terms of modernizing the army and providing adequate accommodation for soldiers. This will be appreciated abroad.

## References

- 1) A.Terekhov. Russia disturbs Europeans and Americans//Chair of the countries of Post-Soviet abroad RGGU — 11.09.2009.// URL:www.postsoviet.ru
- 2) Germans are afraid of Russia more than other Europeans // Internet newspaper "Mideast.ru", 07.09.2007г.// URL: www.mideast.ru/352/37734?&PAGEN\_1=11
- 3) The political system of Russia after Putin's reforms / Dmitry Furman //Interrogation of authors and experts of magazine "Emergency ration", 27.01.2005г. // URL: www.polit.ru/research/2005/01/27/polit\_system.html
- 4) V.A.Lepyokhin. From administrative-political dictatorship to financial oligarchy.// Social studies and the present, release №1, 1999 // URL: www.ecsocman.edu.ru/images/pubs/2004/04/14/0000154755/007IEPEHIN.pdf
- 5) T.Bordachev. To be on friendly terms is more difficult.//Article 12.03.2009 // URL: www.brussels-bc.com/ru/portal/monitoring/290
- 6) I.N.Bartsits. Toward new bureaucracy. About the burden of corruption and anticorruption investigation. // "The Independent newspaper", 24.11.2009 // URL: www.ng.ru/scenario/2009-11-24/15\_burokratia.html
- 7) Relations between Russia and the European Union.//RIA Novosti — news agency, 02.12.2008 // URL: www.rian.ru/politics/20081202/156289310.html



8) L.Klokoval. The second front. Gas. // The magazine "BusinessWeek Russia", 26.03.2007 //

URL: [www.nefte.ru/black/black38.htm](http://www.nefte.ru/black/black38.htm)

9) J.Solozobov. Energy security: concept on interests. // The magazine "Industrial sheets", № 7-8, July-August 2006 // URL:

[www.promved.ru/articles/article.phtml?id=882&nomer=32](http://www.promved.ru/articles/article.phtml?id=882&nomer=32)

10) A.Hajtun. Russia, Ukraine, the EU countries — power partnership. //

URL: [www.niss.gov.ua/book/Uzhgorod/26.pdf](http://www.niss.gov.ua/book/Uzhgorod/26.pdf)

11) The Questionnaire: Russia — European Union relations//The Center of EC documentation of the institute of Europe of the Russian Academy of Sciences and Association of European Research. // URL:[www.edc-aes.ru/site/ru/image/anketa.html](http://www.edc-aes.ru/site/ru/image/anketa.html)

---

*Natia Ejoshvili*  
***The Evolution of the European Union's Neighborhood  
Strategies: The Case of the Eastern Partnership<sup>1</sup>***

### Summary

Addressing the so-called security-integration dilemma has been one of the fundamental challenges of the EU for the past decades. In previous years, the Union successfully used the promise of membership for promoting stability along its borders. After removing the “carrot” of accession, the EU faced a new problem: how to ensure stability and security in its vicinity. As an answer to this dilemma, the Union has endorsed a new framework for relations with its neighbors — the European Neighborhood Policy (ENP), which is aimed at filling the gap created by the discontinuation of its enlargement process to the east. The initial bravado of the EU rhetoric on this issue has, however, faded. Existing inconsistencies and drawbacks forced the EU to gradually adapt the initial project. This continued “facelift” of the EU’s neighborhood policy has resulted in the development of a handful of new neighborhood initiatives and policies in a relatively short period of time, thus creating a complicated over-layered structure.

What compels the EU to develop multiple strategies and initiatives towards its neighborhood? This study aims at exploring why the EU constructs its peripheries, how it constructs the neighborhood and if the employed methodology is successful. It presumes that the main rationale behind the EU’s neighborhood policies is security reasoning and that the EU, while promoting its security goals, tends to formulate a more engaging strategy towards its neighborhood. In order to test this assumption, the study examines the EU’s newly commenced initiative on the Eastern Partnership (EaP) in the light of previously existing neighborhood strategies. The emphasis is put on the Union’s Eastern neighborhood as this is the main place where the EU’s security will be put to test in the future.

The study discloses the EU’s complicated mechanism of stabilizing its peripheries. As a normative power, the Union tends to “export” its governance and, in this process, it uses different combinations of positive and negative stimuli, ranging from financial aid to EU membership. While this model proved successful in the previous enlargement process, the new Eastern partners that are eager to join the EU seem more reluctant to undergo a painful process of policy reforms, especially as the offered incentives seem rather vague and unattractive. Did the EU learn from its past mistakes and offer its new eastern neighbors something more challenging with the EaP? The study illustrates that, notwithstanding the relative improvement it represents in terms of the shortcomings of the ENP, the EaP is not definite enough to ensure an

---

<sup>1</sup> This paper has been adapted from the author’s master’s thesis written in the framework of the MIREES (Interdisciplinary Master’s in East European Research and Studies).

appropriate balance between the EU's security needs, its operational capacities and the neighbors' accession aspirations.

## Introduction: The EU's Puzzled Neighborhood

The so-called "Big Bang" enlargement in 2004, followed by Romania's and Bulgaria's accession in 2007 increased the EU's proximity to its current eastern neighbors and compelled it to address the threats coming from this new periphery. The EU's engagement with its new eastern neighbors has mainly been motivated by security concerns. As a result, its policies can be considered a form of "emergency" response to security challenges (mainly non-military) requiring an immediate response rather than a thoroughly considered and elaborated strategy.

In the new post-enlargement situation, the EU adopted a new framework for its relations with its eastern neighbors, the neighborhood policy (the ENP).<sup>2</sup> The aim of this policy was to help create a "ring of friends" surrounding the union. The ENP was described a "revolutionary approach" and a big novelty, but upon closer examination, it is evident that the new strategy did not offer anything qualitatively new but simply merged and mixed and rewrapped and rebranded already existing policies, which had been employed for a considerable period of time.

The ENP concept is quite ambiguous. On the one hand, at the rhetoric level, it propagates the aim of consolidating democracy by transferring liberal and democratic values beyond its borders. On the other hand, from a security perspective, it intends to create a circle of stable states surrounding the EU<sup>3</sup>. Through a new form of engagement, the EU has tried to develop its relations to partner countries by offering co-operation and financial aid, while excluding these countries from the prospect of EU membership. The paradox of the policy is that by excluding partners from integration prospects, the EU has deprived itself of the greatest normative leverage over them. The different neighborhood policies and initiatives developed within the ENP framework, such as the Black Sea Synergy (BSS), the Union for Mediterranean (UfM) and the Eastern Partnership (EaP) have been based on different lines of reasoning. However, the basic pattern has been the same: none of these new strategies offer the perspective of EU membership to partners.

The Eastern Partnership is the newest of the above mentioned neighborhood initiatives and strategies. The project was proposed by Poland and Sweden on 26 May 2008 and officially inaugurated on 7 May 2009, in Prague, during the Czech EU presidency. It was launched as a complementary policy to the already existing ENP, more or less resembling the EU's existing Northern Dimension Initiative (NDI) and Euro-Mediterranean Partnership (EMP). Its officially stated goal is to develop deeper cooperation with the EU's eastern neighbors.

Given its novelty, it can be assumed that the EaP is a more developed policy than the EU's previous policies and represent an improvement with respect to the

---

<sup>2</sup> The term "European Neighborhood Policy" is mainly used to describe a specific strategy launched by the EU in 2004. However, in this paper, the expressions "neighborhood policy/policies/strategies" will be used in reference to the EU's different policies and initiatives developed towards its neighbors during the last few decades.

<sup>3</sup> European Commission, European Neighborhood Policy, Strategy Paper, COM(2004) 373 final, 12 May 2004, p. 1.

shortfalls and limitations of these. Therefore, a focus on the EaP and a comparison of this policy to previous initiatives should help us identify the evolutionary logic of the EU's neighborhood approaches.

This article aims at answering a number of major questions: (1) *Why* the EU pursues neighborhood policies and whether its neighborhood strategies are ad hoc policies aimed at responding to certain challenges from the outside world or whether they constitute a linear process that follows a certain logic; (2) *How* the EU constructs its neighborhood policies and what the main features of its ongoing neighborhood policies are and how they can be classified; (3) *If* the EU's current neighborhood policies are successful. The study presumes that the main rationale behind the EU's neighborhood policies is a concern about security and that the EU, in order to promote security goals, tends to adopt a more engaging strategy towards its neighbors. To test this hypothesis, the newly launched EaP will be examined in the light of previously existing neighborhood strategies. The emphasis is put on the Union's Eastern neighborhood as this is the main place where the Union's security will be put to test in the future.

The task of examining the EU's neighborhood strategies can be described with the same words used to describe the aim of the ENP itself, i.e. "structuring the chaos". The fact that the EU's neighborhood policies are very dynamic makes it difficult to conceptualize and understand them.

It should be mentioned that appropriate theoretical literature on this topic does not exist since it is a relatively new realm of the EU's external relations (developed from 2004 onward). Still, it is possible to construct an analytical framework using other sources. Thus, the study will employ an analytical framework built on the constructivist theory of a regional security complex and the concept of "security community". We dismiss the possibility of utilizing the Foreign Policy Analysis (FPA) approach, which is traditionally applied to conventional states, in order to study the EU's neighborhood policies since the EU — as an actor — differs substantively from the model of a Westphalian state<sup>4</sup>.

## 1. Theoretical Framework

The EU's foreign policy resembles a kind of conglomerate. Most existing literature approaches it as a complex having a distinct institutional design that combines both supranational and intergovernmental features. It can be argued that the EU is a foreign policy system made up of the EU's three pillars (the Community pillar, the common foreign and security policy pillar and the EU pillar), as well as the foreign policies of the member states<sup>5</sup>. At the same time, it possesses certain features of both a nation state (within the first pillar decisions are made by qualified majority vote) and an intergovernmental organization (within the second and third pillars decisions are made through agreement among all member states).

---

<sup>4</sup> A term used to describe the modern nation-state in the world order created with the Westphalian Treaty of 1648.

<sup>5</sup> For more on this topic, see: *White, Brian*. "The European Challenge to Foreign Policy Analysis." *European Journal of International Relations*, vol. 5, n. 1, 1999, pp. 46-7.

The cross-pillar dimension of the EU's neighborhood policies makes these policies an important element in the EU's security<sup>6</sup>. The neighborhood policies are pursued across the three different pillars and their objectives fall under each of them. Thus, these policies concern economic cooperation, economic development and integration, energy, border management and environmental issues (under the first pillar); political stability, regional conflict prevention and harmonization with the EU's policy on weapons of mass destruction (under the second pillar); and cooperation on combating terrorism and organized crime (under the third pillar). Some even see the neighborhood policy as regional implementation of the EU's common foreign and security policy.<sup>7</sup>

When discussing the problem of formulating EU neighborhood strategies, one should keep in mind the difficulties related to pursuing a coherent foreign policy across the three EU pillars. The neighborhood policies reflect existing problems associated with cross-pillar institutional or interest conflicts (between member states and EU institutions).

Also, while conceptualizing the EU's neighborhood policies, it is important to keep in mind that the EU's approach to its bordering countries is mainly determined by its permanent search for security.<sup>8</sup> In the understanding of security studies, a *security community* is a group of states in which there is a guaranteed assurance that members will not fight each other physically but resolve disputes in alternative, mainly peaceful ways<sup>9</sup>. The idea of security communities was pioneered by Karl Deutsch in the 1950s, and almost four decades later, it was revised and modified by Emmanuel Adler and Michael Barnett<sup>10</sup>. The idea offers a new way of comprehending how states may change their understanding of security and think in ways different from the traditional realist "security dilemma". According to the Copenhagen school of constructivists, a security community is an entity based upon "integration", a "sense of community" and "dependable expectations of peaceful change" where war is considered to be "unimaginable", or rather it is "made unimaginable"<sup>11</sup>. As Barry Buzan puts it, "security communities today are not marked by a general forgetting of security concerns but rather by a *conscious* aggregations of them"<sup>12</sup>. Membership in a community does involve "shared identities, values and meanings"<sup>13</sup>.

---

<sup>6</sup> Some authors argue that enlargement was a security policy in its own rights since transferring EU norms, rules and principles to candidate countries made instability and conflict on the continent less likely. The same can be argued regarding the Neighborhood policy

<sup>7</sup> See: Marise Cremona and Christophe Hillion, *L'Union fait la force? Potential and Limitations of the European Neighborhood Policy as an Integrated EU Foreign and Security Policy*, *EUI Working Paper LAW No.39*, 2006, p. 22.

<sup>8</sup> Fabrizio Tassinari, "Security and Integration in the EU Neighborhood: The Case for Regionalism", *CEPS Working Document n. 226*, July 2005, p.2.

<sup>9</sup> Karl Deutsch et al. (eds.), *Political Community in the North Atlantic Area*, Princeton University Press, Princeton, 1957

<sup>10</sup> Deutsch applied his concept to the formation of the United States. His ideas were neglected in academic circles for more than a decade since they did not fit the logic of the Cold War. Later his work has been modified by Emmanuel Adler and Michael Barnett and recently it has generated great interest. Emanuel Adler and Michael Barnett (eds.), *Security Communities*, Cambridge University Press, Cambridge, 1998.

<sup>11</sup> Barry Buzan and Ole Wæver, *Regions and Powers: the Structure of International Security*, Cambridge University Press, 2003., p. 46.

<sup>12</sup> Barry Buzan and Ole Wæver, *ibid.*, p. 61

<sup>13</sup> Emmanuel Adler and Michael Barnett, "A Framework for the Study of Security Communities" in Emanuel Adler, Michael Barnett (eds.), *op.cit.*, p. 31

Alex J. Bellamy argues that there are three types of security community behavior: (1) “regional fortress” behavior (when boundaries between “insiders” and “outsiders” become more rigid than before the security community was created); (2) “ambivalent community” behavior (when boundaries between “insiders” and “outsiders” remain relatively unchanged. This happens when, on a bilateral level, states enjoy shared behavior and norms and entry into the security community does not alter their identity norms); and (3) “integrationist community” behavior (when the boundaries between “insiders” and “outsiders” become softer. This may occur when shared norms, values and interests and elite networks that produce a sense of community between insiders are diffused outside the community without outsiders immediately being incorporated into the community)<sup>14</sup>.

On the basis of this classification, constructivists have introduced another concept that focuses on the relationship between a community’s insiders and outsiders, i.e. the concept of region building. The argument is that since regions are abstract and imagined communities, they can be constructed and reproduced.

Seen in this light, the EU can be argued to promote a learning process when it promotes the spread of its norms and behavior standards outside its own community by using a combination of positive and negative stimuli (or “carrots” and “sticks”). This resembles a classical case of conditioning. During the last decade, the major “carrot” used has been community (EU) membership, while the “sticks” used have been different kinds of “soft” sanctions (diplomatic and economic sanctions mainly). However, if we look at the EU’s neighborhood policy, we can see that the removal of the membership “carrot” has altered the whole norm-projection picture.

## 2. The EU and its Neighborhood

### 2.1. *General overview*

The EU’s foreign policy expresses itself in different forms, including integration of certain neighbors, “privileged partnership” with “near abroad” neighbors, bilateral agreements with medium and big powers, and multilateral partnership agreements with distant regions. According to Hettne’s classification, these four policy relations correspond to four types of counterparts: prospective members, neighbors, great powers and far away regions<sup>15</sup>.

If we go into more details, we can observe that the neighboring countries also fall into several categories: countries with which the EU has bilateral relations (Switzerland and some micro-states); EEA/EFTA countries (Norway, Iceland and Lichtenstein); candidate countries (Turkey, Croatia and Macedonia); non-members with accession perspective (Albania, Serbia, Bosnia and Herzegovina and Montenegro); and non-members without accession perspective (ENP countries and Russia).

Why does the EU make groupings in its neighborhood? The argument goes that this represents a new approach in the new, enlarged EU’s policy towards its surroundings. However, despite the attempt of the EU to design a holistic policy

---

<sup>14</sup> Alex J. Bellamy, *Security Communities and their Neighbors: Regional Fortresses or Global Integrators?*, Palgrave MacMillan, 2004, p. 11-12.

<sup>15</sup> Björn Hettne, “EU as a Global Actor: An Anatomy of Actorship”, Paper presented at the GARNET conference: “The European Union in International Affairs”, Brussels, 25 April 2008., p. 14.

towards all its neighbors, its policies do not reflect a coherent strategy but are rather pursued within a loose framework. There are two major dimensions, the East and South dimensions, which the EU has unsuccessfully tried to squeeze into a single notion of “neighborhood”. Our study is primarily concerned with the Eastern dimension of the EU’s foreign policies, which related to post-Soviet states.

After the dissolution of the Soviet Union, the EU has established bilateral Partnership and Cooperation Agreements (PCAs) with post-Soviet countries (Russia, Ukraine, Belarus, Moldova, Georgia, Armenia, Azerbaijan and the Central Asian republics). These programs were initially supported by the TACIS (The Technical Assistance) program, but as of 2007, this program, was replaced by a new financial instrument called the ENPI (European Neighborhood and Partnership Instrument).

## ***2.2. The Eastern Dimension***

This dimension relates to the EU’s eastern neighbors Ukraine, Belarus, Moldova and, since more recently, the three Caucasus republics of Georgia, Azerbaijan and Armenia. To some extent, this policy dimension also relates to the surrounding countries of Poland, Lithuania and Russia.

The Eastern Dimension has been made a priority area of EU foreign policy mostly as a result of lobbying by Poland and some Nordic countries. The group of countries that fall within the dimension is highly diversified and generates serious concerns for the EU. The region is a shared neighborhood for the EU and the Russian Federation and is, thus, affected by the rivalry between these two powers. Poverty, authoritarianism and so-called “frozen conflicts” are wide-spread in the region. The current economic crisis has only added to the region’s troubles.

Criticism and pressure from countries in the region, as well as their “insider” supporters, combined with renewed security threats experienced after the Russian attack on Georgia and endless Russian-Ukrainian gas disputes convinced the EU to commence a more differentiated policy towards the region. This was done in the form of the EaP, which will be examined in more detail below.

## **3. The EU’s Neighborhood Policy: Evolution or Revolution?**

### ***3.1. Toward Eastern Partnership***

The EU enlargement to include new members in Eastern and Central Europe in 2004 was a turning point in the development of the EU’s eastern policy. After this, it developed into two main directions. On the one hand, it continued to cover those East European countries that could not aspire for EU membership or that had little desire to join the Union (Ukraine, Moldova, Belarus and Russia). On the other hand, it incorporated several new countries deemed “European” according to various geographic, cultural, social, historical or other characteristics (mainly the three Caucasus republics of Georgia, Azerbaijan and Armenia). At the same time, the Central and East European countries that became members of the EU became active in initiating and promoting EU policies towards its eastern neighbors.

As noted above, at the initial stage, the EU developed its relations with former USSR countries through Partnership and Association Agreements (PAAs) After the Central and East European accession countries (including the three former Soviet republics in the Baltics) were absorbed into the European security complex, the EU’s

relations with the remaining East European countries became extremely differentiated, especially with respect to the three Caucasus countries (Georgia, Azerbaijan, Armenia) and the five Central Asian republics (Kazakhstan, Turkmenistan, Uzbekistan, Tajikistan and Kyrgyzstan). Apart from a geographic differentiation in the approaches used, there were differences in the presumed nature of the relations with individual neighboring states.

Some EU states, especially France and Germany, have always been actively involved in developing the Union's eastern policy and their mind-set regarding Russia's importance in this regard was mostly coherent. Both Berlin and Paris consider Moscow to be an important political and economic partner and support friendly and close relations with Russia (some commentators have even dubbed Germany as "Russia's Trojan Horse" within the EU). An attitude of preferential treatment of Russia dominated the EU's approach to its eastern neighbors for a long time. However, this has changed to some extent after the accession of the Central and Eastern European, which have partly succeeded in their attempts to ensure a "re-securitizing" of the "Russian factor" in the EU's policies.

Overall, in the same way as their approach to the EU's eastern enlargement varied, the EU members have fundamentally different positions regarding the EU's post-enlargement policies towards its eastern neighbors. Scholars distinguish between the two main informal blocks within the Union. The first one, which is the so-called "eastern bloc" led by Germany, was in favor of enlargement and now favors closer engagement with the EU's eastern neighbors, arguing that this will reinforce the EU's position and influence. The second one, which is the so-called "southern bloc" dominated by France, was relatively reluctant to the idea of expanding the EU eastward and advocates closer engagement with southern states. This is due to a particular interest in the Mediterranean region.<sup>16</sup> Thus, the inconsistency and vagueness of the EU's current neighborhood policies often result from a clash of interests within the EU. Controversy regarding the continuation of EU enlargement also affects the development of neighborhood policies and their objectives.

### ***3. 2. The ENP and the EU's Post-enlargement Policy towards its Eastern Neighbors***

Enlargement has been the main foreign policy instrument used by the EU after the fall of Communism. Through enlargement the EU has tried to preserve stability and security in its peripheries, like a traditional regional power attempting to ensure stability "on its doorsteps".<sup>17</sup> While this strategy was previously employed in the case of the EU accession of Greece, Portugal and Spain, it became especially articulated in the post-Cold War era. However, following the 2004-2007 enlargements, a so-called security-integration dilemma challenged the EU's future course of foreign policy. The EU could not afford further enlargement, but could also not afford to ignore the threats from its neighborhood. In order to address the dilemma of managing existing security threats without resorting to further enlargement, the EU developed a new strategy towards its neighbors called the European Neighborhood Policy (ENP). This is a

---

<sup>16</sup> See: Cremona, Marise and Meloni, Gabriella (eds.), *op. cit.*, p. 72.

<sup>17</sup> Antonio Missiroli, "The EU and Its Changing Neighborhood: Stabilization, Integration and Partnership", in Roland Dannreuther, R. (ed.) *European Union Foreign and Security Policy: Towards a Neighborhood Strategy*, Routledge, London and New York, 2004, pp. 12-26.



particular, geography-based form of foreign policy focused on the creation of differentiated and privileged partnerships with bordering countries. It aims at creating stability and at “sharing benefits of the EU” or decreasing disparities with the outside world.

The ENP did not replace existing legal and institutional frameworks for relations to partner countries, but built upon existing contractual agreements between the EU and its neighbors. The ENP is mainly implemented through bilateral Action Plans, which are agreed and signed by the EU and individual partner countries. This has caused some EU officials to argue that the ENP is not a homogenous policy, but rather a *differentiated* one. The Action Plans are drawn up separately in each case and the pursued agendas of political and economic reforms are, at least theoretically, tailored to the needs of each country and its willingness to cooperate with the Union.<sup>18</sup> The Action Plans establish short and medium term priorities, and the implementation of these priorities is promoted and monitored by specially established sub-Committees.

Next, we will have a closer look at the different elements of the ENP.

### Main Offers

Within the framework of the ENP, the EU offers gradual access to different benefits depending on the partner countries’ implementation of Action Plans and their convergence with EU standards and norms. Benefits include the following:

The prospect of social and economic development that is likely to stimulate EU investments and overall growth in the partner countries (this has to be achieved by converging economic legislation, opening markets and gradually removing trade barriers).

### Gradual share in the EU’s internal market<sup>19</sup>

### Main Tools

The Action Plans discussed above are the main operational instruments of the ENP. These are individualized and country-specific political documents, which are jointly agreed and managed. They establish short and medium-term (3-5 years) agendas and objectives mainly in the areas of (1) *governance*, including *political* dialogue and reform, *economic* and social cooperation and development, (2) *trade* related issues, market and regulatory reforms, (3) cooperation on *justice, freedom and security issues*, and *sector-specific* and administrative capacity reforms (transport, energy, environment, research and development, etc.), and (4) people-to-people contacts (education, civil society and public health) and the provision of guidance for assistance programs. The Action Plans embody the conditionality principle by offering benefits based on the progress made by the partner countries, as periodically evaluated by the European Commission.

---

<sup>18</sup> For example, currently an enhanced agreement is negotiated with Ukraine, while Morocco negotiates on an “advanced status” and Israel on an “upgrading relationship”.

<sup>19</sup> Possibility to further integrate and participate in key EU policies and programs (e.g. transport)

## Main Instruments

The ENP uses previously established special instruments such as Association and Cooperation Councils, Committees and sub-Committees which are responsible for promoting and monitoring the implementation of the Action Plans.

## Financial Support

As of 2007, all the EU's existing financial instruments covering eastern and southern Mediterranean countries were united into one comprehensive financial instrument, the European Neighborhood and Partnership Instrument (ENPI). This was done to ensure easier and more flexible access to funds for joint cross-border cooperation projects. As a result of this reform, funding has been significantly increased and a number of new forms of technical assistance introduced.<sup>20</sup>

### ***3.3. Upgrading the ENP? The EaP***

Not very long after the ENP was launched, it became the target of harsh criticism within the EU and academic circles, not to mention the partner countries. The eastern neighbors were especially critical towards the Union for being biased toward the Mediterranean. It was clear that the ENP was not effective in delivering capable outcomes, neither in view of the EU's security needs nor the partners' ambitions and goals. It needed more regional differentiation and stronger incentives.

Generally speaking, the EU is particularly interested in promoting security in its eastern neighbor countries since it shares land borders with them. Furthermore, security issues are intertwined with the issues of the EU's energy dependency, Russia's position and the "European" aspirations of the eastern neighbors. As the Polish foreign minister has put it, to the South, the EU have neighbors of Europe, and to the East, it have European neighbors.<sup>21</sup>

It is significant that the initiative to "beef up" the ENP came from member states.<sup>22</sup> Those EU members that have a genuine interest in a qualitative improvement of relations with a particular groups of partner countries attempted to act "outside the ENP box" and offer something drastically new so as to avoid building further relations on the potentially dysfunctional framework of the ENP.<sup>23</sup> France has traditionally pushed the southern Mediterranean dimension, while Poland and Sweden have articulated the need of closer engagement with eastern neighbors.

In May 2007, French President Nicolas Sarkozy suggested an ambiguous plan of creating a "Mediterranean Union" that would include all the EU's member states and the partner states involved in the EU's Euro-Mediterranean Partnership. Sarkozy's

---

<sup>20</sup>For more information, see [http://ec.europa.eu/europeaid/where/neighbourhood/regional-cooperation/irc/investment\\_en.htm](http://ec.europa.eu/europeaid/where/neighbourhood/regional-cooperation/irc/investment_en.htm); and [http://ec.europa.eu/world/enp/pdf/governance\\_facility\\_en.pdf](http://ec.europa.eu/world/enp/pdf/governance_facility_en.pdf)

<sup>21</sup> See: Radosław Sikorski, On the goals of the Poland's foreign policy for 2009, Speech at the Polish Parliament, 17 February 2009, available at the Polish Foreign Ministry web-site: [http://www.ms.gov.pl/Minister\\_of\\_the\\_Foreign\\_Affairs\\_Mr\\_Radoslaw\\_Sikorski\\_on\\_the\\_goals\\_of\\_the\\_Poland%E2%80%99s\\_foreign\\_policy\\_for\\_2009.25449.html](http://www.ms.gov.pl/Minister_of_the_Foreign_Affairs_Mr_Radoslaw_Sikorski_on_the_goals_of_the_Poland%E2%80%99s_foreign_policy_for_2009.25449.html)

<sup>22</sup> This expression belongs to Barbara Lippert. See: Barbara Lippert, "Beefing Up the ENP: Towards a Modernization and Stability. Partnership", in *International Spectator*, vol. 41, n. 4, October-December 2006.

<sup>23</sup> Dimitry Kochenov, The Eastern Partnership, The Union For The Mediterranean And The Remaining Need To Do Something With The ENP, CRCEES Working Papers, WP2009/01, Glasgow University, 2009.

proposal was not clearly articulated. It was an attempt to create something new in the EU's southern neighborhood, but he did not have a clear vision of what the proposal was aimed at. According to some commentators, he tried to "sell" this idea to Turkey as an alternative to EU membership during the French presidential race.<sup>24</sup> Other EU members agreed to support the plan only if it would upgrade the already existing Euro-Mediterranean Partnership. France, which held the EU presidency at that time, managed to gather the EU leaders in Paris, where they signed a declaration on launching the new initiative, renamed as the Barcelona Process: Union for the Mediterranean. Some commentators, however, argue that it was not anything new but an identical arrangement to those of the already overlapping Euro-Med Partnership and ENP.<sup>25</sup>

At the same time, another camp advocated for "upgraded" relations with the EU's eastern neighbors. While the "pro-south" camp involved France, Spain, Italy and Greece, this "pro-east" camp was led by Poland and Sweden. The EU's Eastern and Nordic member states were reluctant to support the drive for closer engagement with the EU's Mediterranean neighbors and instead advocated membership perspective for Ukraine and Moldova and also partly for Belarus and the three Caucasian republics. A new Swedish-Polish proposal put forward<sup>26</sup> was in fact identical to an earlier, forgotten Polish proposal that had failed.

Recent political developments have also prompted change in the EU's involvement in the East. A competition has emerged between the EU and Russia over the principles according to which these countries should be governed. This has especially been the case after Georgia's and Ukraine's so-called "colored revolutions". While Moscow tries its best to draw the region back into its sphere of influence (using both "soft" and "hard" powers), the EU is offering these countries eventual political and economic alignment, although without a membership perspective.<sup>27</sup> Furthermore, three particular events speeded up the process of launching the EaP. These events, as listed in a communication from the European Commission, were: the Russian-Georgian war in August 2008, which was a sign of existing risks of instability in the region; the January 2009 gas conflict between Russia and Ukraine and its effect on the EU; and the ongoing economic crisis, which has created an additional risk of increasing instability in the EU's economically feeble eastern neighborhood.<sup>28</sup>

At an extraordinary meeting held after the Georgian crisis, the European Council issued a statement acknowledging that "the European Union considers that it is more necessary than ever to support regional cooperation and step up its relations

---

<sup>24</sup> Turkey was initially angered by the idea, but decided to join after receiving confirmation that the initiative will not substitute Ankara's EU bid. See: Turkey angered by Sarkozy 'Mediterranean Union' idea, EUObserver, 18 May 2007. Available at: <http://euobserver.com/9/24087> accessed on 15 July 2009

<sup>25</sup> Dimitry Kochenov, *op. cit.*, p. 24.

<sup>26</sup> See: Polish Swedish Proposal on the Eastern Partnership. Available at the Polish Ministry of Foreign Affairs web-site: <http://www.msz.gov.pl/Polish-Swedish,Proposal,19911.html>

<sup>27</sup> Nicu Popescu and Andrew Wilson, "The Limits of Enlargement-lite: European and Russian Power in the Troubled Neighborhood", *EU Council on Foreign Relations*, 16 June 2009.

<sup>28</sup> The EU has responded ineffectively to the crisis in its eastern neighboring region. For example, during the Georgian crisis in August 2008, the member states chose different positions. Some countries (such as Poland and the Baltic republics) accused the Kremlin, while e.g. Italy held Georgia's president Saakashvili responsible. During the Russian-Ukrainian gas dispute, the EU did not initially interfere as it considered the issue "commercial". More on this: Nicu Popescu and Andrew Wilson, *op.cit.*

with the Eastern neighbors”.<sup>29</sup> The Council asked the Commission to speed up the process of delivering a draft project for the initiative. The Commission shortly issued a communication on the issue and, already on 6 May 2009, the EaP was inaugurated during an EU summit in Prague.

Bellow we will try to analyze the EaP on the basis of the European Commission’s communication on the issue,<sup>30</sup> the Prague Eastern Partnership Summit declaration of May 2009,<sup>31</sup> and information from different official sources responsible for shaping up the initiative. We will assess whether the EU’s engagement in its eastern neighborhood has increased and whether the EaP, in fact, offers something different from the ENP.

How the EaP operates

The EaP involves six eastern neighboring countries of the EU, i.e. Ukraine, Belarus,<sup>32</sup> Moldova, Georgia, Armenia and Azerbaijan. According to the European Commission, the initiative is intended to complement the ENP by developing deeper bilateral ties with these countries.

What does it offer?

The EaP is designed as a policy with two tracks, a bilateral and a multilateral track.

The **bilateral track** concerns direct bilateral relations between the EU and each partner country. It includes:

A transition from existing PCAs into a new generation of Association Agreements. These agreements are supposed to be more tailor-made to each country’s needs than the preceding PCAs. In addition, they will include extensive and comprehensive free trade agreements for partners who are willing to undertake broader commitments in their relations with the EU.

The long-term objective of establishing Deep Comprehensive Free Trade Areas (DCFTAs). These free trade areas will cover “substantially all trade, including energy, and aim at the highest degree of liberalization”.<sup>33</sup> They will be legally binding and based on WTO rules.

Mobility and Security Pacts (MSPs). These agreements intend to improve mobility between the EU and its partners while emphasizing the necessity of ensuring security (e.g. fighting illegal immigration, corruption, organized crime, establishing border management structures, etc.).

Increased cooperation on energy security, implying conclusion of Memoranda on Energy Issues with Moldova, Georgia and Armenia and integrating Ukraine’s energy market into the EU’s.

The **multilateral track** is aimed at strengthening the regional dimension of the EU’s policies and at dealing with regional issues with the participation of all

---

<sup>29</sup> Presidency Conclusions, Extraordinary European Council 1 September 2008, Brussels, 6 October 2008.

<sup>30</sup> Communication from the Commission to the European Parliament and the Council, Eastern Partnership, COM (2008) 823 final, 3 December 2008.

<sup>31</sup> See: Joint Declaration of the Prague Eastern Partnership Summit, Prague, 7 May 2009.

<sup>32</sup> Although Belarus had been formally excluded from the ENP, the EU decided to invite Minsk to participate in the EaP since relations between the two sides started to improve as of 2008, when President Lukashenko (dubbed “Europe’s last dictator” by the EU) started to balance between Moscow and Brussels and showed interest in cooperation with the EU.

<sup>33</sup> COM (2008) 823 final, p. 4.

regional partners. It is organized around the so-called four “policy platforms” and also introduced an additional five cooperation fields called “flagship initiatives”.

The four “policy platforms”:

- democracy, good governance and stability;
- economic integration and convergence with EU policies (including in the fields of transport and environment);
- energy security; and
- people-to-people contacts

The five “flagship initiatives”:

- integrated border management;
- development of small and medium enterprises (SMEs);
- energy efficiency;
- the southern “energy corridor”;
- combat of man-made disasters.

#### Main instruments

Cooperation at the bilateral level will be managed by Association Councils and Committees that already exist within the PCAs (being part of the relevant country desks in the European Commission). They will be complemented by working groups and monitoring committees for multilateral projects.

The operational structure for cooperation at the multilateral level will have four levels. Cooperation here is aimed at enabling the EaP partners to interact with each other and with the EU and will include, among others, sharing experience, seminars to improve knowledge on EU legislation and standards and the development of joint activities where appropriate. The four operational levels are the following:

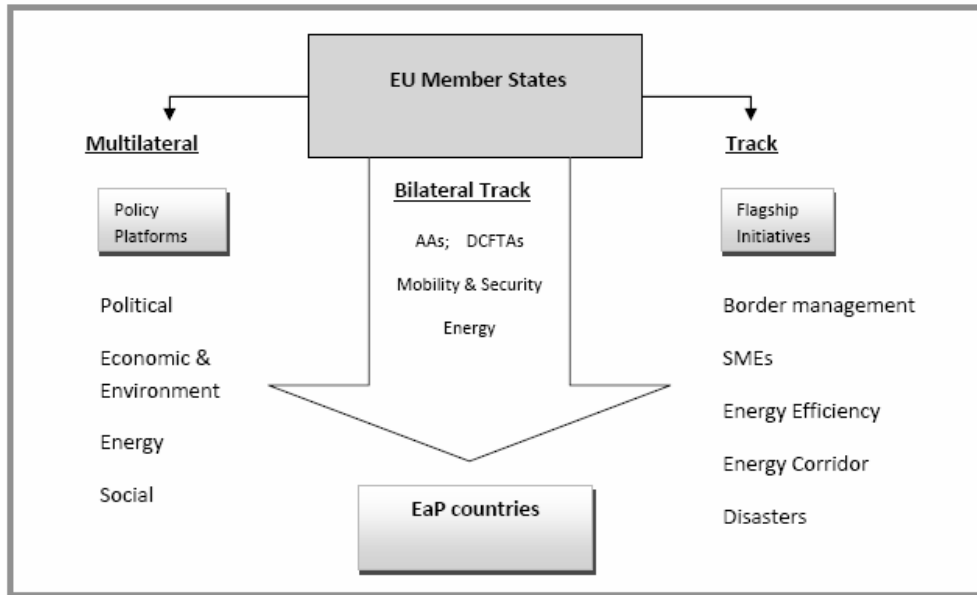
- meetings with the EaP heads of state once every two years;
- meetings with the EaP ministers of foreign affairs once a year;
- meetings concerning each policy platform at senior official level at a minimum twice a year; and
- additional supportive panels to assist the other platforms. How frequently they meet will depend on existing needs.

#### Financial support

The proposed total amount to be allocated to the implementation of the EaP in coming years is 600 million euro. Out of these, 250 million will come from the ENPI’s budget for 2010-2013. Thus, in practice, only the remaining 350 million will be additionally fundraised from different sources. Proposed sources are the European Investment Bank and the European Bank for Reconstruction and Development. The European Commission also hopes to collect additional funds from individual member states for different areas of the EaP.

Graphically the EaP’s institutional structure can be illustrated as follows:

Figure 4. The EaP's Institutional structure.



Source: Author

## Conclusions and Implications

Our initial hypothesis was that security reasons compel the EU to seek more engagement with its Eastern neighbors. We have seen that increased threats and a risk of spill-over of instability (e.g. in the case of the Georgian crisis, the Ukraine-Russian gas dispute and the economic crisis) have indeed pushed the EU to upgrade its ENP towards its Eastern partners. But is this really a viable initiative that can enable the EU to achieve its main security goals?

In order to ensure its own security, the EU tries to stabilize its neighborhood through the transfer of norms, values and standards (Europeanization). Europeanization works as a process of learning and provides different combinations of positive and negative stimuli, or so-called “carrots” and “sticks”. This has been the main mechanism of the most successful EU foreign policy, its enlargement. The same methodology has been employed within the EU’s neighborhood policy, but this time without the “carrot” of accession. This apparent paradox has hampered the effectiveness of the ENP, which has also been subject to harsh criticism from partner countries and academicians. Above all, commentators have been doubtful that the ENP can solve the EU’s external security concerns while avoiding further enlargement. Currently the ENP does not offer any club-membership to motivate countries to carry out reforms but tries to involve them in cooperation by offering partial integration.

In short, the EU’s previous strategy of expanding stability (by enlarging its own security community) has developed into a strategy of exporting stability (by promoting EU norms and values outside of its own security community). The major

objective of these policies is to create a “circle of friends” surrounding the Union, who can guarantee its security and stability. Thus, instead of excluding “outsiders” and defending its borders, as a conventional state would do, the EU has sought to deal with external threats by diffusing its norms and practices outside of its borders. According to Del Sarto and Schumacher, the logic behind the ENP was to create a kind of buffer zone between “outsiders” and “insiders” in the EU’s immediate vicinity and to make the states in this zone responsible for controlling the borders with other non-EU neighbors by blurring the EU’s external borders with these states (which is done by “sharing” prosperity or by partially integrating them). In other words, by promoting shared norms and behavior, the EU has sought to push threats outside of its security complex.

We can also argue that, given the absence of the accession incentive in the ENP, the EU’s previous security-integration correlation has been replaced with a security-convergence dichotomy. According to this logic, the more converged a neighboring country is (with respect to endorsing and implementing EU norms, values, etc.), the more secure is the EU’s surrounding. In order to promote convergence, the EU has used incentives of “access” to or “sharing” benefits. These incentives have been of different kinds and had a hierarchical character. The strategy of offering incentives was further accentuated with the adoption of the new EaP, which introduced new incentives related to closer economic cooperation with the EU. Thus, the EU has tried to make up for the lack of the incentive of EU membership by increasing its offer of other kinds of incentives.

We can also argue that the EU has exploited its economic superiority in its relations with its eastern neighbors and used its commercial power and attraction to promote its normative power among them.<sup>34</sup> In this respect, the EU’s policies towards its eastern neighbors can be compared with such models of regional economic cooperation as the EEA/EFTA. Although the incentives offered are not of the same scope as in the EEA, the EaP can similarly be considered an embryonic policy leaning towards integration without membership. Thus, we can argue that the EaP has done away with the underlying idea of the ENP that cooperation may eventually result in enlargement.

Does this really work? Are economic incentives sufficiently attractive to convince partner countries to carry out painful political reforms? Practical experience shows that the EU has not been successful in promoting its norms and values or its normative power in circumstances when membership has been excluded from the incentives used. In the eyes of the neighbors, the EU’s insistence on normative convergence and harmonization is justifiable and fair only if the accession “carrot” is present in the basket of offered incentives. The lack of this major incentive makes the EU’s strategy of political conditionality fragile and inefficient. The lack of effectiveness of the EaP is also related to Russia’s actions. Moscow has used not only “hard” tools of leverage (such as traditional troop deployment or energy blackmail) but also “positive” incentives (such as labor mobility, the provision of cheap energy, political support to semi-autocratic regimes etc.). This has undermined the EU’s normative influence.

---

<sup>34</sup> Hiski Haukkala, “A Normative Power or a Normative Hegemon? The EU and its European Neighborhood Policy”, A paper presented at the EUSA 10th Biennial Conference, Montreal, Canada, 17-19 May 2007, p. 5.

As a final conclusion, it can be argued that in order to ensure success of the EU's eastern neighborhood policy it is crucial to strengthen the incentives offered to at least the "forerunners" of the EaP. Such additional "carrots" may include a promise to abolish visa regimes, at least in the medium-term, and acknowledgement of the right of these countries to join the Union in a foreseeable future.



---

*Aleksić Milan*  
**Nabucco vs. South Stream**

## Introduction

The Russian economy has been one of the world's most dynamic economies in the last decade. During the period 1999 — 2006 (Putin's presidency), the gross domestic product (GDP) increased from \$200 billion to \$920 billion.<sup>1</sup> Russian foreign investment abroad is also in expansion. Although there are different estimates on Russian foreign direct investment (FDI), all sources show that FDI is increasing from year to year.<sup>2</sup> At the same time, Russian foreign trade accounts for 45% of its GDP. Its main trading partners are countries of the Commonwealth of Independent States (CIS) and members of the European Union (EU). The Russian oil and gas sector plays a dominant role as it contributes almost 50% of the federal budget (2006) and provides for 63.3% of Russian export (2006).

The leading company in the Russian energy sector is Gazprom (which is also Russia's largest corporation), with 88% of the country's gas production and about 70% of the country's proven gas reserves under its control (2005). Gazprom is trying to become an all-round energy company, being active in oil, gas and power generation (in addition, according to its 2005 strategy, it aspires to become the largest energy company in the world). Consistent with this strategy, Gazprom made a major foray into Russian oil industry with its purchase of 75.5% of the shares of Sibneft (an independent Russian gas and oil producer).<sup>3</sup> During the last decade, Gazprom has also become the main (in some cases, the only) supplier of Russian gas to EU and neighboring countries. Thus, the Russian economy is increasingly subordinated to the interests of this "gas giant", a phenomenon which it is sometimes called "Gazpromomy".<sup>4</sup> Nonetheless, it is a fact the growth of the Russian economy, above all, is a result of the success of the Russian energy industry. The Russian state has clearly stated that, in the case of gas, it will not share its competences with anyone.<sup>5</sup>

Gazprom's export of gas has sharply increased since 2005, from one third to nearly half of the company's total production. At the same time, the Russian domestic economy is highly energy intensive. Russia uses more gas than Germany, Great

---

<sup>1</sup> Shevtsova, Lilia. *Russia — Lost in Transition. The Yeltsin and Putin Legacies*. Washington, DC: Carnegie Endowment for International Peace. 2007, p. 118.

<sup>2</sup> Russian Business Expansion. *Russian Analytical Digest*, # 34, 5 February 2008, p. 5.

<sup>3</sup> Burns, William, Djerejian, Edward and Tuchman Mathews, Jessica, *The Strategic Importance of Natural Gas in Russia: Will Its Potential Be Realized?* Paper presented at a jointconference by the James A. Baker III Institute for Public Policy of Rice University and the Carnegie Endowment for International Peace, held at the Carnegie Moscow Center, 30 September 2005.

<sup>4</sup> Shevtsova, Lilia, op. cit., p. 141.

<sup>5</sup> Tkachenko, Stanislav. Actors in Russia's Energy Policy towards the EU. In: Pami Aalto (ed.). *The EU-Russian energy dialogue: Europe's future energy security*. Aldershot: Ashgate, 2008, p. 169.

Britain, France, Italy and Japan together.<sup>6</sup> However, Gazprom is primarily oriented toward foreign markets, especially that one of the EU. The main aim of this company is to become the exclusive gas-supplier for the EU market. In line with this, Gazprom is trying to diversify the structure of its consumer base and to increase its participation in deliveries to end-users. It has also established overseas sale subsidiaries in almost all countries to which its natural gas is delivered. Furthermore, to prevent its partners from engaging in opportunistic behavior, Gazprom is endeavoring to establish control through majority ownership by buying shares of domestic energy companies.

The European Union has gradually liberated the European gas market since 1998, when the first EU Gas Directive was adopted (in force from 2000). The aim of this directive was to establish common rules for the EU's internal gas market (ensuring that all users would have a choice of supplier). It was replaced by the second Gas Directive, which was issued by the European Commission in 2003. This directive introduced a new set of common rules for the internal gas market (by mid-2004 all non-household gas customers were to be able to choose their supplier freely, and by mid- 2007, all customers were to have this choice).<sup>7</sup> By 2006, the total gas consumption of the 27 EU member states comprised 42.2% of their total expenditure. Out of the total amount of gas consumed, 25.7% was delivered from Russia, 11.8% from Algeria and 10.1% from Norway. However, if we look closer at the structure of supply, we will see that six EU countries are 100% dependent on Russian gas, six other countries to more than 70% and yet another six to more than 20% (including the four biggest EU countries).<sup>8</sup> Thus, Europe is still highly dependent on Russian gas. Consequently, Gazprom has profited from the liberalization of the EU gas market by gaining access to downstream business in Europe and is constantly acting in a way so as to increase European dependence on its gas. At the same time, the European Union is trying to decrease this dependence. The best illustration of these two opposite policies is probably the construction of the two different pipeline systems, the South Stream and Nabucco. Nabucco was designed to decrease European dependence on Russian gas and, consequently, business with Russia. The South Stream was Russia's answer to Nabucco. However, is the construction of Nabucco possible without Russia and can this attempt to avoid cooperation with Russia be successful?

## The Nabucco Project

Year by year, EU consumption of natural gas is increasing. By 2020, Europe will consume 720 billion cubic meters of gas per year. At the same time, the European Union (or at least some of its member states) is looking for ways to decrease its dependence on Russian gas. According to this policy, some of the EU countries as well as United States backed the Nabucco gas pipeline project, the aim of which is to facilitate the supply of gas from Central Asian countries to Western Europe. This pipeline system is intended to bypass Russia and instead run through Turkey, starting in Erzurum, and through Bulgaria and Romania to western consumers, thus allowing for more maneuvering room in EU gas policies.

---

<sup>6</sup> Shevtsova, Lilia, *op. cit.*, p. 134.

<sup>7</sup> Russian Business Expansion. Russian Analytical Digest, # 34, 5 February 2008, p. 8.

<sup>8</sup> *Ibid*, p. 15.

The preparations for the Nabucco project started in early 2002, when the first discussions between the Austrian and Turkish gas companies OMV and BOTAS took place. In June the same year, these companies together with three others (the MOL, Transgaz and Bulgargaz companies from Hungary, Romania and Bulgaria) signed a protocol of intention to construct the Nabucco pipeline. Later that year, a Cooperation Agreement was also signed. The following year, a grant covering 50% of the estimated total costs of a feasibility study was awarded by the European Commission. In June 2005, the five partners signed a Joint Venture Agreement. Also, an EU ministerial statement on the Nabucco project was adopted in Vienna in June 2006. In 2008, a first contract to supply gas from Azerbaijan to Bulgaria through the Nabucco pipeline was signed. At the same time, German company RWE became a shareholder of the consortium.

Already in 2004, the initial five partner companies established Nabucco Gas Pipeline International GmbH in Vienna. The aim of this enterprise is to maintain direct contact with shippers and to operate as an autonomous economic entity on the market. A number of principles to guide the activities of the enterprise were adopted. According to these principles, the enterprise will carry out and promote studies by professional engineers and advisers and lobby for investments at governmental and European Commission level. Thus, the company will coordinate public relations activities and negotiate transportation contracts regarding the whole pipeline. This company can also establish affiliated companies and coordinate their activities. It is also supposed to provide telecommunication related services.<sup>9</sup>

The construction of the pipeline is planned to be divided into two stages. The first phase is to start in 2011 and will cover the route between the Turkish capital Ankara and Baumgarten in Austria. This part is approximately 2.000 km long. The second construction phase is due to start in 2014 and to finish by the end of 2015. It will involve the construction of the eastern section of the pipeline, between the Turkish — Georgian border and Ankara. By 2014, the initial pipeline capacity is expected to be up to 8 billion cubic meters (bcm), and after the installation of compression stations at key points of the pipeline, the capacity will increase to up to 31 bcm per year, out of which up to 16 bcm will go to Baumgarten.<sup>10</sup> The total length of the Nabucco pipeline system will be around 3.300 km. It will also be connected with the Tabriz-Erzurum pipeline (which will supply Iranian gas) and with the South Caucasus pipeline (which will supply gas from Azerbaijan and Central Asian countries). In addition, possibilities for connecting the pipeline with pipelines providing gas from the Arabian Peninsula and Egypt are under consideration.

The total costs of the project will be approximately €7,9 billion. At the beginning of 2009, both the European Investment Bank and the European Bank for Reconstruction and Development announced that they will provide financial support for the Nabucco project. The European Commission also proposed €250 million as a part of its Economy Recovery Plan. However, it seems that the states participating in the Nabucco project slowed down their activities on the project after Russia announced that it will separately construct a “rivaling” pipeline system, the South Stream. Furthermore, it seems that there will not be enough money for the

---

<sup>9</sup> <http://www.nabucco-pipeline.com/company/about-us/index.html>

<sup>10</sup> <http://www.nabucco-pipeline.com/project/project-timeline/main-page-project-timeline-20090126.html>

construction of the system. The first amount announced by the European Commission (€250 million) was decreased to €50 million, and in March 2009, Nabucco was excluded from the list of investment priorities of the European Union. Consequently, in the last few months, it has become increasingly questionable whether the European Union is interested in building this system.

## The South Stream Gas Pipeline System

The main transit routes for Russian gas to its customers in Western and Central Europe go through Ukraine and Belarus. During the last couple of years, these two countries appear to have played a more active role, both economically and politically, with respect to Russian gas going through their territory. In short, they wanted to use the fact that they are transit countries for their own interests. European countries are dependent on Russian gas, but at the same time, Russia is dependent on its transit countries. The disadvantage of this became obvious in 2005 and 2006, and even more so in 2008, when Russia got involved in transit conflicts with these countries, especially with Ukraine (through which 80% of Russian gas export to Europe flows). This situation made Russia and its partners consider new gas policies so as to avoid these countries as transit ones. Furthermore, it resulted in the development of two different gas pipeline systems for delivering gas to EU countries, the North Stream and the South Stream, both of which bypass Belarus and Ukraine.

The construction of South Stream is a step toward realizing Gazprom's objective of diversifying the supply routes for Russian natural gas. The main partner from the EU side was from the very beginning the Italian gas company ENI. The project's history goes back to 23 June 2007, when Gazprom and ENI signed a Memorandum of Understanding to execute the South Stream project. On 6 September 2007, Gazprom set up a Coordinating Committee for the project and, almost three months later, the two companies signed a supplement to their Memorandum of Understanding. At the beginning of 2008, the South Stream AG Special Purpose Entity was registered and the whole venture was established by Gazprom and ENI on a parity basis.<sup>11</sup>

The project route of the gas pipeline goes from the Russian coast (Beregovaya compression station, south of Novorossiysk), under the Black Sea (maximum depth — over two km), to the Bulgarian Black Sea port of Varna. The total length of the offshore section is to be around 900 km and its full capacity will be 30 b cm. According to an official statement by Gazprom, two possible routes are under review for the South Stream's onshore section from Varna, one northwestward and the other southwestward. As the aim of the construction of the South Stream system is to ensure the supply of gas to Western and Central Europe, the onshore sections in any case have to end there. The southwest section would go through Bulgaria to Greece and further (under the Ionian Sea) to southern Italy (the length of this section would be about 990 km). Greece has proposed that this pipe may also supply the Turkey-Greece-Italy pipeline. The northwest section from Bulgaria that is under consideration would go to Serbia (possibly Romania) and further through Hungary to Austria and northern Italy (this would be a longer section, about 1.300 km). The construction is planned to be finished by 2015, when the total annual capacity of the gas pipeline system is expected to increase to 65 b cm.

---

<sup>11</sup> <http://www.gazprom.com/eng/articles/article27150.shtml>

Gazprom has already signed agreements on the construction of the South Stream with the probable transit countries and bought a number of domestic energy companies in countries where the project will be realized. An agreement between Russia and Bulgaria on Bulgaria's participation in the project was signed in January 2008 and ratified by the Bulgarian parliament in July the same year. According to this agreement, an equally owned company will be set up to manage the Bulgarian part of the gas pipeline. Irrespective of where the onshore part of the pipeline from the Black Sea to Western Europe will be placed, Bulgaria is a central partner in the project and cannot be excluded.

A similar agreement has been signed with Serbia, on the Serbian section of the pipeline. Russia and Serbia signed a first agreement even before the announcement of the South Stream project, in December 2006. At that time, Gazprom and the Serbian state-owned gas company Srbijagas agreed to study the construction of a gas pipeline running from Bulgaria to Serbia. In January 2008, the two sides signed an agreement to route the northern part of the South Stream pipeline through Serbia, to found a joint company for constructing the Serbian section of the pipeline, as well as to construct a large gas storage facility near Banatski Dvor in northern Serbia. In March 2009, it was decided that the seat of this company will be in Switzerland. Under the same agreement, the sale of a major part (51% of the shares) of Serbia's largest energy company NIS (Serbian Oil Industry /Naftna Industrija Srbije) to Russian partners was linked to the construction of the northern, Serbian section of the pipeline.<sup>12</sup>

The same day as it signed the agreement with Serbia, Russia signed a similar agreement with Hungary. Here again the partners agreed to set up an equally owned joint company for the Hungarian section of the pipeline. In late April 2008, Russia signed an intergovernmental agreement with Greece on cooperation in the construction of the southern, Greek part of the pipeline. It was still not clear where the northern pipe was to end, and representatives of Gazprom (as well as Russian officials) were engaged in negotiations with both Austrian and Slovenian partners. However, after several discussions, an agreement with the Slovenian government was signed in late 2009. Additional negotiations are planned with Croatia, regarding its participation in the project (in other words, how it can get access to the main part of the system).

## Differences between the Two Projects

The first obvious difference between the South Stream and Nabucco lies in their length. When both the offshore and the (northern, longer) onshore section of the South Stream are taken into account, this pipeline will be around 2.200 km long. This is more than 1.000 km less than the length of Nabucco's main pipeline. Both pipelines are supposed to transport gas to Hungary, and from there to Western Europe. In the case of the South Stream, there will be only two transit countries (Bulgaria and Serbia) between Russia, as the main gas supplier, and Hungary. If the Nabucco pipeline will transport gas from, for instance, Central Asia through the Caspian Sea to Hungary, there will be at least five transit countries (Azerbaijan, Georgia, Turkey, Bulgaria and Romania). The South Stream system will be supplied with natural gas from stable sources in Russia and routed through politically more or less stable territories. On the contrary, the gas source

---

<sup>12</sup> *The Heavy Sale of NIS (Prodaja HIC-a na muuuhe)*, published at [www.politika.rs](http://www.politika.rs) on 11 June 2008.

countries as well as some of the transit countries of the Nabucco system are not stable at all (this issue appeared to be very important after the Russian-Georgian war in August 2008).

An issue closely related to the length of the pipelines is the costs of their construction. It has been calculated that the total costs for the South Stream will be around €10 billion (according to some sources, it may be up to €25 billion<sup>13</sup>). These costs will be equally split between the two partners, Gazprom and ENI. As was previously mentioned, the total costs of Nabucco are estimated at €7.9 billion (some estimates are lower, but not lower than €6 billion). Thus, the difference between the costs of the two projects is evident: the construction of the South Stream system will be much more expensive. This is due to the fact that the South Stream pipeline will have a long offshore section and will include two separate routes from Bulgaria, one to the south and one to the north.

Furthermore, there is an obvious difference in the financing of the two projects. The Nabucco project will be financed by the countries that consume imported gas. From the very beginning, Nabucco was a joint European project with the purpose to decrease dependence on Russian gas. If the Europeans find a better or cheaper way to ensure the supply of natural gas to their markets, they can simply abandon the project. The supplier countries of Central Asia and the Caucasus are very interested in the Nabucco gas pipeline project, but they do not have enough money to finance it. According to the agreement between Gazprom and ENI, the costs for the South Stream project will again be split equally between the two partners. It also seems that the Russian side if necessary would be ready to finance the project alone. Russia is the country that should be most interested in the success of this project because it would be the only natural gas supplier for the South Stream pipeline and would benefit from increased gas export and economic growth under the project.

An additional difference between the two projects concerns the duration of the process of planning and construction. The first agreements on Nabucco were concluded in 2002, but since then very little has been done. Moreover, the EU is still not sure if there will be enough money for the construction of the pipeline, if there will be enough gas to supply the whole system when it is ready, which countries will supply the pipeline with gas (the US government has rejected the idea of involving Iran in the project) and whether there is enough time to finalize the pipeline until 2015. The process of planning the South Stream started five years later, but already in the first year, Gazprom signed contracts with its main European partner ENI and with all planned transit countries. The project is to be finished at the same time as Nabucco, and is expected that the South Stream will be able to supply gas at a capacity of 31 b cm a year already in 2005, while it is expected that Nabucco will reach this capacity only a few years later.

Overall, it looks like Russia is more interested in constructing the South Stream than the EU is interested in constructing Nabucco. Russia also plans to construct another pipeline, the North Stream, which would go under the Baltic Sea and connect Russia and Germany directly, bypassing former Soviet republics in the Baltic region. If we compare what has been done with respect to the construction of these

---

<sup>13</sup> Serbian suggestion on the South Stream gas pipeline project (Српски предлог за гасовод Јужни ток), published at [www.politika.rs](http://www.politika.rs) on 31 March 2009.

two gas pipelines, we can see that Russia is more interested in building the South Stream than the North Stream. Some experts have predicted that if there will not be enough money for constructing both systems, Russia will go for the South Stream only. One reason for this is that the plans to construct the South Stream were triggered by the Nabucco project.

## Controversies

From the very beginning, the two projects, and especially the South Stream, were surrounded by controversy. It was debated whether the construction of the pipelines was an economic or a political question. The South Stream has been interpreted as being a political project, whose aim is to increase Russia's political influence in Europe. Both EU and US officials fear that Gazprom is increasingly becoming a Kremlin-controlled puppet acting to support Russia's foreign policy.<sup>14</sup> In October 2007, then US Secretary of State Condoleezza Rice argued that the construction of the South Stream and Nabucco to a great extent reflects a political (and not only an economic) battle for influence.<sup>15</sup>

Such statements are only partially true. The decision of Gasprom to construct a new pipeline system enabling it to bypass Ukraine in supplying gas to Europe was certainly political because it was made due to lost confidence in the Ukrainian government. However, at the same time, the company is pursuing economic interests, expecting this project to bring additional profit. The construction of the South Stream will no doubt increase Russia's influence in Europe, but European countries are already now dependent on Russian gas and Russia is already using this in its foreign policy.

Nabucco seems to be more of a political than an economic project. It was supported by the US government from the very beginning, although this country has no practical interest in the new pipeline system. The US has not provided any financial support for the project, but it has asked some of the countries involved in both projects (such as Hungary) to withdraw from the South Stream.<sup>16</sup> Moreover, the decision to construct a new pipeline to supply gas to Europe from other countries than Russia was in itself political. As a consequence of the construction of Nabucco, the influence of the EU in the Central Asian and Caucasus regions would increase, which is also a political rather than an economic goal.

Although Nabucco is planned to be a system independent of Russian gas pipelines and to transport other gas than Russian, Nabucco Gas Pipeline International's Managing Director Reinhard Mitschek announced in February 2008 that the company would consider working with Gazprom and having Russian gas transported through the Nabucco pipeline.<sup>17</sup> Once more, this shows that the Europeans still do not know how to deal with Nabucco or whether it is a good idea to exclude the Russians from the project.

---

<sup>14</sup> French, Paul, *South Stream vs. Nabucco*, 13 March 2008. Available at <http://www.offshore-technology.com/features/feature1643/>

<sup>15</sup> Ibid.

<sup>16</sup> *Hungary Won't Resign From the South Stream (Mađarska ne odustaje od Južnog toka)*, published at [www.politika.rs](http://www.politika.rs) on 13 September 2008.

<sup>17</sup> French, Paul, *op.cit.*

It also seems that some of Russia's partners in the construction of the South Stream doubt whether this project will be realized as planned or are not sure whether they would like to participate in it. Serbia has expressed concern that the route of the pipeline may not go through its territory, but instead through Romania. Romania is a potentially larger gas market and an EU member, as well. Serbia's concerns grew stronger when Gazprom started negotiations with Slovenia to join the project, and when some maps depicting the route of the South Stream as bypassing Serbia were published in Slovenian newspapers before Gazprom signed a final contract with the Serbian government. According to the maps published in Slovenian media, the pipeline would only "touch" Serbian territory<sup>18</sup> instead of passing through the country for about 500 km, as had previously been agreed. However, the construction of the pipeline through Romania would be much more expensive because that route is longer and the pipeline would need to pass through the Carpathian Mountains. Gazprom later on signed an agreement with Serbia, but not with Romania. Thus, Gazprom's actions towards Slovenia could, above all, be understood as an attempt to make Austria to hurry up with its decision on the South Stream.

After the current world economic crisis begun, rumors surfaced that Gazprom will not have enough money for the construction of the South Stream and that the whole project will be postponed. Such rumors reinforced earlier suspicions that Gazprom never really planned to build the pipeline, but merely wanted to buy energy companies in South-East European countries. According to some sources, the current debt of Gazprom is around \$25 billion.<sup>19</sup>

However, all the steps taken by Gazprom in the last two years show that this company, as well as Russian government are ready to finish the project. After the onshore route was settled, Russia started negotiating the offshore section of the system. For obvious reasons, Ukraine did not permit the offshore section to be constructed in its territorial waters. The negative response of the Ukrainian government could be expected so Russia also immediately started negotiations with Turkey. Even though Turkey is one of the key countries for the Nabucco, this country accepted to be part of South Stream project and agreed to having the offshore section go through its territorial waters in the Black Sea. In return, the Russians promised that they will support the project of the Samsun-Ceyhan pipeline system inside Turkey. Russia also offered to pay the double price for gas bought from Central Asian republics to decrease the interest of these republics to participate in the Nabucco project. It was not difficult for Russia to succeed with this strategy since it is the most important gas partner of these countries, even though a large amount of the gas it buys is transported and sold further to the European market.

In the end, it turned out that the only reliable partner in the construction of Nabucco was Azerbaijan (since the USA strongly opposed the participation of Iran in the project). This country is the only one that could supply Nabucco with natural gas. The gas bought from Azerbaijan could be transported to the European market through Georgia and Turkey, thus bypassing Russia. However, in 2009, Russia made active efforts to increase its influence in this Caucasian country and to link the country's

---

<sup>18</sup> *South Stream by Other Stream (Јужни ток другим током)*, published at [www.politika.rs](http://www.politika.rs), the article on 17 April 2008.

<sup>19</sup> Shevtsova, Lilia, op. cit., p. 137.



gas to the Russian market. Although Russia is co-chair of the OSCE Minsk Group created to resolve the conflict between Azerbaijan and Armenia over the Nagorno-Karabakh region, it provided Armenia with a variety of weapons at a total cost of \$800 million in late 2008. After this move (which was purely political given its implications), Russia proposed to buy the entire additional amount of gas that Azerbaijan plans to export. Talks on this issue took place in April 2009, and Azerbaijan had no other alternative than to accept the Russian proposal. The Russians were correct in assuming that the issue of Nagorno-Karabakh was far more important for the Azerbaijanis than the Nabucco project. After Azerbaijan, in fact, withdrew from participation in Nabucco, the plans to supply this system with "non-Russian" gas have practically failed.

### Possible Cooperation

The construction of the two gas pipeline systems has always been seen as a competition, to be more precise, as a race, even though they both may help promote cooperation between Russia and Europe. The South Stream is not only a Russian project as many European countries (including in particular Italy) were involved from the beginning. This shows that there is no single voice in Brussels concerning European gas policy and that not all EU member states have the same attitude with respect to gas supply from Russia.

As the planned dates for the beginning of the construction of Nabucco and the South Stream are getting closer, the possibility of a joint project — the so-called South Nabucco — is increasingly being mentioned. However, this is only an idea, which has never been discussed officially. The initiators of Nabucco are increasingly aware that there will not be enough gas to supply this system, that having two parallel pipelines would be a disaster as they would compete with each other and that the realization of one of the two projects is likely to mean that the other one will not be realized at all.

Both projects may have a positive impact on political stability and economic growth in the transit regions, but only in the case that both the European Union and Russia participate. Otherwise, each side will continue to try to promote its own pipeline at the cost of the rivaling one, which may cause instability in the transit routes. As European countries already are involved in the South Stream project, the question is how to include Russia in Nabucco. However, as previously mentioned, there is no need (at least not economically speaking) for two parallel pipeline systems so the task would be to determine how the two projects (if possible) could be coordinated. Russia is probably less and less ready to give up the South Stream, but is as interested as European countries in the stability of its neighboring countries, above all of the Caucasus countries. The construction of two parallel pipelines in the Balkans may cause tensions, but a joint one could result in new forms of cooperation between the EU and Russia. One pipeline could go directly from Russia, under the Black Sea, and another one from the Caspian Basin through the Caucasus countries and Turkey. In other words, in a joint project, gas would not have to come only from Russia or only from Central Asia and Azerbaijan, and possible shortages of gas could be avoided as well. The pipeline planned to be constructed as part of the Nabucco project would be very important, maybe even crucial for stability in the Caucasus. Russia has no reason to be against its construction since it already has ensured its position in the

region. It was already mentioned that, in the current circumstances, this pipeline could not be supplied with natural gas without the participation of Russia. In short, cooperation on this project would mean a new opportunity for Europeans and Russians to work together on promoting stability in the Caucasus.

Economically speaking, the South Stream may be more profitable for Russia, but politically speaking, a joint project will bring more benefits. The European countries that advocate for Nabucco have practically no choice left and should start as soon as possible to think about the possibility of a joint project — not only because Nabucco would probably fail if it is implemented as planned, but also because a joint project could help transform the present rivalry between Russia and the EU into cooperation with a lot of benefits for both parties, as well for third parties.

## Conclusions

It is clear that the plans to construct Nabucco and the South Stream are motivated by both economic and political interests. Gazprom wants to make European countries more dependent on its gas deliveries and become the exclusive gas supplier in the region. At the same time, the South Stream project is intended to bring more profit to the company by avoiding potentially problematic transit countries and by delivering gas directly to the final costumers. This new pipeline system could also serve Russian foreign policy interests and Russia is likely to try to exploit it for political purposes in the future. For example, the gas prices charged by Gazprom could vary depending on political objectives. “The time of cheap gas has passed”, said Russian Prime Minister Vladimir Putin at a time when Russia offered to pay double the price for Central Asian gas to reduce the interest of the Central Asian countries in the Nabucco project. Even though the price of Russian gas has already exceeded \$400 per 1,000 cubic meters, Germany supposedly pays only \$280. These policy discrepancies are due to the fact that Russia wants to remain the main player in the gas sector — the main buyer with respect to Central Asia and the main supplier with respect to Germany and other European countries. The speed, with which Gazprom has negotiated with its European partners and transit countries regarding the South Stream project, has created the impression that Gazprom wants to be a step ahead and make the Europeans confused about the construction of the Nabucco pipeline. This “game” has made some of the potential transit countries worried and unsure about which of the two new pipelines should they link the development of their economies to.

From the beginning, progress on the Nabucco project has been impaired by several unresolved questions — should the pipeline bypass Russia completely or be connected with Russian pipelines; will all EU countries be interested and involved in the project, or only a few; and, finally, who will finance the project? The lack of a joint European gas policy is, to a great extent, responsible for the uncertainties of this project and for its slow realization. The decision of the European Commission to withdraw the greatest part of the amount of funding it initially allocated for Nabucco raised the question whether the project will be realized at all and whether the European countries really want to construct this pipeline in order to decrease their dependence on Russian gas.

After a few years of “racing” between Nabucco and the South Stream, this competition has clearly become a political game for Russia. As the Russians have become more and more active in pursuing their plans for the South Stream, the Europeans who advocate for Nabucco have become less and less interested in this project. Still, we cannot say that the idea of Nabucco is completely dead since contracts have been signed but not resigned. However, the European policy of non-action has resulted in that there are no remaining actors independent of Russia that could supply Nabucco with gas. Thus, the conclusion appears to be clear: even though Nabucco was designed to exclude Russia and supply the European market with gas from alternative sources, it can only be realized if Russia is included in the project and it reflects Russia’s needs. To surpass the current “game”, the EU and Russia should consider a joint project that could help develop cooperation between the two sides and bring stability to their bordering regions.

## References

1. Burns, William, Djerejian, Edward and Tuchman Mathews, Jessica, *The Strategic Importance of Natural Gas in Russia: Will Its Potential Be Realized?* Paper presented at joint conference organized by the James A. Baker III Institute for Public Policy of Rice University and the Carnegie Endowment for International Peace at the Carnegie Moscow Center, 30 September 2005;
2. French, Paul, *South Stream vs. Nabucco*. Published at [www.offshore-technology.com](http://www.offshore-technology.com) on 13 March 2008;
3. Russian Business Expansion. *Russian Analytical Digest*, # 34, 5 February 2008;
4. Shevtsova, Lilia, *Russia — Lost in Transition. The Yeltsin and Putin Legacies*. Washington, DC: Carnegie Endowment for International Peace. 2007;
5. Tkachenko, Stanislav. Actors in Russia’s Energy Policy towards the EU. In: Pami Aalto (ed), *The EU-Russian energy dialogue: Europe’s future energy security*. Aldershot: Ashgate, 2008;

## Web-sites

1. [www.gazprom.com](http://www.gazprom.com)
2. [www.nabucco-pipeline.com](http://www.nabucco-pipeline.com)
3. [www.politika.rs](http://www.politika.rs)

---

## Chapter Two. Democracy values and practices: getting down to basic features

*Dmitry Zaitsev, Vladimir Leyaev*

### ***Introduction by the Group's Academic Leaders***

*"Democracy is the worst form of government,  
except for all those other forms that have been tried from time to time."  
Winston Churchill.*

The democracy working group has a long history as a research project of the Baltic Practice. The research agenda of the group has evolved and developed over time.

Initially the research agenda of the democracy working group was dictated by the logic behind the theme of the VI International Scientific Conference on "Modernization of Economy and Nurturing of Institutions" (held at the HSE in Moscow on 4-7 April 2005). This logic suggests that failures with respect to democratic transition in transition countries (in particular in Russia) are connected with the impossibility of transplanting democratic institutions into a country without taking into account the culture and values of that country and its society. Rough "westernization" of Russia (the transplantation of western institutions into Russia that are not based on the culture and political tradition of our state) does not result in the desirable outcome (integration of Russia into the international community). What is more, it threatens the state "integrity" and sovereignty of Russia.

In opposition to the strategy of transplanting democratic institutions, there is the strategy of nurturing democratic institutions with regard to the cultural traditions and values of the transition state and society. According to this strategy, democratic institutions should also be built in such a fashion that they correspond to civil culture and the democratic values of citizens. Only in this case is the development of democratic institutions possible. In view of this, researchers of democracy in transition countries should shift their focus from analyzing the functioning of transplanted democratic institutions to researching the pre-conditions for the functioning of such institutions with respect to socio-cultural factors and political culture of citizens.

Another possible focus area of the democracy working group was proposed by the debate held at the previous Baltic Practice summer seminar on "Russia-EU interaction. What is more important: values or gas?". In the context of the current political globalization processes, it is a state priority tantamount to protecting "national interests" to ensure inclusion of Russia in these processes. Institutional differences between Russia and the EU impair effective communication between Russia and its European partners (and, to an even higher extent, integration of Russia and the EU). These institutional differences are due to differences in the political culture of the EU countries and Russia, as well as differences in the political values and attitudes of citizens. Thus, the specific features of Russia's authoritative political system in terms of values, culture and institutions prevent effective dialogue and

partnership with the EU. Efforts to level the negative impact of the institutional and cultural differences between Russia and the EU, or to promote rough “unification” of the political systems of the two parties, require analysis of the actions and integration strategies of Russia and the EU countries in the framework of international dialogue.

Finally, a number of possible research problems for the democracy working group were brought up during the initiation and preparation of a new project to study the concept of democracy and democratic discourse in Russia and the West. Differences in institutional design, culture and values between Russia and the West lead to different understandings of what democracy is, as well as to differences in how the democratic development of different countries is evaluated. Moreover, the democratic discourse is dictated by the positions and interests of political actors and democracy and democratic values are used as a means of political struggle at both the national and international level.

The papers included in this chapter cover all the three strains of research discussed above.

In her paper “Democracy: pros and cons. Democratization process”, Anna Shkuratova emphasizes the necessity of taking into account social, economic and cultural conditions in the process of democratization and the development of democratic political institutions in transition states. She concludes that it is impossible to impose democracy from outside if a state and its society are not ready to accept democracy and its values and institutions.

In her work “The fate of the nation-states in the globalization era”, Ekaterina Balobaeva discusses the interesting topic of the crisis of democratic institutions that function within the limits of nation-states. The author argues that national democratic institutions, which replaced polis democratic institutions, are in need of transformation in the globalization era.

Other papers in this chapter are devoted to analyzing the institution of the multi-party system. These include Ramon van Bruchem’s “No democracy: why the Russian party system failed”. Konstantin Anchin’s “Interaction of political parties and non-governmental organizations” and Nikita Romashkin’s “Textual analysis of the French Socialist Party motions presented at the 2008 party congress”.

Ramon van Bruchem shows that the problems related to the development of the party system in Russia have a complex character and are connected not only with the backwardness of formal democratic institutions, but also with the domination of informal political practices and procedures, the mistrust of citizens toward parties, a generally low level of political culture and weakness of the political opposition.

Konstantin Anchin concludes that relations between political parties and nongovernmental organizations are weakly institutionalized in modern Russia. This is to a large extent due to the dependence of political parties and nongovernmental organizations on the power. Nikita Romashkin’s paper is written within the framework of a new approach to studying democratic discourse, whereby such discourse is examined with the help of mathematical analysis methods.

---

*Shkuratova Anna*

## **Democracy: Pros and Cons, Democratization Process**

Democracy is the main subject of interest in contemporary political science. Most countries today claim to be democratic, considering this form of government the most humane, fair and acceptable for good governance and respect for citizens' rights. But is democracy really the best form of government? And can we say that democracy has a unique advantage to non-democratic regimes, taking into account the shortcomings of this system?

I propose to begin the analysis with a comparison of democratic and undemocratic systems in order to identify the benefits of democracy.

First of all, one of the most important issues that arise when studying the problems of governance is: how avoid authoritarian rule? And here comes democracy, helping to ensure that a brutal dictator won't get access to power. World history has shown that the tyranny of one man can have serious consequences. If we take the example of Stalin, Hitler, etc., we'll see that their policies were largely dictated by personal interests, delusions of grandeur, mysticism, nationalism or religious prejudice. All of this led to the death of huge numbers of people, which are comparable with the scale of wars and epidemics. Democracy implies political equality for all citizens of the state, as well as equal rights for all, including those excluded from the process of governance.

It is worth looking at the rights offered by a democratic system because democracy is not only a way of governance, but also a system of rights, which is the bedrock of the rule itself<sup>1</sup>. If we turn to R. Dahl, he identifies the following criteria for democracy: effective participation; voting equality; understanding based on information content; monitoring of the agenda; as well as inclusion in society. To ensure these criteria, it is necessary to have a definite system of rights, including the right to participate in governing and equal suffrage, etc. If we draw a parallel with non-democratic forms of government, we won't find there a number of rights granted to citizens of the state. However, it is important not only to declare rights; what matters more is the extent to which these rights are realized and implemented. If only set forth in public documents, rights and freedoms are fiction, a cover for undemocratic policies. Institutions that support the exercise of rights, as well as the dissemination of people's views about their importance for the maintenance of democracy, should be established in a democratic state. We shouldn't forget that there are both rights and freedoms in a democracy; in fact, there's no other political regime that involves such a wide range of freedoms as a democracy. Democracy presupposes a certain culture, a set of values.

---

<sup>1</sup> Даль. Р. О демократии. Пер. с англ. А.С. Богдановского; под ред. О.А, Алякринского. — М.: Аспект Пресс

Most people have a similar set of basic values, desires and needs: a need for comfortable accommodation, a wish to enjoy delicious food, a desire to be healthy, loved and respected, etc. The willingness of people to protect their interests and their opportunities to build their lives according to their own preferences is quite natural. Democracy makes this possible as its legal system gives citizens an opportunity to defend themselves and instills the idea of the possibility of such action.<sup>2</sup> If we consider, for example, the process of political decision-making in a democratic and undemocratic state, we'll see fairly significant differences. First and foremost is the inclusion of citizens in the electoral process. Even if it is probable that the interests of people may sometimes be adversely affected under a democratic regime, the probability of abuse is much higher in non-democratic regime. Exclusion of citizens from the electoral process opens creates a greater risk for violations of human rights and freedoms by authorities.

Moreover, if we are talking about enacting laws by which society will live, a citizen of a democratic system is by all means included in this process.<sup>3</sup> This implies a system of negotiation and compromise. Let us dwell on this matter. Living in a society, people, on the one hand, want to secure their own needs but, on the other hand, need to accommodate to the interests and desires of others. Thus, there is a need to create rules and laws for peaceful co-existence. In a democracy, such laws are developed on the basis of discussion and universal suffrage. Despite the fact that the view with the greatest number of supporters will win and the minority will lose, such a system can accommodate the interests of the widest possible number of people.

The processes of decision making in a democratic state involves the development of a high level of moral responsibility among citizens since their decisions affect their daily lives. Since citizens in an undemocratic state are deprived of access to power and do not make political decisions, the degree of moral responsibility is close to zero. On the contrary, in a democracy, everyone must feel ownership of what is happening in the country, and, therefore, be responsible.

If we turn to history and trace the development and the relations of democratic states, we'll see that democracy leads to peace. Throughout the history of the 20th century, a large number of armed clashes have been witnessed, but in the period from 1945 to 1989, there was no military conflict between countries with a democratic regime. While democratic countries have been participants in many political conflicts and wars, modern democracies do not wage war with each other. On the one hand, this could be explained by the desire to preserve economic ties. On the other hand, we cannot deny the fact that the leaders of democratic states use compromise, negotiation and cooperation rather than to resort to war. Moreover, democracy promotes good relations and trust between people of different democratic countries.

Again, turning to history, it should be noted that a couple of centuries ago democracy was not associated with either wealth or prosperity, while recent experience has proved it is just the other way round<sup>4</sup>. Since the 19th century, the world's democracies have increased their wealth. This is certainly due to the fact that

---

<sup>2</sup> Даль. Р. О демократии. Пер. с англ. А.С. Богдановского; под ред. О.А. Алякринского. — М.: Аспект Пресс

<sup>3</sup> Даль Р. Демократия и ее критики. Пер. с англ/ под ред. Ильина М.В. — М., 2003

<sup>4</sup> Гаджиев К.С. Введение в политическую науку. Недостатки и достоинства демократии // Библиотека "Полка букиниста"

all democracies are market. Market economy has proved its benefits compared to other economic systems and economies is currently the most effective economic system. Thus, it is easy to identify a logical relationship: if all modern democracies are countries with a market economy and a market economy results in growth, development and well-being, then democratic states are rich and developed. In addition, unlike non-democratic countries, democracy promotes education, which in turn is the key for scientific and technological progress and economic growth. I would also like to note that, for the effective development of an economy, free exchange of information is required and information barriers should be low so that exchange of information is both safe and easy.

Nevertheless, a market economy does not only have positive influence on a democracy's development<sup>5</sup>. When the market mechanism begins to function, it transforms an authoritarian system into a democratic one, creates favorable conditions for competition and economic development and provides opportunities for citizens to develop freely, promote their interests, and influence their government. But sooner or later, once the institutionalization of democratic institutions has reached a certain level, market capitalism will begin to negatively impact the political equality of citizens and the development of democracy in general. The reason is that inequalities in access to resources create political inequality, while political inequality leads to unequal distribution of political resources. The actions of the government appears to be crucial in this case. In accordance with the principles of a market economy, it should adopt a laissez-faire approach of non-interference in the regulation of the economy. Thus, the market mechanism in a democratic country cannot exist without government intervention. First of all, the scope of the economy depends directly on the legislation and state policy. Secondly, government intervention reduces damage to certain sectors of the population who have less access to resources and might suffer from the selfish actions of other economic actors.

A negative impact of market economy is not the only problem a democracy is facing. There are a number of internal contradictions, so-called "broken promises" of democracy<sup>6</sup>, which cannot be neglected when considering the concept of power. Such contradictions are not only due to a mismatch of the formal and real basis of democracy, but they are also connected with the government itself. These contradictions have not been resolved so far by any management system, including democracy. They actually include the existing inequality of people and their abilities, etc.

An ideal model of democracy entails a direct connection between citizens and government institutions. However, in real life, the relationship is mediated by political parties, other intermediate institutions and the bureaucratic state apparatus, which alters the nature of the relationship between the individual and the state and reduces the role of citizens in political life.<sup>7</sup> This often leads to "non-participation" of citizens in political and state affairs.

---

<sup>5</sup> Шумпетер Й.А. Капитализм, социализм и демократия. Пер. с англ./Предисл. и общ.ред. В.С. Автономова. — М.: Экономика, 1995

<sup>6</sup> Боббио Н. "Будущее демократии: В защиту правил игры"

<sup>7</sup> Гаджиев К.С. Введение в политическую науку. Недостатки и достоинства демократии // Библиотека "Полка букиниста" [http://society.polbu.ru/gadzhiev\\_science/ch27\\_i.html](http://society.polbu.ru/gadzhiev_science/ch27_i.html)



Another tenet of democracy lies in that the common good must prevail over private interests<sup>8</sup>. It is immediately worth noting the uncertainty of the concepts of the “common good” and the “will of the people”. What do we mean by these concepts in terms of democracy? In theory they refer to certain basic values that are shared by all fair-minded individuals in a society. However, in practice, it gets more complicated. Even if people can agree, for example, about the need to stay healthy, it is almost impossible for them to agree what exactly should be the ways to achieve it. Thus, the existence of a common will of the people is questioned.

Power in a democratic state often slips into one of two extremes. This is either an oligarchic form of government, in which private interests of citizens are not considered, or the rule of a board of small groups (the elite, the bureaucracy), where private corporate interests dominate. Democracy itself does not imply the existence of elites and calls for equal distribution of power. Nevertheless, even in democracies, elites continue to exist and have a great influence on policies and decisions.

Another issue is that the democratization of a country does not mean the introduction of democracy in the social sphere. As an ideal, democracy implies that citizens should participate in all decisions concerning the social sphere.<sup>9</sup> However, in practice, most decisions are taken by specific institutions and referendums are held only on the most important issues. It could be argued that the decision-making institutions have been elected by the people. However, firstly, not all institutions are formed through election (the holders of some posts are appointed), and, secondly, elected representatives often belong to the more affluent segments of the population and protect, above all, the interests of these segments rather than the broader interests of their voters. In this context, we can again refer to the division between people who formally are endowed with rights and those who have real resources. People who control the most important economic and informational resources always have the greatest influence on politics. The result may be corruption — both by elites, who seek enrichment, and by citizens, who cast their votes not according to their genuine preferences but for the promised rewards<sup>10</sup>.

Democracy presupposes openness of the political processes, but this condition is not fulfilled even in the most democratic countries because politics is always hidden from the public.

Another contradiction lies in the fact that political decisions in individual countries are made on the basis of certain values that are given priority in different areas, which contradicts the basic democratic principle of pluralism of ideas.

Difficulties also exist in international relations. We have already said that democracy is positively related to the peaceful settlement of conflicts and cooperation. However, recent global problems such as ecological and economic crises, famine, overpopulation and the spread of weapons are challenging the effectiveness of democratic governance. Indeed, is it worth acting on the basis of the principle of *laissez-faire* in conditions of economic crisis? Or does this policy work when it comes to the proliferation of weapons of mass destruction?

---

<sup>8</sup> Шумпетер Й.А. Капитализм, социализм и демократия. Пер. с англ./Предисл. и общ.ред. В.С. Автономова. — М.: Экономика

<sup>9</sup> Новгородцев П.И. Демократия на распутье / Библиотека Гумер  
<http://www.gumer.info/bibliotek/Buks/Polit/Hrestom/39.php>

<sup>10</sup> Гулько Б. Демократия и религия <http://www.machanaim.org/history/gulko/demokratija.htm>

Democratization is another important and urgent problem. One important outcome of the global expansion of democracy over the past 25-30 years has been that scholars and practitioners increasingly have begun to speak about democracy as a universal system of values that can be “implanted” in any region of the world, regardless of culture.

At present, not only the cultural component of the democratization process is a vital problem in this field of study. Both in academic and political circles, emphasis has shifted from the question of the Cold War period concerning whether democracy is the best form of administration to a question of whether states and nongovernmental organizations can be involved in propagating democracy abroad, and if yes, to what degree. It should be noted that, in the contemporary globalized world, the democratization of individual states do not occur in a vacuum but in a specific international situation, which has a significant effect on the internal political processes of transit states.

International standards have emerged (although they are not yet part of international law), establishing the promotion of democracy as a universally accepted and necessary component of international behavior, and the relationship between internal and external factors of democratization are gradually being redefined.

Although, democracy is at the forefront today, it still faces a number of challenges. For example, there is a view of democracy as a model imposed from above, with imposes its principles without regard to the socio-cultural characteristics of individual states. At the same time, the principles proclaimed by democracy are primarily aimed at the ensuring the observance of human freedoms and the right to self-determination, the possibility of personal development, and the protection of fundamental human rights. So should democracy be considered as a path to peace and prosperity or as an implanted phenomenon, which is not suitable for all states?

Although increasing numbers of governments and people around the world now support the promotion of democracy, even democratic states disagree about how to do it. Few believe, for example, that military force is justified to advance democratization. The slogan “you cannot force them to be free” still resonates with many champions of democracy. A majority of states and people around the world consider military intervention for the defense of individual human rights illegitimate. Countries act on the belief that this is the case even if the question of who has the right to authorize humanitarian missions continues to be discussed. Although the United States has initiated or led most humanitarian interventions that have taken place, such interventions have also been undertaken without U.S. participation by other regional actors and their armed forces, such as Australia in East Timor, the Military Observer Group of the Economic Community of West Africa States and its UN reincarnation in Sierra Leone, and the European Union in Eastern Congo. The democratic members of the Organization of American States (OAS) even helped prod the U.S. intervention in Haiti in 1994. In all of these cases, the promotion of democracy and the protection of human rights featured prominently in the justification of military action. Two hundred years ago, democracy would not have been part of intervening powers’ lexicon. The mixed record of success of military interventions in promoting democracy only strengthens the moral argument against the use of force. Democratic states have also disagreed about the morality and utility of using economic sanctions as a method for promoting democratic regime change.

Leaders in some autocratic regimes try to defend their go-slow approach to political liberalization by arguing that their citizenry is not ready for democracy. Their people, so the argument goes, are either not wealthy enough to afford the luxury of democracy or not “Western” enough to desire democracy. Wealthier countries do have a greater prospect of sustaining democratic regimes than poorer countries. Yet, little evidence suggests that only wealthy people desire democracy or that cultural and religious differences can explain differences in support for democracy as a value. Instead, survey data suggest that support for democracy is robust and at relatively similar levels in every region of the world. Furthermore, in the Arab world, surveys suggest that a strong commitment to Islamic ideas does not hinder the embrace of democratic principles<sup>11</sup>. Polls conducted by the World Values Survey team show that support for antidemocratic ideologies varies throughout the world, with respondents in some countries ready to trade some democracy for more order. In no country surveyed, however, does support for dictatorship exceed support for democracy.

“Democracy” is one of the few concepts most frequently used in social and political life that by and large does not carry negative associations among modern people. Even in Russia, where memories of the so-called “democratic” experiments of the 1990s often are negative, people generally recognize the advantages of democracy over authoritarianism and totalitarianism. Also in the Middle East, where enforced “democracy” has costs thousands of lives, the claim that democracy is the best form of government is supported by a majority of the population (with some reservations). This is not surprising. No matter how contradictory the practice of democracy is and how severe the problems caused by the democratization are, democracy was and still is the best known form of social organization. There are two main reasons for this.

The first one is that, in a democratic society, where decisions are the prerogative of the people or their authorized representatives, the responsibility for historic choices lie not only with the leaders but also with the citizens and most people are not inclined to take erroneous action and chose erroneous solutions. Practice has shown that democracies rarely rewrite history, but the most severe criticism is directed toward current policies rather than past ones. Respect prevents people from pejoratively referring to policies that at an earlier time were the result of free choice.

The second reason is much more fundamental: democracy is the natural consequence of the humanization of society. It is more of a mechanism of socialization, in the absence of which a society cannot meet the requirements of time, than a form of government. Democracy implies the willingness of every person to trust fellow citizens in decision-making concerning questions on which there destiny depends. So the relationship should be based on trust and cooperation, which is not possible outside the law and outside procedures that protect the interests of all members of society. In a democratic society, people are equal in front of the law, and that is why there are prerequisites for the approval of the ethnic, cultural and religious tolerance.

There are two major reasons for the problems occurring during the process of democratization:

1. On the one hand, in the majority of countries that remain undemocratic, there are no explicit prerequisites for establishing a democratic system of administration and, on the other hand, we can see the determination to resist any

---

<sup>11</sup> Гулько Б. Демократия и религия <http://www.machanaim.org/history/gulko/demokratija.htm>

attempts to impose any new social forms from outside. This does not mean that democracy in principle cannot be inculcated on countries, it simply means that the time for such “inoculations” is already gone. The most impressive examples of “introduced” democracies are not Germany and Japan, founded under the administration of American military governments, but India and other old colonies, who for many decades and centuries lived under British dominion.

2. At least two difficulties immediately appear with “imported” democratization. Institutes, practically unknown to people, are transferred to the country. Western experts quite often recognize that this process is conducted in neglect of the real needs of the local population and with such contradictions with prevailing practices that a majority of citizens in a democratic society would reject it. In Iraq, where democratic parliamentary elections were carried out for the first time on 15 December 2005, five weeks were needed to obtain the final election results and to affirm them, and another three months to elect the chairman of the parliament. Repeated visits of senior officials of the American administration and direct threats of a reduction of military aid from the side of the USA were necessary to ensure the election of the prime minister. At the moment when this “historical solution” was accepted, the establishment of democracy in Iraq had cost America 2,385 killed and 275 billion dollars

Another problem is that the forced establishment of “democracy” is received primarily as redistribution of authority. During the “democratic” experiments of the 1990's in Russia and many other post-Soviet states, the process of forced democratization in Afghanistan, and Iraq, and everywhere else where the “fight for democracy” was accompanied by the construction of a new institutional system, it has been proven that the new elite can not be removed from power democratically. This is due to the fact that imposed democratization in its essence is undemocratic. After imposing new orders and supporting the new head of state, who knows how to influence popular emotion, the sponsors of democratic change begin to fear “recoil”, even if it is democratic. Democracy forcibly introduced into an unprepared country is immediately associated with the party, the group or the individual leader, who runs the project. Very soon persistent lectures about the extent to which stability and safety are important are replaced by calls for changes and reforms. And all this is by no means an “unforeseen consequence”: can the construction of a powerful nation state become an unpleasant unexpected result for the “constructors”?

## Conclusions

As we have seen, democracy is not devoid of problems and contradictions; it is open to various alternatives and transformations of power into less democratic systems. It is not a perfect and attractive form of government for all countries. Bringing democracy to a country where people do not have the appropriate culture and a certain range of values may cause more serious problems than those that existed under an undemocratic regime in that country. Despite this, democracy still remains the best form of government, which ensures respect for rights and freedoms and realization and harmonization of the various interests of citizens. In democratic states, people are called to respect the law and the interests and rights of others, and citizens are more educated and have better chances of achieving material and social well-being.

Winston Churchill once said that “democracy is the worst form of government except all the others.”<sup>12</sup> Indeed, the idea of a democratic state has a number of shortcomings, but at the same time, democracy is a form of government that ensures maximum integration of the will of most citizens and freedom and opportunity for development.

Some aspects and virtues of democracy may seem questionable, but undemocratic regimes are fraught with far worse dangers. The relative effectiveness of democracy means that it cannot at one time solve all existing problems in society, but so have none of the pre-existing regimes. Therefore, we do not have enough reason to lose faith in the possibility of democracy until new alternatives emerge.

Imposed democracy provides for the introduction from outside of various institutions commonly functioning in most democratic societies. However, even if such a democracy appears successful, it does not as a rule lead to the desired result. In fact, as noted by Amartya Sen, “democracy is not just about filling in ballots and counting votes, it also involves public debate and controversy, which is usually called ‘management by discussion’”. Not surprisingly, the forceful introduction of alien institutions, which are the result of the development of certain traditions and practices where they exist elsewhere, is ineffective. These institutions are not rooted in local history and soon illiberal or “managed” democracy develops.

Democracy cannot be established undemocratically, i.e. it cannot be imposed against the will of the people. This is the most important lesson that sooner or later must be drawn from the experience of Russia, Iraq, Afghanistan and Somalia. The problem of democracy lies in the fact that while citizens can support the transition to authoritarianism by democratic means, it is not possible to inculcate democracy by authoritarian methods. Such a democracy is not “self-reproduced” and the most probable result is steadfast opposition of people to the democratic innovations.

## References

1. Боббио Н. “Будущее демократии: В защиту правил игры”, 1984.
2. Даль Р. Демократия и ее критики. Пер. с англ/ под ред. Ильина М.В. — М., 2003. 576 с/
3. Даль. Р. О демократии. Пер. с англ. А.С. Богдановского; под ред. О.А. Алякринского. — М.: Аспект Пресс, 2003. — 208 с.
4. Гаджиев К.С. Введение в политическую науку. Недостатки и достоинства демократии // Библиотека “Полка букиниста” [http://society.polbu.ru/gadzhiev\\_science/ch27\\_i.html](http://society.polbu.ru/gadzhiev_science/ch27_i.html)
5. Гулько Б. Демократия и религия/ <http://www.machanaim.org/history/gulko/demokratija.htm>
6. Новгородцев П.И. Демократия на распутье / Библиотека Гумер [http://www.gumer.info/bibliotek\\_Buks/Polit/Hrestom/39.php](http://www.gumer.info/bibliotek_Buks/Polit/Hrestom/39.php)
7. Шумпетер Й.А. Капитализм, социализм и демократия. Пер. с англ. / Предисл. и общ.ред. В.С. Автономова. — М.: Экономика, 1995. — 540 с.

---

<sup>12</sup> Гаджиев К.С. Введение в политическую науку. Недостатки и достоинства демократии // Библиотека “Полка букиниста” [http://society.polbu.ru/gadzhiev\\_science/ch27\\_i.html](http://society.polbu.ru/gadzhiev_science/ch27_i.html)

---

*Ekaterina Balobaeva*  
***The Fate of the Nation-states in the Globalization Era***

No doubt one of the most popular and most controversial concepts in politics nowadays is “democracy”. This term legitimates political regimes across the world on the edge of the third millennium. This word became popular especially with the fall of communism, when thinkers such as Francis Fukuyama started to talk about the triumph of liberal democracy. Undoubtedly, seen in procedural terms, the world has experienced a democratic revival in the last several decades. Annual reports of Freedom House indicate that Western-type democracy has extended considerably.<sup>1</sup> In the words of Samuel Huntington, processes of a “third wave” of democratization have appeared. The processes of democratic development at the global scale, as well as processes that are directly related to democratic transition in an individual country, are closely related to other processes. First of all, we are talking about the processes of globalization, which considerably influence the development of democratic processes in modern states. Contemporary globalization has had a contradictory impact on the democratization processes in the world. In the science sphere, there is much talk about democracy today, particularly about the problems it’s having in its global development. People who adopted democratic values also realized the disadvantages of democracy. The ideas of democracy are increasingly being marginalized, and more and more people begin to distrust democratic institutions because of their ineffectiveness in dealing with the issues on the agenda of today’s society.

I think that the most important question is whether the problems of democracy are caused by globalization only or whether the reasons for these problems also line in the democratic process itself. In addition, it is important to evaluate the influence of globalization on the nation-state, as the main institute of democracy.

“He came out of nowhere, but is now present almost everywhere.” Still in 1988, as noted by A. Giddens, the term “globalization” did not appear in scientific discussions. However, recently it has undergone a rapid revolution and can now be found everywhere in different contexts. The impact of globalization can be understood not only from an economic perspective, but also from a political science view. The processes of globalization have a strong impact on the functioning of nation-states and democracy, on their basic institutions, as well as on their sovereignty. Today we can see fundamental changes in the role of the world’s states. Some scientists believe that the institute of the nation-state is losing all its functions and is delegating its authorities to transnational corporations and other supranational structures; others continue to insist that, even in the context of globalization, no substitute to this

---

<sup>1</sup> Campny M., “Globalization of democracy and conditions of democratic community in the globalised world”. Retrieved from <http://www.rci.rutgers.edu/~culdemsm/Kempny%20Paper.htm>. Last accessed on 7.11.2009.

institute will be found and the crucial functions of the state will remain concentrated in the hands of national governments. Who is right and what is the fate of the nation-states in the era of globalization?

Targets of work:

- To define the principles of the Westphalian system of nation-states;
- To define political globalization<sup>2</sup> and find out what principles of the Westphalian system it wipes out;
- To evaluate the influence of this process and define the repercussions of it; and
- To assess the future of the *nation-state paradigm* and of *democracy*, which is closely connected with it.

Research objectives:

On the basis of a review of the vast amount of information that is contained in sources on the problems of interaction between globalization, nation-states and democracy, to analyze the impact of globalization on the concept of the nation-state and to identify the possible prospects of this institution.

## The Westphalian System of Nation-states

First, I propose to discuss the key concept of my work, i.e. that of the nation-state because it is closely connected with my further analytical work.

The concept of the “nation-state” has a rather long history. Its roots go back to the 14th and 15th centuries, which was the time in world politics when the process of creating a new type of government and social order began. Rule by clans, families, city-states, duchies and principalities was replaced by the system of the nation-states with a centralized system of government. At the same time, a number of pieces of literature that justified the start of the new system appeared. These books are: Jean Bodin’s *The Book of the six states*, in which he introduced the concept of turnover of sovereignty; N. Machiavelli’s book *The Emperor*, which developed the concept of public interest; and H. Grotius’ *On the Law of War and Peace*, which laid the necessary foundation for the development of international law.<sup>3</sup>

The crucial event that finally established a new world order was the Peace of Westphalia in 1648, which became the official start of the formation of the Westphalian system of nation-states that we have today.

The basic principles of this system are:

- the principle of non-interference in the affairs of other sovereign states, the principle of non-recognition of any higher authority; inadmissibility to infringe the sovereignty of the state both from above and below; and

---

<sup>2</sup> Globalization, cosmopolitanism and democracy. Interview with David Held by Montserrat Guibernau. Retrieved from <http://www.polity.co.uk/global/globalization-cosmopolitanism-and-democracy.asp>.

<sup>3</sup> Кортунов С.В. Крушение вестфальской системы и становление нового мирового порядка: [Электронный документ] (<http://www.wpres.ru/text/200708310905.htm>). Проверено 07.11.09

- equality of all states (although in practice, the system has established the right of the strong and acted in accordance with the principle that “the winner is not judged”)<sup>4</sup>

Thus, the main principle underlying the existence of nation-states is their right to define their internal and external policies and to determine their diplomatic relations with other states. Their sovereignty is immutable.

The development of the Westphalian system has gone through several stages. These are: the phase of evolution, the phase of prosperity and, eventually, the phase of crisis and decline. In my work, I will focus on the “decline” of the Westphalian system and the causes and consequences of this process as they are directly connected with the second key concept of my work, i.e. globalization.

The term globalization encompasses a wide array of definitions and to capture all the complexity of this concept in one definition is hardly possible. In my work, globalization is understood as the sum of all contemporary processes that led to the formation and approval of the integrity, interconnectedness and interdependence of the world. The process of globalization changes everything around it and the institute of the nation-state could not remain unchanged.

I will try to understand how globalization affects the national sovereignty of the state and, at the same time, exactly what principles of the Westphalian system of nation-states are being broken down.

The first principle of the Westphalian system, to which I referred earlier, is the principle of non-interference in the affairs of state, the prohibition on limiting the sovereignty of states either from above or below. “The essence of the state and the main practical condition of its effectiveness lies in its capacity, as a sovereign and autonomous political institution, to uphold the law, relying on its citizens living in a particular area”.<sup>5</sup> This was the case earlier, before the phenomenon of globalization pervaded all spheres of human existence. What kind of adjustments has globalization made to this system?

First, we can not ignore economic globalization as it influences the politics of nation-states. Certain technical changes and innovations are the cause of globalization so this process cannot be stopped or reversed.

#### The Impact of Globalization on National Sovereignty “from above”

Economic globalization, as the emergence and expansion of networks of global production and distribution of goods and services, as well as financial globalization do not weaken the legal or formal sovereignty of states but curtail their operational sovereignty. Thousands of multinational corporations are key players in the field of foreign investment and international financial institutions operating in a situation of transparent boundaries. It forges a powerful system that can regulate and define not only the redistribution of world resources, but also the domestic policies of nation-states, thereby reducing the state’s role in their implementation.

The UN (United Nations), the EU (European Union), the IMF (International Monetary Fund) and the WTO (World Trade organizations) are a serious threat to the sovereignty of nation states and establish new rules of the game. For example, the

---

<sup>4</sup> Ibid.

<sup>5</sup> Кафлен Ш. Есть ли будущее у национального государства? [Электронный документ] ([http://dialogs.org.ua/crossroad\\_full.php?m\\_id=13437](http://dialogs.org.ua/crossroad_full.php?m_id=13437)). Проверено 07.11.09.



United Nations, which was created by the will of the nation-states and has a charter that enshrines the principles of sovereignty of nation states (especially the principle of non-interference in the domestic jurisdiction of another state), plans to change this principle into one of “management of global security” in order to conform to the new world order.<sup>6</sup>

The European Union plays an important role in world politics. The Council of the European Union is increasingly becoming an “international government”, which takes over functions of the governments of the EU member states and subjects them to its decisions.

The IMF is an international framework regulating global financial flows, which formally has become a tool for realizing the interests of only the most economically developed countries.

Non-governmental organizations (such as Greenpeace and Amnesty International) bypass national states and threaten their boundaries due to complex strategies for mobilizing people.

It is impossible to forget about the importance of law, i.e. courts. Because of globalization, international law has priority over national and now the European Court of Human Rights reviews claims of citizens against their states.

All organizations and supranational structures mentioned above, as well as others similar to them have the ability to unite people from many countries into special interest groups, which generally represent a significant global financial, political and legal force. This is especially true with respect to lobby groups that may infringe the autonomy of states, as well as global business, in the form of transnational corporations that often are stronger than any national government when they lobby decisions that reflect their vested interests.

In connection with this, we can say that globalization violates a principle of the Westphalian system of nation-states, namely the principle of equality of all states and non-recognition of any higher authority. In today’s world, it is evident that a divide exists between rich countries and poor, less developed countries and there is evidently a desire on the part of the most powerful actors to influence the domestic political situation in individual countries. A confirmation of this is the U.S. policy of democratizing the Middle East in order to harmonize its social system to Western standards. The “Big Brother”, America, aware of its economic superiority, does not miss any opportunity to intervene in the “business” of other states and to place its interests higher than those of other states.<sup>7</sup>

Thus, we can make the intermediate conclusion that the impact of globalization on national sovereignty “from above” is obvious. The regulatory capacity of states decreases significantly, as it faces global market forces that are stronger than any other actor, even the most powerful states. Elimination of the power of states on national financial and political issues means that it is difficult for them to find a place in this new world system.

---

<sup>6</sup> Пастухова Н.Б. Национально-государственный суверенитет в контексте глобализации, интеграционных процессов в мире и новых угроз. — С.31. [Электронный документ, библиотека ГУ ВШЭ]. Проверено 07.11.09

<sup>7</sup> Гринин Л.Е. Глобализация и национальный суверенитет//История и современность №1, март 2005. — С.17 [Электронный документ, библиотека ГУ ВШЭ]. Проверено 07.11.09

In my opinion, the limitation of national sovereignty “from above” is confirmed by a sufficient number of facts. Let us now turn to the next question of whether there is a similar trend of elimination of sovereignty “from below”.

The Impact of Globalization on National Sovereignty “from below”

Recently, in the world architecture, the role of regions has increased. Regions are trying to absorb more and more power and more freedom and independence from the decisions of those states within which boundaries they exist.

The subjects of the processes of regionalization are both regions that exist due to the administrative-territorial division of a country (the lands in Germany, the counties in the UK etc.) and regions that have been forged as a result of cross-border cooperation.<sup>8</sup>

Integration of European regions (Europeanization, or the emergence of a “Europe of Regions”) has attracted the attention of many researchers of the European continent. Today, this is the most striking example of regionalization in the world. On the one hand, it is a positive process and many international organizations have developed projects and documents to promote integration. In 1996, for example, the Assembly of the Regions of Europe adopted a declaration on regionalism in Europe, which enshrined the importance and indispensability of the European integration process with reference to the fact that regions are an important part of the state.

However, the regionalization process is quite controversial. The growing role of regional entities in the implementation of local policies enhances the status of regions that are trying to “overtake” the powers of the nation state. Thus, state sovereignty is limited by all kinds of local councils and regional governments (such as the Scottish Parliament or the Assembly for Wales in the UK). In addition, the sovereignty of nation-states is curtailed by supranational bodies, which coordinate the activities of cross-border regions. Therefore, we can see that, in some cases, policies that fall within the authority of national states have not been carried out by national governments.

In view of this, it is obvious that the role of governments is changing in the conditions of globalization as some parts of their functions are taken over by other actors at the international and regional level. According to Daniel Bell, “the nation-state is becoming too small to solve big problems and too big to solve small problems”.<sup>9</sup>In other words, the impact of globalization on the nation-state can hardly be overestimated.

## The Consequences of the Globalization Process

Analyzing all the consequences of globalization for national-states could be the subject of a separate research paper. Therefore, I focus on only two consequences, which are of key importance in my work:

- nationalism and separatism;
- and international terrorism.

The process of regionalization in Europe has had not only positive, but also negative effects. As a result of this process, some territories are concentrated in the

---

<sup>8</sup> Зонина Т.В. От Европы государств к Европе регионов//Полис. — 1999. — №5. — с. 156

<sup>9</sup> Институт геополитики профессора Дергачева. Глава 2. Глобализация и информационная революция: [Электронный документ] (<http://www.dergachev.ru/book-6/3.html>). Проверено 07.11.09.

hands of the wealthy and occupy leading positions, while others are marginalized. This increases already previously existing imbalances and can not only inhibit the development of individual countries but also nullify positive trends of European integration, strengthening of cooperation between states, etc. That is not all. The tendency of consolidation of some regions may lead to *separatism* and *nationalism*. Even the smallest nations wish to gain sovereignty. Thus, supranational communities are becoming more attractive to ethnic groups and prompt the division of states. Examples of this may be Scotland, which claims independence from Britain; Kosovo, which stood up for independence and is now recognized as independent; and so on.

In this desire to be recognized as independent lies a danger: it must be remembered that “not every nation that wants to secede from a country can become an independent state”.<sup>10</sup> If every nation would gain autonomy, the world would be in chaos. In this case, the negative impact of globalization can clearly be seen.

A second negative trend that is intensifying in the context of globalization is international terrorism. The transparency of state borders, unrestricted movement of goods and capital, development of information technology — all these are factors that have contributed to the international dimension of terrorism. Today the borders and the sovereignty of nation-states are no obstacle to terrorism. We will always remember the actions of international terrorists in Chechnya, the events of 11 September 2001 in New York, the terrorist acts in Russia, Britain, Egypt, Israel and so on.<sup>11</sup>

Thus, we explored how globalization affects the nation-state and what the main negative consequences of this phenomenon are. Now it is time to answer the final question of my study: what is the future of this institution in the context of globalization? The view points on this issue can easily be mixed up.

#### Three Main Possibilities for the Further Development of Nation-states

As I see it, there are three main possibilities regarding the further development of nation-states:

- They will dissolve and disappear;
- They will transform and adapt to the new conditions; or
- In place of nation-states, other forms of social organization will emerge.

There are as many supporters of the idea that the nation state will disappear from the political arena as there are opponents of it. In general, all who speak about the “end” of the nation-state cite the reduction of state sovereignty. For example, Kenichi Ohmae generally believes that the era of globalization has transformed the state into fiction, and Susan Strange argues that “the impersonal forces of world markets are more powerful than the state” and that more power is transferred to other entities at the transnational and regional level. Opponents of this idea such as the director of the London School of Economics, Anthony Giddens, say that, although the state has lost some of its functions in the era of globalization, it will remain a major player in the medium term because it maintains military and political functions and regulates different spheres of society. The institutions and organizations that curtail

---

<sup>10</sup> Выступление Ангелы Меркель: [Электронный документ], (<http://lnews.az/world/20080816073504301.html>) Проверено 07.11.09

<sup>11</sup> Пастухова Н.Б. Национально-государственный суверенитет в контексте глобализации, интеграционных процессов в мире и новых угроз. — С.41. [Электронный документ, библиотека ГУ ВШЭ]. Проверено 07.11.09

the sovereignty of nation-states “from above” and “from below” have their limitations and it will not be possible for them in the short term to “get rid of” nation-states.

However, personally I prefer the view, according to which a substitute to the nation-state will emerge in future. A distinguished scholar, University of Munich Professor Ulrich Beck creates the image of a transnational state in his book *What is globalization?*<sup>12</sup>. In his view, this will be an interim, hybrid model. It is not a nation state, but another type of state (meaning that concept of states will not disappear altogether). This model fits the global market and the system of multipolar world politics.

Obviously Beck’s model is idealistic, but in my opinion, it is logical and justified, and the best one in the current situation. It describes a “newfound” institution, a product of globalization that can prevent the further expansion of separatism and international terrorism and decrease their impact.

## Conclusions

In conclusion, I want to show how democracy is connected with the institute of the nation-state and evaluate how the former influences the latter.

When we speak about democracy in 2009, it goes without saying that it is understood in the context of globalization. A lot of researchers argue that globalization has led to a crisis of the institute of the nation-state, within the boundaries of which democracy is developing. In view of this, I paid considerable attention to its transformation in my paper.

Throughout the history of democracy, its development has been directly linked to the transition of power from the local to the national level<sup>13</sup>. Power was previously fully concentrated in the hands of nation states. However, today, the trend is quite different. In the context of globalization, there has been a shift in tendency whereby power is increasingly concentrated not at the national level but at the level of supranational institutions, such as transnational industrial and financial corporations, which form a system of supranational governance. This set of structures, which is concentrated in the hands of big powers, regulates the movement of capital, labor, services and goods and limit the powers of national government institutions. Thus, globalization contributes to relocating the centers of power and interferes with the development of democratic institutions and processes in modern countries, thereby disgracing democracy and its past achievements in the eyes of citizens.

As can be seen, globalization is a complex process that has had a contradictory impact on the institution of the nation-state, as well as on democracy, which is closely connected with the nation state. Globalization changes the functional role of the state and restricts its sovereignty “from above” and “from below” through the powers of transnational world political actors, as well as through regional and local actors. In addition, globalization has encouraged destructive separatist sentiments and provoked international terrorism.

---

<sup>12</sup> Бек У. Что такое глобализация?/пер.с нем.А Григорьева и В.Седельника; общая редакция и послесл.А.Филиппова. — М.: Прогресс-Традиция, 2001. -с.188-190

<sup>13</sup> Вайнштейн Г. Демократия в меняющемся мире. [Электронный документ] (<http://www.centrasia.ru/newsA.php?st=120633330> ). Проверено 07.11.09.

Beck's model of a transnational state, which is also a product of globalization, will be the most reasonable form of human coexistence in the long term. In the short term, I think it is more wisely not to speculate about the end of the nation-state, sovereignty, power and politics in general, but to instead look for ways of adapting to the new conditions and ensuring integration into the world global system.

In a globalizing world, the fate of the nation-state and democracy remain uncertain. In social science, there are two approaches to the nation-state in a globalizing world. According to the first one, democracy and its institutions are undermined by global processes. There is an expansion of inter-, trans- and supra-national institutions, which is perceived by many political scientists as a sign of the growing inability of nation-states to respond and adapt adequately to new challenges and to function according to new rules of the game. The inter-state system of international relations undermines the sovereignty of nation states.<sup>14</sup> This is reflected primarily in the fact that the liberalization of trade and capital movements that has been undertaken in the framework of the international community requires harmonization of legislation, especially tax legislation, and transfer of traditional functions of the nation-state to the supranational level. For example, trade policy powers in the European Union are gradually being transferred to the supranational level. There is also a tendency toward growing supra-nationalism in law. International law has become more important than national law. Thus, we can see that global integration processes affect the life processes of nation-states and that a considerable group of social scientists have a negative view of this process. However, there is also another point of view: some researchers believe that there are real prospects for the continued existence of nation-states in the era of globalization.

The following trends can be observed:

First, there are rather influential political forces that support the idea of the nation-state and oppose the transfer of its principal functions to supranational institutions (trade unions, farmers, businessmen and others).

Second, there is an objective need to preserve the nation-state as a center for the development and consolidation of culture, national identity and political and legal characteristics. We cannot talk about the "sunset" of the nation-state since this need has steadily increased as a result of the influence of globalization.

In addition, maybe it is just a matter of time. As we know from the history of democracy, it was always looking for such forms of institutional arrangements that would ensure the most efficient management of public processes. Despite some problems, democracy has generally been able to demonstrate its viability during the past century, finding ways to get out of crises and providing more or less successful responses to challenges of different times. Now there is a need for democracy to "update" itself again. The question is whether the contemporary problems of democratic governance should be dealt with through a reform of the traditional forms of democracy or through a gradual improvement of its institutional design. This question remains open and can be examined by researchers.

---

<sup>14</sup> Зверев Ю.М. Национальное государство в эпоху глобализации: конец или трансформация? [Электронный документ, библиотека ГУ ВШЭ] Проверено 07.11.09.

## Bibliography

1. Begg I. Draxler J. Mortensen J. Is Social Europe fit for globalization? — p. 223., at [http://www.ibm.com/ibm/governmentalprograms/pdf/simglobe\\_fin\\_rep\\_en.pdf](http://www.ibm.com/ibm/governmentalprograms/pdf/simglobe_fin_rep_en.pdf)). Last accessed on 7.11.2009.
2. Globalization, cosmopolitanism and democracy. Interview with David Held by Montserrat Guibernau. At <http://www.polity.co.uk/global/globalization-cosmopolitanism-and-democracy.asp>). Last accessed on 7.11.2009.
3. Held D. McGrew A. Globalization. Entry for *Oxford Companion to Politics*. At <http://www.polity.co.uk/global/globalization-oxford.asp>. Last accessed on 7.11.2009.
4. Held D. What is globalization, at <http://www.polity.co.uk/global/whatisglobalization.asp>. Last accessed on 7.11.2009.
5. Kühnhardt L. Implications on globalization on the raison d'être of European integration. At [http://www.arena.uio.no/publications/wp02\\_37.htm](http://www.arena.uio.no/publications/wp02_37.htm). Last accessed on 7.11.2009.
6. Бек У. Что такое глобализация?/пер.с нем.А Григорьева и В.Седельника;общая редакция и послесл.А.Филиппова. — М.: Прогресс-Традиция, 2001. — 304 с.
7. Васильева Т. А. Трансформация функций института государства в условиях глобализации. — Власть №10'2007. — 13 с. [Электронный документ, библиотека ГУ ВШЭ]. Проверено 07.11.09
8. Вайнштейн Г. Демократия в меняющемся мире. [Электронный документ] (<http://www.centrasia.ru/newsA.php?st=120633330> ). Проверено 07.11.09.
9. Выступление Ангелы Меркель (<http://1news.az/world/20080816073504301.html>.) Проверено 07.11.09.
10. Гидденс Э. Ускользящий мир: как глобализация меняет нашу жизнь/пер.с англ. — М: Издательство “Весь мир”, 2004., — 120 с.
11. Гринин Л.Е. Глобализация и национальный суверенитет. История и современность №1, март 2005. — С.6-31. [Электронный документ, библиотека ГУ ВШЭ]. Проверено 07.11.09.
12. Зверев Ю.М. Национальное государство в эпоху глобализации: конец или трансформация? [Электронный документ, библиотека ГУ ВШЭ] Проверено 07.11.09.
13. Зонова Т.В. От Европы государств к Европе регионов//Полис. — 1999. — №5. — с.155-164.
14. Институт геополитики профессора Дергачева. Глава 2. Глобализация и информационная революция: [Электронный документ] (<http://www.dergachev.ru/book-6/3.html>.) Проверено 07.11.09
15. Кафлен Ш. Есть ли будущее у национального государства? [Электронный документ] ([http://dialogs.org.ua/crossroad\\_full.php?m\\_id=13437](http://dialogs.org.ua/crossroad_full.php?m_id=13437)). Проверено 07.11.09.
16. Кобяков А. Новая анатомия Европы, или ренессанс регионализма. [Электронный документ]. (<http://www.mediasprut.ru/public/de/eu2002.shtml>.) Проверено 07.11.09.

17. Кортуннов С.В. Крушение вестфальской системы и становление нового мирового порядка: [Электронный документ] (<http://www.wpec.ru/text/200708310905.htm>). Проверено 07.11.09.
18. Лихачев В.Н. К Европе регионов.[Электронный документ, библиотека ГУ ВШЭ]. Проверено 07.11.09
19. Мнацаканян М.О. Глобализация и национальное государство: три мифа // Социс. — 2004. — № 5. — С.137-142.
20. Пастухова Н.Б. Национально-государственный суверенитет в контексте глобализации, интеграционных процессов в мире и новых угроз//Lex Russica (научные труды МГЮА) 2006 №1. — С.26-43 [Электронный документ, библиотека ГУ ВШЭ]. Проверено 07.11.09.
21. Сирота Н.М. Глобализация. Политические Аспекты. — С.14-22. [Электронный документ]. ([http://window.edu.ru/window/library?p\\_rid=45020&p\\_rubr=2.2.73.15](http://window.edu.ru/window/library?p_rid=45020&p_rubr=2.2.73.15)). Проверено 07.11.09.
22. Фархутдинов И.З. Экономический суверенитет в условиях глобализации. — С.58-65. [Электронный документ, библиотека ГУ ВШЭ]. Право и безопасность #3 (28) 2008. Проверено 07.11.09.
23. Шавлохова Е.С. Проблема независимости в контексте теоретического осмысления понятия “национальное государство”. [Электронный документ, библиотека ГУ ВШЭ]. Проверено 07.11.09.

---

**Konstantin Anchin, Maria Merkulova**  
***The interaction of political parties and civil organizations: cases of Russia and Norway***

This paper represents an effort to generalize research on interactions between political parties and civil organizations and to evaluate the applicability of Western models to Russian reality. The author uses a comparative analysis of the conditions of Russian and Swedish civil organizations and political parties and analyzes the current state of political parties and civil society organizations in Russia, models and motives of their interaction, as well as the institutions of civil society in the context of an authoritarian regime.

The task of this research is to answer the following questions: is there, at this stage, any effective models of interactions between political parties and civil society organizations? Are the theoretical models of such interactions elaborated by foreign political scientists appropriate for the realities of the Russian political system? Which motives guide political and civil activists when they seek cooperation? All these questions are relevant in the current situation, where the state is paying increasing attention to the institutions of civil society, which has resulted in a range of regulatory innovations changing the status of political parties and NGOs<sup>1</sup>.

It is worth mentioning that foreign authors have thoroughly explored problems related to the functioning of political parties and civil society organizations. In foreign political science, three major approaches to analyzing the interactions between political parties and civil organizations stand out: the “competitive”, the “transformative” and the “parallel and complementary” approach.

1) According to the “competitive” approach, civil organizations operating in the public space compete with parties for the possibility to articulate and protect the interests of different groups of the population, despite the exclusive right of parties to represent the interests of citizens in the legislature. For example, M. Olson has identified the distribution of material benefits as the basis of the concept of competition between political parties and civil organizations. In his opinion, civil organizations, which defend the interests of narrow groups of the population, redistribute public goods disproportionately, in favor of these groups. On the contrary, large and disciplined political parties — advocates of “the common interest” — are capable of providing equal distribution of material incomes and expenses among the entire population<sup>2</sup>.

---

<sup>1</sup> Erygina V.I. Politico-pravovye tendencii vozzrastania roli politicheskikh partiy v izbiratel'nom processe// Konstitucionnoe i municipalnoe pravo. 2007. № 19; Yakobson L.I. Grajdanskoye obschestvo: tretiy sektor// <http://www.vedomosti.ru/newspaper/article/2009/10/07/215628>

<sup>2</sup> Olson M., “The varieties of Eurosclerosis: the rise and decline of nations since 1982,” in N. Crafts and G. Toniolo (eds.), *Economic Growth in Europe since 1945*, Cambridge: 1996, Cambridge University Press.



2) According to the “transformative” approach, there is a close interrelation between parties and civil society organizations because parties often develop from the latter. This occurs when organizations that were originally created as civil society organizations achieve considerable approval from society and win the support of citizens in the course of their activities, as a result of which they obtain political party status by way of official registration. At the same time, the well-established civil society organization, with its well-known brand, continues to exist as a political subject, generally supporting the created party. This kind of interaction can be illustrated with the example of the Swedish Social Democratic Party and its “parent”, *Landsorganisationen* (the Labor Union).

The supporters of the “transformative” approach hold that there can be no competition between civil organizations and political parties. For example, S. Bartolini and P. Mair consider parties as unique political actors, which are in a position to structure the political behavior of numerous groups of citizens with different interests and to become a backbone link in the work of state institutes. They believe that civil organizations should expand their sphere of influence as they carry out an important function of facilitation (assistance and support) in the dialogue between citizens and parties, but do not consider them real alternatives to parties. In their view, civil organizations interfere with the monopoly of parties in order to keep certain questions on the state agenda. At the same time, parties can benefit from interaction with civil organizations. After all, having experienced the widest development and differentiation during the postindustrial epoch, civil organizations are a unique source of information concerning the interests and problems of citizens<sup>3</sup>.

3) According to the “parallel and complementary” approach, social movements and interest groups exist in parallel with political parties, giving citizens alternative means for participating in political life.

The “parallel and complementary” approach has been developed by H. Kitschelt. According to his theory, parties play an important role in the formation and development of democracy, while organized civil society groups are necessary for society because they put pressure on parties to adapt to the requests of citizens. In Kitschelt’s view, parties and movements have different functions, which can be complementary in the conditions of a modern democracy<sup>4</sup>.

G. Goldstone has also developed the “parallel and complementary” approach concerning the coexistence of parties and civil organizations. In his research, civil organizations are ascribed a considerably larger role than in the studies of the authors mentioned above. According to Goldstone, without the activity of social movements, it is impossible to understand any aspect of modern democracy. On the basis of the work of Tilli, Goldstone points out that the most important characteristic of civil organizations is their potential for protest activity, which is perceived as a civilized practice and not as a marginal opposition activity or as something outstanding.

Goldstone notices that participants and organizers of protest actions of social movements very often also appear to be active workers of political parties. Sometimes

---

<sup>3</sup> Bartolini S., Mair P., “Challenges to Contemporary Political Parties,” in Larry Diamond and Richard Gunther (eds.), *Political Parties and Democracy*, Baltimore: 2001, Johns Hopkins University Press.

<sup>4</sup> Kitschelt H., “Social Movements, Political Parties, and Democratic Theory”, *The Annals of the American Academy of Political and Social Science*, 528: 13-29. 1993.

civil movements organize protest actions to show discontent with a particular state policy, and the rest of the time, they exist in parallel with political parties, providing them information, consultations, and sometimes even support in elections<sup>5</sup>. Nevertheless, it is the possibility of civil organizations to carry out protest actions (which could even be contrary to the positions of political parties) that distinguishes the “parallel and complementary” approach from the “transformative” approach, where parties and civil organizations operate coordination. The difference from the “competitive” approach consists in the following: in the “parallel and complementary” approach, parties and civil society organizations are considered equivalent actors working in the interests of democracy, while in the “competitive” approach, parties are designated as initially stronger subjects in relation to civil organizations.

To estimate the degree of correspondence of these theoretical models with European democratic practices, the author of this study conducted an interview with a member of the Swedish Social Democratic Party (*Socialdemokraterna*), more exactly the leader of its youth organization (the Swedish Social Democratic Youth League).

During the interview, the author made a number of important observations. In particular, he noticed that features of the “transformative” approach can be distinctly traced in the interactions of social-democrats with civil movements such as the Labor Union. The Swedish Social Democratic Party was founded by activists of the Labor Union in order to exercise influence on the work of the parliament (at the legislative level) and the formation of a government by the parliament. Today the Labor Union gives weighty support to social-democrats at elections: financial, personnel and organizational support. The heads of the Labor Union and the Social Democratic Party are partners and can solve problems on the basis of old contacts and common strings.

In Russia, political parties create affiliated youth movements. However, these movements are completely under the control of the party and their activity cannot be contrary to the policy of the “big brother”. On the contrary, in Sweden, party youth movements possess a certain degree of independence. In particular, the activists of the Swedish Social Democratic Youth League can publish their own newspaper, publicly announce the results of their discussions and resolutions, and even affect the composition of the list of parliamentary candidates of the party.

An important feature of the interactions between political parties and civil organizations is the presence of horizontal ties at the level of activists. Generally, local-level party members join interest clubs, such as youth clubs, women’s clubs, ecological clubs, clubs for the protection of the rights of sex-minorities, fishing clubs etc. While these clubs work under the party agenda, they also cooperate, often closely, with larger civil organizations that conduct nonpartisan activities in the same field. As a result, ordinary members of the party who have certain civil interests face a choice between the party and civil organizations when it comes to promoting realization of these interests. In this case, when there is a choice between a “political” and “civil” way of promoting interests, a party’s rank-and-file members invariably give preference to the civil way as it is more universal. This can be illustrated with an example from Sweden, where activists of the youth movements of the Green Party, the Liberal Party and the Left Party supported the actions of the so-called Party of Pirates,

---

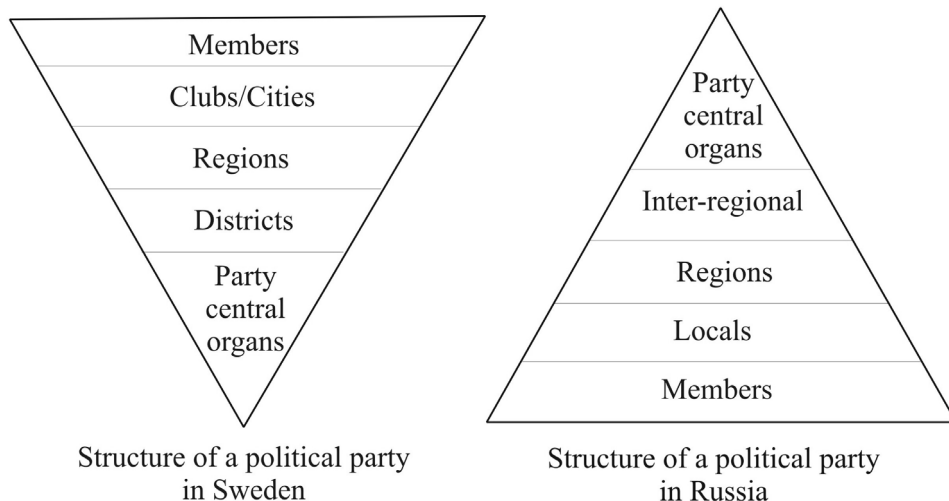
<sup>5</sup> Goldstone J, “Introduction: Bridging Institutionalized and Noninstitutionalized Politics,” in Jack A. Goldstone (ed.) *States, Parties, and Social Movements*, Cambridge: 2003, Cambridge University Press.

which opposed police attacks on the Swedish bit-torrent tracker “The Pirate Bay”<sup>6</sup>. In Russia, a similar demarche of party members would be considered to inflict “political damage” on the party and lead to the expulsion of the individuals in question from the party (see the discussion of the case of I. Jashin from the party "Yabloko" below).

An essential distinction between political parties in Russia and Sweden concerns the procedures for establishing a new party. In Sweden, it is easy to create a party. According to the interviewed member of the Swedish Social Democratic Party, there can be as many parties as there are citizens in the country. In Russia, the situation is different. A number of requirements in place make it extremely complicated for an organization to obtain the status of a political party (a requirement of a minimum of 45,000 party members; and a requirement that the party have regional branches involving at least 450 persons in 42 constituent territories of the Russian Federation). As a result, it is virtually impossible for Russian citizens to register a new party on their own initiative, without the support of an “administrative resource”.

In addition, while the threshold for parties to gain representation in parliament is 4% in Sweden, it is 7% in Russia. In both countries, there are a number of encouragements for parties that do not pass the threshold but still manage to collect a significant number of votes. In Russia, they consist of the following: a party that has gained 5-6% of the votes receives one deputy mandate, and a party that has gained 6-7% is allocated two deputy mandates. Other parties do not receive anything. In Sweden, there are much more substantial encouragements for smaller parties. Parties that gain 3-4% of the votes receive several mandates, and all parties that have gained more than 2.5% of the votes get state financial support for campaigning for the following elections. Parties that have received more than 1% of votes obtain compensation for manufacturing ballots.

As a whole, the basic distinctions between a “typical” Russian and Swedish party can be illustrated by the following picture (elaborated during the interview with the member of the Swedish Social Democratic Party):



---

<sup>6</sup> [http://en.wikipedia.org/wiki/Pirate\\_Party\\_\(Sweden\)](http://en.wikipedia.org/wiki/Pirate_Party_(Sweden))

The party priorities become obvious: in Sweden, they are the interests of the rank-and-file members, and in Russia, the interests of the party management.

Let us examine more closely the status of political parties in Russia to understand what prevents them from becoming high-grade democratic institutions.

Political scientists who study Russian parties are inclined to assess the conditions of the party system and the role of parties in the political process critically. For example, in the research of the party system in modern Russia during the period 2000-2008 that was undertaken by A. Kynev, V. Gelman and L.Gudkov<sup>7</sup>, one can find conclusions about active state policy directed at controlled party building, which attract attention. During the process of changing the legislative basis of party activity, democratic principles have been considerably ignored.

In A.N. Kulik's report on the 5<sup>th</sup> Russian Congress of Political Science, the following thesis is included: as a result of the legislative changes adopted in 2000-2008, a situation has been created whereby parties are able to ensure their existence only in the case of full loyalty to the executive power. Attempts of the second President of Russia to turn parties into "subjects of transformation" remain only a dream<sup>8</sup>.

Further, we will consider a table of legislative changes influencing the status and activity of political parties.

№	Criteria	V.V. Putin (2000-2008)	D.A. Medvedev (2008-2009)	Characteristics of changes
1	Threshold to enter parliament	Increase of the barrier from 5 to 7%	The 7% barrier retained. Granting several places in parliament to parties which gained 5-7% of the votes	The toughening of the requirements for parties to enter the parliament that were made during Putin's presidency has not been cancelled by Medvedev and only marginally weakened to demonstrate "liberalization" of the party legislation
2	Creating pre-election party coalition	Imposition of ban	—	No counter-measure to the tightening of the electoral system
3	Participation of regional parties in the federal elections	Imposition of a ban	—	No counter-measure to the tightening of the electoral system

<sup>7</sup> Kynev A.V. Politicheskiye partii v rossiyskikh regionah: vzglyad cherez prizmu regionalnoy izbratelnoy reformy // Politicheskie issledovania. 2006. №6; Gelman V. Transformaciya rossiyskoy partiinoy sistemi // <http://www.polit.ru/lectures/2008/03/14/gelman.html>; Gudkov L.D. Itogi putinskogo pravleniya // Vestnik obshchestvennogo mneniya. 2007. №5.

<sup>8</sup> Kylik A.N. Stanovlenie rossijskoj mnogopartijnosti: Ot El'cina do Putina, chto dal'she? // Tezisy dokladov. V Vserossijskij kongress politologov "Izmeneniya v politike i politika izmenenij: Strategii, instituty, akty". Moskva, 20-22 nojabrja 2009 g. — M.: Rossijskaja asociacija politicheskoj nauki, 2009. — 544 s.

4	Representation of federal parties in regions	Establishment of requirement that, in more than half of the constituencies of the Russian Federation, regional branches of party involve no less than 450 people	—	No counter-measure to the tightening of the electoral system
5	The right to nominate a candidate	Only political parties	Political parties; civil organization in municipal elections	The tightening of this right made during Putin's presidency has not been essentially changed by Medvedev. Deputies of local decision-making bodies possess insignificant power that cannot affect the occurrence of political competition
6	Governors' elections	Cancellation of direct elections. A candidate is proposed by the President and approved by the regional parliament	The cancellation of direct elections is preserved. A candidate is proposed by the party that has the majority in the local parliament and approved by the President	Medvedev's legislative innovation is unsymmetrical to the cancellation of governor elections. This measure has not had any significant influence on the status of the party, as the regional branches of parties depend on federal party level, which in their turn depend on federal executive branch of power

As it is clear from the table, on three positions out of six, no counter-measures promoting the formation of parties as independent political actors were implemented by President D. Medvedev. On the other points, a few decorative measures were initiated, which do not render essential influence on the alignment of political forces, but demonstrate to the population care and support of the activities of parties by the government.

It is possible to make the assumption that in Russian realities a political party is an institution, by virtue of which the real carriers of power legitimize the right to dominate in society. Political parties turn out to be in a disadvantageous position. On the one hand, they are compelled to carry out the “government contract” on society “consolidation” through translation of the state ideology. On the other hand, they are compelled to make a number of efforts to demonstrate their utility to society, on which the electoral success of parties depends.

Let us assume that political parties are really only the tools of the executive branch of power. Then their interaction with civil organizations can be considered interaction of the power and civil organizations. In this case, all variations of their interaction are fully described by the model of an “eight-step ladder of interaction” offered by S. Arnstajn<sup>9</sup>. According to this model, contacts between the power

<sup>9</sup> Arnstein S. A, “Ladder of citizen participation,” *Journal of the Royal Town Planning Institute*, April 1971.

(political parties) and NGOs can be described by eight levels: 1) manipulation, 2) therapy, 3) information, 4) consultation, 5) coaxing, 6) partnership, 7) delegation of authority, and 8) civil control.

The given approach has been adapted to Russian realities by A. Sungurov. On the basis of research made by the Strategy Center (St. Petersburg), he has developed a classification of models of interaction between civil organizations and parties. He includes the following models:

1) The “gardener model”, when the power (parties) supports NGOs, however, without dictating terms, but on the contrary, encouraging their efforts to uphold the interests of civil society.

2) The “architect model”, embodied when civil society organizations form public policy, participate in reforming concrete institutions of the government and supervise the activity of officials.

3) The “paternalistic model” is based on the domination of the authorities. In exchange for political loyalty, the authorities (including parties) provide certain support for the activity of “obedient” organizations, e.g. by granting free premises or preferential rent, by direct financing, and by rendering benefits through the distribution of grants and in other ways.

4) The “transmission chain” model describes a situation when the authorities (political parties) perceive NGOs as mechanism of transmission between the government and ordinary inhabitants of the country. Independence of civil organizations is impossible.

5) The “ignorance model” describes a situation where the authorities do not pay attention to the majority of the civil organizations, i.e. they do not disturb, but also do not help their activity. The authorities and the civil organizations operate separately.

6) The “struggle against the opponent” model applies when the authorities try to complicate the functioning of NGOs or even close them. Also, financing of NGOs through international funds is treated as transforming such organization into “agents of foreign influence”.

7) The “civil disobedience” model realizes in conditions of infringement of civil human rights and political freedoms by the authorities. A number of organizations select tactics of civil disobedience, such as participation in unapproved meetings, pickets, other protest actions<sup>10</sup>.

Sungurov’s colleague from the Strategy Center in St. Petersburg, M.B. Gorniy, has considerably reduced the number of model variants. According to Gorniy, the first five steps of Arnshtajn’s ladder correspond to a “patron-client” model of interaction, which is characterized by three types of functions of civil organizations in relation to the power. The first type is the total absence of control of the authorities by civil society. The second one is decorative representation of public organizations in authorities (directing bodies of parties). Such interaction is necessary for the authorities to legitimize their own decisions. At least, the third form of contact is performance of commissions and requirements of the authorities by civil

---

<sup>10</sup> Sungurov A. Ju. Modeli vzaimodejstvija organov gosudarstvennoj vlasti i struktur grazhdanskogo obshchestva: rossijskij opyt // <http://www.relga.ru/Environ/WebObjects/tgu-www.woa/wa/Main?textid=2204&level1=main&level2=articles>

organizations, with minimum levels of self-sufficiency and independence from the authorities. In Gorniy's scheme, the seventh and eighth step of Arnshajtjn's ladder correspond to a model of "intersectoral social partnership". He underlines that the given model of interaction is extremely rarely found in Russia. Both a well-structured and strong third sector and public support with trust of the population are necessary for its implementation<sup>11</sup>.

The author of this article believes that the given classifications are quite applicable for describing the interactions of political parties and civil organizations in cases when parties possess a necessary range of resources: the possibility to operate independently of the presidential administration, sufficient financial assets and qualified personnel. It is obvious that the Russian reality does not correspond with these requirements. First, there are parties-outsiders, which are not represented in the State Duma and have been deprived of certain state guarantees (such as state financing and media coverage of their activities). Second, there are three parties that are represented in the parliament but do not have any real decision-making power. Finally, there is a so-called "party in power" or "party of the parliamentary majority", which, on the one hand, dominates the party system of Russia and possesses constitutional majority in the Russian parliament and, on the other hand, is an appendage of the executive power and reluctant to exploit whatever powers it is granted by the higher state structures.

Therefore, in order to exercise their functions, parties in today's Russia have to use their own resources. That's why their main objective is to achieve maximum effect in media through minimal investments, which induces them to enter into interactions with other actors in the public sphere that possess the necessary resources. Generally, public organizations that have similar problems become partners of political parties. In this case, the degree of similarity of problems and challenges broadly defines the nature of interaction. As an example of cooperation, we can examine the teamwork of the right-wing Yabloko Party and the human rights organization "Associations of Karelian Greens" during the campaign for the protection of Vasily Popov, the chairman of the city council of Petrozavodsk. Vasily Popov faced charges of defaming the governor of Karelia and blackmailing the speaker of the republican parliament (Andrey Mazurovsky) during the regional election campaign in 2006. A campaign to collect signatures in support of Popov was organized on the initiative of the Yabloko Party and the Karelian regional public organization "Associations of Karelian Greens".

Another example of cooperation is a number of joint protest actions against the decision of the government to increase import duties on foreign cars in Vladivostok and other cities of Russia. These events illustrated well the possibility for cooperation between a human rights organization (the Partnership of the initiatives of citizens of Russia, "TIGER") and a left-wing party (the Communist Party of the Russian Federation).

---

<sup>11</sup> Gorniy M.B. *Koncepcija vzaimodejstvija ispolnitel'noj vlasti i obvestvennyh organizacij v Sankt-Peterburge: pervye shagi po realizacii // Publichnaja politika — 2007. Sbornik statej / Pod red. M.B. Gornogo i A.Ju. Sungurova. SPb: 2008. Norma.*

The dividends from partnership between NGOs and opposition parties are obvious. The first get political support for the articulation of public problems and the possibility of vocalizing them to a wide range of citizens. As for parties, they receive the possibility to position themselves and to attract additional voters with minimal expenses.

However, not only oppositional parties interact with civil organizations, so do also pro-government political parties. Civil society resources were actively converted into political resources by the Unified Russia party practically from the beginning of its creation. Right after the party's formation, its main body of supporters was joined by the heads of several large public associations. Besides, cooperation agreements between party and public organizations are regularly signed. Nevertheless, the interaction is often limited by ceremonial sessions involving representatives of the party and public association members, which do not receive much coverage in mass-media because of their mediocrity and the absence of any tangible results. It is difficult to call this kind of cooperation, which is expressed through the signing of "friendship and cooperation" agreements or round table sessions without real results, effective.

As an example, at the beginning of 2009, a trade union of office workers created in the context of mass reductions of staff signed a cooperation agreement with Unified Russia. Nevertheless, no more substantial joint actions have been conducted by Unified Russia and this trade union, despite the thorny question of reduction of "white collars" on the union's agenda.

Political clubs created in 2008 (the Center of socially-conservative policy, the State-patriotic club and the Club of "4 November") were intended to reanimate interactions with civil society (public associations, trade unions and other public players). According to the plan, they were to become a platform for the expression of various opinions of representatives of the authorities, public organizations, interest groups and public opinion leaders. In the beginning, this work was really interesting for representatives of civil society. However, already after a year, meetings of the political clubs began being conducted much less often, and civil activists have lost trust in this "innovation" as it has not produced any practical results.

As a positive example of cooperation between Unified Russia and an NGO, it is worth recollecting the "Healthy hearts" campaign that is implemented in a number of Russian regions on the initiative of the All-Russia Scientific Society of Cardiologists. Within the framework of this project, seminar trainings for doctors from regional medical institutions are carried out. It also involves street campaigns with the opportunity for all to receive consultation regarding cardiovascular health issues and to check the cholesterol level in their blood.

Another example of constructive interaction is the project "Protection of children", which is conducted by Unified Russia and the inter-regional human rights organization Resistance. Within this project, a range of training seminars are carried out at the regional level on the issue of juvenile judiciary connected with the protection of children from pedophilia.

Due to internal bureaucratic delays within United Russia, the party's aspiration to invest as little as possible into joint projects with civil organizations, and attempts by it to lower its responsibility for the realization of such projects, representatives of civil organizations often lose the motivation to co-operate with the



party already after the first experience of interaction. Nevertheless, according to monitoring conducted by the Laboratory of a civil society research of the State University — The Higher School of Economics, NGOs often cooperate with United Russia (74 %), with the most widespread form of interaction being the conduct of joint campaigns (52 %) <sup>12</sup>.

Still, observation of the political process in modern Russia shows us that political parties and civil organizations do not always come to terms concerning interaction based on similar purposes, rhetoric or images. On the contrary, self-identification of the public actor sometimes becomes an obstacle for conducting joint activities. For example, after carrying out loud protest actions together with the Communist Party in the winter of 2009, the TIGER movement (which was mentioned before) adopted an isolation policy and declared independence from all. When messages and comments that the movement is developing into the “young guards” of the Communist Party began to appear in mass-media, TIGER initiated a procedure for official registration (which will allow it to maintain its status as a public organization independent from political parties) <sup>13</sup>. The management of TIGER has taken measures to ensure a certain “cooling” of relations with the communists out of fear that their own position will be jeopardized under pressure from the Communist Party.

There are also some examples of political parties and civil organizations that are not able to engage in constructive interaction even if they share a certain ideological identity. Instead they start to compete in the public field. An example is when the leader of the youth movement of Yabloko, Ilya Yashin, was expelled from the party for participating in the creation of the new Solidarity movement on the grounds that his actions inflicted “political damage” on the party. <sup>14</sup> In fact this conflict situation arose because the reputation of Solidarity and its claims on participation in politics were unacceptable for Yabloko.

## Conclusions

Summing up, it can be noted that interaction between political parties and civil organizations were much more often the object of research of political scientists in the West than in Russia. There are various points of view concerning the role of political parties and civil organizations in cooperation. Some authors are of the opinion that civil organizations do not represent an alternative to political parties. Other researchers note that political parties are often the “next step” in the evolution of civil organizations and therefore they need to be considered partners. A third group of political scientists believe that civil organizations have considerable influence on public policy and that this impact is not weaker than that of parties. In their view, it is not possible to ignore the role of mass civil movements in democracy development.

In Russia, the existing number of studies of interaction of parties and civil organizations is much lower. This is probably because a majority of political scientists agree that parties do not possess the status of independent public actors in Russia and more likely to carry out the function of “appendages” of the executive. Therefore

---

<sup>12</sup> Mersijanova I.V. *Negosudarstvennye nekommercheskie organizacii: institucional'naja sreda i effektivnost' dejatel'nosti* / I.V. Mersijanova, L.I. Jakobson. M.: Izd.dom GU VShE, 2007.

<sup>13</sup> *Dvizhenie avtomobilistov “TIGR” namereno zaregistrovat'sja* // <http://deita.ru/?news,,,125281>

<sup>14</sup> *Ilya Yashin iskljuchen iz partii “Yabloko”* // <http://www.mosyabloko.ru/archives/1629>

theoretical models of interaction have mostly been constructed on the axis between “the power” and the non-commercial sector, where parties as subjects are absent.

A comparative analysis of the practice of civil institutes functioning in Sweden and Russia allows us to conclude that parties possess considerable autonomy from the executive branch of power in Europe. Moreover, while parties form the executive power in Europe, the situation is the opposite in Russia, i.e. the power forms parties. In the Russian party legislation, serious restrictions on the activity of parties, as well as considerable barriers to creation of new parties are established. In Sweden, the party legislation is much more focused on encouraging party activity, e.g. through measures to support small parties through the allocation of places in parliament and compensation of selective expenses. The possibility to create a new party is practically not limited.

The characteristics of the civil sector in Russia and Sweden also differ considerably. In Russia, this sector is strongly atomized. There are several large unconnected NGOs at the federal level, which have made a good showing. There are also small human rights movements of “narrow specialization”, which all operate separately from each other. Clots of civil activity are isolated, and even general issues do not become the basis for the creation of nationwide civil movements. In Sweden, civil organizations have a wide network of horizontal communications. Citizens are generally members of several social movements and participate in the activities of political parties and their clubs at the same time as they belong to civil organizations and defend their positions. The non-governmental sector consists of several levels: on the one hand, there are large social movements (ecological, remedial, sports and others) and, on the other hand, there are clubs formed on the basis of common interests (ecology, protection of the rights of separate categories of citizens, sports and so on) at the lowest level in the structure of parties. Thus, a simple citizen with certain interests can advance these interests both through party bodies and through large public organizations, with which local interest clubs of parties cooperate.

As for the model of interaction between civil organizations and political parties, there are both common features and appreciable differences between Sweden and Russia. For example, in both countries, parties create affiliated youth public organizations. However, while the purpose of creating such “youth wings” in Russia is to gain electoral success among youth, the major objectives in Sweden are to renew policies and involve young people in politics.

Another important common feature in Russia and Sweden is the presence of a certain degree of “corporative” and friendly relations between party leaders and leaders of civil organizations. This is due to the fact that these leaders cooperated, shared teamwork experience and gained common values in the course of their previous activities and career development. At the same time, there is a difference between the two countries. In Russia, the leaders of various organizations such as parties, public movements and public associations have created private “trade unions of leaders” and prioritize the interests of these trade unions above those of the organizations which they head. In Sweden, the interests of rank-and-file members of a party or an organization invariably remain the key priority.

Finally, one more very important conclusion can be made on the basis of the comparison of the models of interaction of civil organizations and political parties in Sweden and Russia: political parties in Sweden can cooperate both with ideologically

close organizations and with opponents, with the motive of cooperation being to solve socially significant problems. Political parties in Russia are very protective of their image and rigidly oppose any attempts of party members to cooperate with other political forces and civil organizations with different ideological orientation. It is obvious that it is not the most successful strategy of interaction. It excludes the possibility of establishing a wide network of communications based on the aspiration of all political actors to solve important public problems.

In order to construct a civil society that is capable of protecting the rights of citizens and limiting the absolute power of the state, mutual understanding by parties and NGOs with a mandate to represent civil interests is necessary. The objective of transforming the interests of citizens into an integral part of state policies should form the basis for interaction between political parties and civil organizations.

---

*Ramon van Bruchem*  
**No Democracy:**  
***Why the Russian Party System Failed***

## Introduction

After the fall of the Soviet Union, Yeltsin came to power and a time of reforms began. The people of Russia were hopeful that a new era of democracy, economic growth and freedom would begin. Indeed, during Yeltsin's rule, democratic reforms began. Western institutions and ideas were adopted, including participatory elections, an office of the president, and "a constitution influenced by pre-revolutionary Russian political practice" (Cohen, 2000: p. 35). Yeltsin also "liberated prices, and launched a massive privatization [program]" (Cohen, 2000: p. 36), which in fact established a liberal market. However, as with any reforms, there was a lot of resistance. In 1990, the first elected parliament (then still called the Supreme Soviet) still consisted of many conservative representatives. To be able to move forward, Yeltsin ruled by decree, which enabled him to bypass the parliament. Thus two systems of law appeared. This created tension between the parliament — whose members thought they were the legitimate power based on the Brezhnev Constitution — and the president — who made the same claim based on election results. These two actors tried to block each other's moves and, as a result, an impasse was reached. To get out of the impasse, in 1993, a new constitution was adopted after a referendum. This constitution replaced the Supreme Soviet with the State Duma and, at the same time, granted more power to the president (Gel'man, 2005).

After the dispute was settled, Yeltsin was able to implement a series of new laws on, for example, economics, civil law, criminal law and civil society. During the period 1994-1996, a lot of new opportunities were created for people. We should not forget, however, that during this period of change and privatization, Yeltsin allowed "the vast and obsolete Russian industrial base to be abused and corrupted by insiders", allowed an "unprecedented deterioration in Russia's internal security and law enforcement" to take place and was unable "to construct even a minimal social safety net" (Cohen, 2000: p. 38-39). So when Putin came to power, a number of challenges lay ahead of him, including strengthening civil society, improving the legal system, enforcing laws, and creating a more democratic political process, in which the president is a less powerful actor and where similar checks and balances exist as in mature democratic countries.

So where is Russia today? What has Putin done to change the political system? We can distinguish several accomplishments of Putin: "institutional stability, high growth rate and state assertiveness" — which made him a very popular president — and "recentralization of power, stifling of electronic media and obliteration of opposition parties" (Kumar, 2008: p. 89). As a result, when one

speaks of political power, it seems that “[p]ower remains monolithic and focused at the top of the executive branch of government” (Shevtsova, 2007: p. 892). And “[p]ersonal loyalties, rather than institutionalized relationships, sometimes seem to be the key to Russian politics.” (Oversloot & Verheul, 2006: p. 398) This allows observers to conclude that the progress on the evolution of a multi-party system and a competitive electoral process, as well as on the strengthening of the federation, human rights and civil society “has been modest at best” (Kumar, 2008: p. 89). This is the case although Putin, when he was president, declared that he wanted to strengthen political parties so that they can act as mediators between the state and civil society (Oversloot & Verheul, 2006). The question is: what happened? Why is there a lack of opposition in Russian politics after a period of democratic changes and hope among the people? This is exactly what will be discussed in this paper. We will focus on three elements, which are interrelated: actions by the Russian ruling elite<sup>1</sup> (especially how they influenced the institutional and legal framework), actions by opposition parties, and the role of the Russian people.

Before we can explain why the Russian party system has failed, we have to prove that it indeed has failed. In order to do this, in the second section, we will define what a functioning party system entails. This will be illustrated by the case of the Netherlands. In the third section, actions of the ruling elite in Russia will be discussed. We will focus on what institutional changes these actions have brought about and ways employed by the elite to maintain power. These matters are important to study because they determine the political space for (potential) political parties. After this, actions of opposition parties will be discussed. We will begin by describing the political landscape in Russia and thereafter we will focus on the functioning of the “true opposition parties” (as opposed to “parties of power”), which are Yabloko and KPRF (the Communist Party of Russia). The point of interest is how these two parties use their political space because this is a key element in determining their viability. For the sake of keeping the article clear, we shall only pay attention to actions at the national level. The last element, which will be discussed in the fifth section, is the role of the Russian people. This is important because people’s opinion on (opposition) parties shapes the political climate in which parties act and their voting behavior influences the chances for opposition parties to survive in the political arena. In the sixth section, we will relate our findings to the criteria discussed in section two, in order to demonstrate that the multi-party system in Russia has indeed failed. The seventh section will deal with the relatedness of the three previously discussed elements in order to show the dynamics of Russian politics. The paper will end by answering the question of why the multiple-party system in Russia has failed so far and with some remarks on the future of political opposition parties in Russia.

---

<sup>1</sup> The word “elite” should be understood as Gel’man (2005: p. 229) describes it: “An ‘elite’ is broadly understood here as a set of actors who could affect politically meaningful decisions.”

## 1. A Functioning Party System — the Case of the Netherlands

In this section, we will start by presenting a theoretical model for defining and understanding party systems. Secondly, we will apply this model to the case of the Netherlands.

### *1.1. Defining and Understanding Party Systems*

As scholars have noticed, when we are studying a multi-party system, it is not enough just to look at the number of parties that are present (for example: Bardi & Mair, 2008; Dalton, 2008). To determine whether we may speak of a party system, Bardi & Mair (2008) propose that we must look at three aspects. The first question they ask is if relations between parties are present or if parties function as autonomous parts. The second aspect is whether there is only one arena in which parties interact or whether there are several arenas. The last aspect is whether the party system is entwined with other subsystems or whether it is a distinct area. With this systemic approach, it is possible to identify systemic opportunities and constraints; parties are not entirely free to move since the system constrains the space they have, for example, through interactions with other parties.

Because of the distinction between the presence of multiple parties and the presence of a party system, it is possible to have a plurality of parties without having a party system. What makes a party system is the interaction between parties; they have to compete, they have to work together, they have to oppose, et cetera. But we should not forget that parties interact in different arenas. Bardi and Mair distinguish the electoral arena, the parliamentary arena and the governmental arena. It is possible that we can speak of a party system in one of these arenas, but not in the others. The ability to sustain more than one party system, “even of different types, may be related to three other important divisions within the polity itself” (Badri & Mair, 2008: p. 155). The first division the authors distinguish is the vertical division. We can speak of a vertical division when a society is not just divided on the left-right continuum but there is at least one more cleavage, which can be based on language, religion, ethnicity or something alike. The existence of a vertical division is most visible “in politics characterized by the pillarization and segmentation of electorates” (Bardi & Mair, 2008: p. 156). In such a situation, every pillar or segment has its own party.

The second division is the horizontal division. This division is based on the existence of multiple levels of government (for example: federal level, state level and municipal level). When the national level of government is dominant, competition on lower levels will probably look the same as on the national level. Horizontal divisions may differ at lower levels of government, especially when lower levels of government are weakly linked to national government. The last division the authors distinguish is the functional division. This has to do with “the existence, even at the same level of government, of different competitive arenas” (Bardi & Mair, 2008: p. 157). The most important arenas are the electoral and parliamentary arenas, to which we already have referred. In the electoral arena, parties have to take positions to gain votes. This they do in relation to other parties, which also have adopted a strategy and decided on a position. Activities in the parliamentary arena are about actually influencing decision making and maintaining positions. This can be done by opposing, working together, et

cetera, with other parties. The best strategy will be dependent on the position of the party in the parliamentary arena — it may be in government, it may be large opposition party or it may be a small opposition party.

The last arena is the governmental arena. The function of parties in the governmental arena is, of course, to govern. We speak of a governmental party system when there are more or less stable relationships between parties in the governmental arena. While the horizontal and even the vertical division may be absent in some countries, the functional division is always present. It is “potentially relevant to all systems, at least theoretically, and it is in this regard that an emphasis on the plurality of party interactions would seem most appropriate” (Bardi & Mair, 2008: p. 159).

Notice that Bardi and Mair make a number of assumptions. First of all, they assume that parties are independent in setting their goals. Parties will of course be limited, for example, by limited political space (for example, if one party has taken a certain position, another party is not or hardly able to occupy that position and still be visible to the electorate) but within the available space, they can choose where to position themselves independently of other actors. A second assumption the authors make is that a level playing field exists in all arenas. In the electoral arena, this means for example that all competitors have equal access to resources to inform the electorate about their program, actions, et cetera, which again requires that free media exist. The existence of free media is not only necessary for parties to convey their message, but also for the electorate to be able to make an informed choice. In the parliamentary arena, a level playing field means for example that parties have the chance to speak out, present alternatives and be heard and that they are able to form relations with other parties. A third assumption the authors make is that parties ideologically differ in a way so that they have something to compete and bargain about and so that they can find other parties that share more or less the same ideology in order to form a bloc against other parties and so forth. This has to be added to the framework since it is essential to the quality of a party system (Dalton, 2008). And last, but not least, the authors assume that the “rules of the game” (for example: legal rules) ensure that all parties are able to enter the parliament, have equal chances to enter the government, et cetera. To ensure a more or less stable environment where parties can produce and reproduce relations, these rules should be adhered by all parties and not be contested all the time. In short, they do not account for power-differences. When adding these aspects to the party system, it gets substance instead of only form.

### ***1.2. The Party System in the Netherlands***

Until approximately the end of the 1960s, one could find a vertical division in the Netherlands. There were three main pillars in politics: Christians, Labour representatives and Liberals. They all had their own electorate and competition hardly existed in the electoral arena. In the parliamentary arena and the governmental arena, competition existed. The Netherlands has three main governmental levels: national, province and municipality. The national level is dominant and lower-level elections are seen as a representation of what happens in national level politics. This is also reflected in parties working together in lower level government. The Netherlands is a parliamentary democracy (a constitutional monarchy, but in reality the king or queen

does not have much political influence), in which the people in the national government are put forward by the parties who together have a majority in parliament.

Since the depillarization, the disappearance of a vertical division in the Dutch society, the political system has become more open. This is for example reflected in the high percentage of floating voters, which on average is 30% (although it usually drops to 15% just before elections), and in the increasing number of parliamentary seats that has changed from one party to another after elections (the number rose from 8 in 1989 to 46 in 2002, with most seats lost to ideological competitors) (Deschouwer & Lucardi, 2003: p. 136). What are the reasons for this growing volatility in the electorate? As mentioned, pillarization provided a social anchor and, thus, people voted for the party that represented their segment of society. With depillarization, secularization and individualization, people lost their social anchor and this hasn't been replaced by a substitute. However, as Mair (2008) suggest, we also need to look at the nature of the Dutch party system to explain this development. The Dutch party system is characterized by its open structure.<sup>2</sup> This means that it is not clear to voters which coalitions of parties could be in government, that it is easy for different parties or new parties to gain access to executive office, and that "there is little or no tradition of recurring alliance patterns that might discourage innovative coalition formation" (Mair, 2008: p. 43). Elections are not about possible governments, but about alternate parties.

In terms of the dimensions that determine whether we can speak of a party system, we can note that competition has become fiercer in the electoral arena since the disappearance of the vertical dimension. All parties are potential competitors and only ideological differences on the left-right continuum decrease competition. People perceive choice in the sense that they clearly see that there are left-right differences between parties (Dalton, 2008: p. 907). These observations lead us to the conclusion that, in the electoral arena, there is definitely a party system in the Netherlands.

In the parliamentary arena, the question is whether relations between parties are produced and reproduced. When we look at past election results, we see that three parties have always been represented in parliament since 1982: CDA (Christian Democrats), PvdA (Labour) and VVD (liberals). The election of D66 (Democrats 66), GroenLinks (green party), GPV/RPF/SGP (conservative Christians — now differently organized, but that does not matter here) and SP (socialist party) proves that "new parties sometimes are able to find a niche in the party system" (Deschouwer & Lucardi, 2003: p. 137 — my translation).<sup>3</sup> Only in the extraordinary elections in 2002, other parties than those mentioned gained a total of 19,3 percent of the votes, while in previous elections this figure had never been above 8,7 percent (Deschouwer & Lucardi, 2003: p. 138). This means that the parties mentioned on several occasions have been in parliament together, interacted, taken conflicting positions and formed alliances based on relevant issues. What we witness is a convergence towards the middle of the political spectrum in the parliament, which reinforces the interactions between parties. In this respect, we say that there is a parliamentary party system in the Netherlands.

---

<sup>2</sup> It has always been open, but earlier it was counterbalanced by social cleavages.

<sup>3</sup> Original quote: "nieuwelingen soms wel een niche in het partijstelsel kunnen vinden."



When it comes to the governmental arena, we see a mixed picture. There has never been a wholesale turnover of government in the Netherlands. Mostly, “one or more parties remain in office while one or more parties leave, to be replaced by an alternative or alternatives” (Mair, 2008: p. 243). This seems to indicate that parties are used to govern together and, thus, have had a long time to form stable relationships. However, when we look at the situation in more detail, we get a different picture. Relatively many new parties have been able to access government, which suggests that “new parties with some reasonable expectation of electoral success can more plausibly compete for a place in government in the Netherlands than in most other West European polities” (Mair, 2008: p. 246). This provides incentives to establish new parties. Another feature that differentiates the Netherlands from other systems is that many government-compositions have been innovative in the sense that a particular *combination of parties* never has governed together before (individual parties may have been in government before and often the same coalition core has returned) and still has been able to stay in office for a relatively long period of time (ibid.). So the governmental arena is open and accessible. At the same time, Mair argues that this prevents the development of stable relations and contributes to a lack of structure since voters do not know what government to expect.

Mair (2008: p. 251) concludes that there is a “lack of structure in the patterns of party competition and hence in the party system as such.” I could not disagree with him more. As we have seen, there is competition in the electoral arena and stable relations have developed in the parliamentary arena (especially since the Dutch system is based on consensus and the ruling government tends to seek support also from opposition parties when facing difficult decisions). In the governmental arena, changes in the composition of the government have been frequent, but the core of the government has often remained unchanged.

Second, the existence of a party system is not solely determined by the existence or absence of these kinds of relations. Institutions play a major role. Fair competition in the electoral arena in the Netherlands is, for example, ensured by debates between party leaders on national television and the launch of websites where people can determine which party best corresponds to their priorities prior to major elections (national and European).<sup>4</sup>

Third, the institutions of the political process have never been questioned, not even in times of great electoral volatility. In other words, the rules of the game are accepted. After elections, the potential coalition partners negotiate on different policy issues to make sure that the policy of the new government gets the widest possible support. Parties and people believe in the freedom of the press to monitor the political process and in media freedom as a means for all parties to reach out to the electorate and there is a firm belief that elections are free and should be free. These institutions create the stability of the party system in the Netherlands.

---

<sup>4</sup> The website consists of approximately 25 statements. People can choose between ‘agree’, ‘neutral’ and ‘don’t agree’. Based on the answers of the respondent and the positions of the parties concerning these topics, the respondent gets an indication which party fits him or her best (it shows all parties ranked from ‘fits best’ to ‘fits worst’).

## 2. Actions by the Russian Elite

Now we return to Russian politics. When looking at the actions of the Russian elite, we should be careful to distinguish between different regimes since every regime rules in a different way. To take this into account, we will first look briefly at how Yeltsin ruled Russia during his presidency. After that we will take a look at what happened during Putin's time as president. Since Medvedev has been president for only a relatively short period of time, in which no significant practical changes have yet occurred, we will not focus on his presidency.

### ***2.1 A Short Comment on Yeltsin's Presidency and the Constitution of 1993***

During Yeltsin's period as president, a number of democratic institutions from the West were introduced. As said before, Yeltsin adopted a new constitution in 1993. However, he did more than that: he created the office of president, introduced free elections (and accepted the results in 1993 and 1995 although they were unfavorable for him), liberated prices, started privatization and established a stock market (Cohen, 2000). In short, he introduced market economy and some sort of democratic political process. In the field of law, a number of new laws were introduced during his period (especially in the period 1994-1996): a civil code (which for example protected private property), a criminal code, a law on NGOs (which, among others, stated that people were free to protest and free to start organizations, including political parties) and a media law (which was supposed to protect free media and gave people the right to their own media). These laws strengthened civil society and this period was one of what we can call a democracy.

We should not overstate Yeltsin's accomplishments, though, because he failed in "maintaining an adequate law enforcement apparatus" and "bandits ruled the streets" (Cohen, 2000: p. 38-39). And we should not forget that he designed the current Russian Constitution, which gives the president a lot of powers. Under this constitution, the president can rule by decree and veto legislation and "to impeach the president is virtually impossible" (Kumar, 2008: p. 98). The Duma can reject the president's choice of prime minister, but at a "high price": 'blocking' three consecutive nominations results in the dissolution of the Duma and new elections (Oversloot & Verheul, 2006: p. 385). Moreover, the president can form his own government and the people he chooses do not have to be associated with a party, which undermines the role of parties (Knox, Lentini & Williams, 2006). Two additional points of critique are: while the Duma has the right to conduct enquiries, it lacks instruments to do so, and ministers are not answerable to the Duma.

Thus, the Russian Constitution does not provide incentives to form political parties that act in the interest of their electorate but nurtures "closed, compact organizations that are skilled at pressuring and bribing officials in executive branch agencies" (Fish, 2005: p. 226 — in Kumar, 2008: p. 100). As long as power is in the hands of one person, why invest in politics as a non-political actor?

In 1999 Yeltsin authorized a second war on Chechnya, which eventually became his Waterloo; he stepped down and Putin took over.

## ***2.2 Changes under Putin's Regime***

Putin did not only get the war on Chechnya as a heritage from Yeltsin, but also a “devolution of power to the extent of disintegration of Russia” (Kumar, 2008: p. 94) because Yeltsin delegated a lot of power to the regions. The regional governors did not represent the local population, but acted as power-hungry autocrats. Putin restored the rule of federal law by ruling that regional law should be in line with federal law and by appointing governors himself instead of by popular elections. These measures were simultaneously intended to make governors dependent on the president (thus not oppose him) and are “likely to further weaken the grip of parties on regional executives” (Oversloot & Verheul, 2006: p. 387). In short, Putin recentralized power to bring stability to Russia's political system. But he did more than just that. Let us take a more in-depth look at how he changed the legal framework and how he influenced the choice of the Russian people in terms of political parties and thereafter end this section with a few examples of manipulation of public opinion and elections.

### ***2.2.1 Legal Changes***

In 2004 Putin announced that the single-member-district (SMD) portion of the Duma elections<sup>5</sup> would be abolished. This was done “to expedite the party consolidation process” (Lavery, 2008: p. 363). The possible implications of this measure were both positive and negative for the development of political parties and a stable multi-party system. It meant that parties have to act in the regions and create a larger geographical base, which can strengthen them, and that they will not face competition from independent candidates. Furthermore, it meant that they will be “in control of the candidate nomination process, [and] aspirants to parliamentary seats will have to earn party endorsement” (ibid.). At the same time, this measure was potentially negative for political parties since it granted the central government more control over party competition.

Again in 2004, the law on political parties was changed. This law establishes the criteria for an organization to be legally considered a political party and the rights a political party has. To be considered a political party, an organization has to adhere to the following criteria (Verheul & Oversloot, 2006: p. 388):

- The organization should have regional chapters in at least half of the regions of Russia;
- The regional chapters should all have at least 500 members (with some exceptions);
- The organization as a whole should at least have 50.000 members;
- The organization should participate in federal, regional or local elections at least once in every five years.

When legally considered parties, organizations are required to “annually update the ministry of justice regarding their whereabouts, activities, candidate nominations, and the number of members (since the 2004 amendment, they are also required to present a list of their members)” (ibid.). New parties have to submit their program and some other documents to the ministry of justice. This is a bureaucratic

---

<sup>5</sup> “Half of the Duma-seats were elected in single-member districts” (Oversloot & Verheul, 2006: p. 387), which means that these seats could be filled by individuals who are not linked to a political party. The other half of the Duma-seats were filled on the basis of party lists.

process, but as long as the party's program is in line with the relevant legislation, no problems are to be expected. In return, the party gets access to funding and the political arena. Parties are not allowed to form party blocs, but each party has to be registered separately (Lavery, 2008: p. 363).

The revised law on parties contained three other important amendments. The first one was that the threshold for parties to gain seats in the Duma was raised from five to seven percent of the votes (ibid.). This measure was potentially harmful for democracy in the sense that it created the risk that more people will vote for a party that does not make the threshold and, as a result, these people will not be represented in the Duma. These seats will instead be distributed among the parties that made the threshold, which will lead to overrepresentation of the most powerful parties, most of them associated with the Kremlin.<sup>6</sup> On the other hand, "these features of the law may force the democratic forces to consolidate" (Knox, Lentini & Williams, 2006: p. 4). The reform "can generate spaces in which democratic politicians and agents of civil society (...) may gain representation in elected organs of state" (ibid.). The second amendment was that parliamentarians are not allowed to switch parties for the time they are chosen, while the last one was that "candidates themselves must undergo a two-stage evaluation process by the Central Election Commission" (Lavery, 2008: p. 363). As a result, people can be refused to run for a Duma-seat based on the opinion of the Central Election Commission. Thus, this measure harmed the democratic process, a basic principle of which is that everyone can run for parliament.

To conclude, although Putin may have had good intentions when implementing these legal changes, they "can be seen not as an attempt to establish a true party system, but as an attempt to aggrandize the state-linked parties (YeR [Yedinaya Rossiya, United Russia], Just Russia, LDPR [The Liberal Democratic Party of Russia]) while marginalizing the real opposition." (Lavery, 2008: p. 374)

### **2.2.2 Choice — Parties of Power**

The elite does not only influence the political landscape through legislation. A second way in which it influences the political environment is through so called "parties of power". Constructing parties of power is a way to "ensure political support in the legislative branch for the present or future head of the executive branch and their *komanda* (team)" (Oversloot & Verheul, 2006: p. 394 — emphasis in the original).

It was Yeltsin who made the first attempt to form a party of power. He did this to create support for his attempts to reform politics and the economy and to implement social changes (Knox, Lentini & Williams, 2006). Since the president was not linked to any specific party, creating a party of power was intended to make sure that the president looked like he was above all parties, while he would still have the necessary support in the Duma to execute his policies.

Yeltsin failed in his attempt, but this did not mean that Putin would not try again. In 2001, the Unity party (a nexus between Yeltsin and oligarch Berezovsky) merged with Fatherland-All Russia to form United Russia (Kumar, 2008) or YeR (Lavery, 2008). YeR was to become Putin's party of power. Before the elections in 2003, he made sure the Russian people knew that he completely supported YeR. And

---

<sup>6</sup> More on this in section 3.2.2.

he succeeded: in the 2003 Duma election, the party received 37.09 percent of the votes, making it by far the largest in the Duma.

YeR is highly dependent on Putin (and now on Medvedev, as well) to remain the dominant party since his support (in words and in providing resources) is crucial for attracting voters. To become powerful within YeR and to retain your position within the party, it is important to back the president in his decisions. This “effectively reverses the traditional relationship between party and government, in which individuals are able to gain power in the state through the intermediary of political parties” (Lavery, 2008: p. 366). As a result, this “opposition party” does not really oppose the government. This is a threat to democracy since the party does not contribute to the decision making process in a productive way and does not represent the will of broader society but represents “vested bureaucratic or other institutional interests” (Knox, Lentini & Williams, 2006: p. 5).

After YeR was formed, Putin constructed other parties of power and the like, which however are much smaller. Oversloot & Verheul (2006: p. 392-393) distinguish (i) “satellite parties”, which behave in support of the party of power, but attract voters who do not feel that the party of power represents them; (ii) “adjunct or alternative parties of power”, which share the ideology of the party of power, but have a different leadership and cadre; (iii) “favored opposition parties”, which are allowed to criticize the government and serve to channel discontent among the Russian population, but vote like the government wants them to vote when decisions are made; and (iv) “harassment- parties”, which try to sabotage real opposition parties in legal ways (for example, by using the same names on ballots as the real opposition). What all these parties have in common is that they have “much weaker programmatic commitments, because their relationship with the state insulates them from the social demands that would tend to sharpen and define ideological platforms” (Lavery, 2008: p. 366). Especially since the elections of 1999, parties without a clear ideological orientation have become dominant in Russian politics (White, 2007). A second feature the four listed types of parties have in common is that they occupy political space that would otherwise be occupied by true opposition parties, parties with programmatic commitments, parties who want to change the political system. For example, the ruling elite created the Pensioners Party after 2003 only to attract elderly voters who would otherwise vote for the Communist Party of Russia, KPRF (Lavery, 2008). Another example was the formation of Just Russia (a merger of three small parties) to attract social-democratic voters who otherwise may have voted for Yabloko. With the creation of these Kremlin-endorsed parties, it becomes hard to see where the state ends and where political parties begin.

Why would Putin go through all the trouble of creating parties of power when his power already seemed secured by legislation? Sestanovich (2007) offers a few possible explanations. It may have to do with making the party system more stable since people are offered choices. Another explanation may be that a one-party system is prone to corruption and does not provide incentives to come up with ideas to help solve the problems that Russia has. Or a more cynical explanation might be that a “pure one-party system, [people] sense, does not seem like real democracy” (Sestanovich, 2007: p. 123).

### ***2.2.3 Manipulation of Public Opinion and Elections***

The last aspect of how the Russian elite shapes the political landscape that we want to address is its use of several forms of manipulation to consolidate its power. The first way in which it uses manipulation is by controlling the media. Again, it was Yeltsin who first employed this tactic after the fall of the Soviet-Union. In the presidential election of 1996, he made sure that opponents got negative media attention or did not get any media attention at all. The country's three television stations with a nationwide audience (ORT, RTR and NTV) "gave the incumbent 53 percent of the prime-time television coverage between May 6 and July 3. This was three times the amount allocated to Zyuganov and nine times that of Yavlinsky" (White, 2007: p. 213). Zyuganov and Yavlinsky were Yeltsin's main opponents. Given the importance of television coverage in influencing public opinion, one can see that this tactic had an enormous impact on the election results. It soon became clear that Yavlinsky could not compete with the other two major candidates and he started talking about forming a bloc with Lebed from the Congress of Russian Communities (KRO) and Federov from the Workers' Self-Government Party. Yeltsin undermined this attempt by offering both Yavlinsky and Lebed a position in his future government and by making a deal with Lebed, and thus the proposed coalition between the three mentioned parties was never formed (White, 2007).

Putin probably learned from this experience the importance of controlling the media and using all necessary means to reach his goals because his campaigns have shown similarities to the 1996 presidential campaign. Let us look at the 2003 Duma election since it is important for several reasons (White, 2007: p. 210). During this election, the KPRF lost approximately 50 percent of its electorate. Second, YeR won the elections, receiving 37.09 percent of the votes. Third, the nationalist LDPR doubled in size. Last, the liberal parties Union of Right Forces (SPS) and Yabloko both did not pass the five percent threshold. The dominance of YeR was surprising since this party was "created a couple of months before the election to act as a saboteur for the ambitions of OVR, an anti-Kremlin party of power run by Moscow mayor Yuri Luzhkov" (Lavery, 2008: p. 373). How can this be explained? First of all, the state controlled the three largest television stations and "asked" them to give positive media coverage to YeR. A second tactic was cutting financial support to true opposition parties (Lavery, 2008; White, 2007). Yabloko got financial support from Gusinsky (Media-Most). This support stopped when Gusinsky was arrested for embezzlement in 2000 and subsequently Yabloko lost positive media coverage from his television station NTV. So Yabloko had to find a new major sponsor and found it in Khodorkovsky (Yukos). He was to finance the campaigns of the opposition parties Yabloko and SPS. This did not look like a problem until first Lebedev from Yukos' parent company and second Khodorkovsky himself was arrested, both on accusations of committing fraud and tax evasion in the early '90s (a large number of businessmen had committed such offences at that time but were not arrested). This had several consequences: the two opposition parties lost their financial support, antipathy against them was fueled in Russian society and their campaigning materials were confiscated. Third, while candidates had to be registered to be able to compete in the elections, several candidates were denied registration. Forth, any organization funded from the state budget was only allowed to put up campaigning materials from YeR candidates.

And last, it is likely that the elections of 2003 involved fraud. A comparison between the official elections results and a count by the KPRF, an exit poll held by the Moscow Times and the Soros Foundation and an exit poll of the Public Opinion Foundation show discrepancies. The unofficial counts indicate that Yabloko and SPS would have passed the election threshold, although they would have been small parties in the Duma (see below).

**TABLE 3. Comparison of Official Central Electoral Commission (TsIK) Count, Fair Game Alternative Count, and Exit Polls (%)**

	Yabloko	SPS	YeR
TsIK official count	4.30	4.00	37.09
KPRF/Fair Game count	5.98	5.12	33.10
<i>Moscow Times/Soros</i> exit poll	5.80	6.10	34.10
Public Opinion Foundation exit poll	5.10	4.70	36.90

*Source.* *St. Petersburg Times*, December 11, 2003.  
*Note.* SPS = Union of Right Forces; YeR = United Russia

*Source: White, D. (2007), 'Victims of a Managed Democracy? Explaining the Electoral Decline of the Yabloko Party', p. 220*

Since these tactics worked well in the 2003 elections, Putin decided to employ more or less the same tactics in the 2007 municipal elections. Yabloko was not allowed to participate in the St. Petersburg election, where it has a strong base (Lavery, 2008; White, 2007; Oversloot & Verheul, 2006), and SPS was not allowed to compete in several regions “and was probably subject to fraud in the Moscow election” (Lavery, 2008: p. 374).

### 3. Actions by Opposition Parties

Yeltsin and Putin were not members of any party during their presidencies. In theory, all parties could therefore be seen as opposition parties. As we have seen, this is not the case; parties of power and “spin-offs” play a significant role in Russian politics, but do not oppose the government. In this sense, they are not opposition parties and will thus not be analyzed in this paper. In fact, they are not parties at all. Most strategic decision making in these parties “tends to be done by ‘extraparty rulers’ (i.e. officials in the presidential administration” (Lavery, 2008: p. 366). In other words, these parties do not act like proper parties. They have power in the executive branch of government and maintain that power with the help of the legislative branch of government. They are not in the executive branch of government to represent their electorate. So we will not focus on these parties in our analysis. Instead, we will focus on what Oversloot & Verheul (2006: p. 391-392) call “genuine parties” and the Communist Party, KPRF (which is in their view an oddity, in the sense that it does not fit the other categories they describe). The first ones are cadre parties that want to bring about systematic change. Yabloko is in Oversloot & Verheul’s view the most important representative of this category. Although we will see that the behavior of Yabloko and KPRF has been far from consistent, the two parties share several

characteristics: both want a radical change in policies and the political system and “clearly moved into oppositional terrain during his [Putin’s] second term” (Lavery, 2008: p. 378).

I will start by describing how “the oddity”, the KPRF, behaved from roughly 1996 until 2004. After this, in sub-section two, I will do the same regarding Yabloko. It is inevitable to look at the interaction between Yabloko and SPS because these parties are thought to have more or less the same ideology and their interaction is one of the factors that shape the image of these parties.

### ***3.1 Actions of the KPRF***

The KPRF is a nationalist, left-wing party. Since it is the continuation of the Communist Party of the former Soviet-Union, it inherited its ideology, party structure, membership and local party branches (Oversloot & Verheul, 2006; Lavery, 2008). It is therefore able to mobilize many people in the regions.

In the early-90s, the party was quite radical because it did not want to try to attain a social-democratic state, but hold on to communist ideas. The party did not want “to work with other parties except for its rural ally, the Agrarian Party” (Lavery, 2008: p. 371). Because of this, and Yeltsin’s good campaign strategy, it did not win the 1996 presidential elections (Gel’man, 2005). After the election, the party changed its strategy: it decided to work more closely with the ruling elite. For example, its officials “delegated representatives to the government and regional administrations [and] were deeply involved in bargaining with the ruling group on both political and policy issues” (Gel’man, 2005: p. 234). Instead of trying to attract a larger electorate to change the system, the party chose to try to consolidate its position. These decisions prevented the party from taking important decisions that would really have made a difference. Not all party members were content with this strategy. The more radical members tried to gain control of the party, but party leader Zyuganov effectively dealt with this problem by forming an alliance with the moderate members of the party and thereby “silenced the opponents” (Lavery, 2008: p. 371) After this, the party-top was less willing to change the strategy. In the beginning, the new strategy of the party proved to be quite successful since it brought two gains: in the 1999 Duma elections, the Communists received more votes than in the 1995 elections and their decision to work more closely with the ruling elite lead to an agreement with Unity, together with which it had a majority in the Duma, “about sharing chairmanships of parliamentary committees and retaining the position of State Duma chairman” (Gel’man, 2005: p. 235). On the other hand, the new strategy also brought problems since the Communists lost their dominant position in the legislation process and the party’s electorate saw this as a kind of betrayal. Since non-Communists together had a majority in the Duma, the KPRF lost its influence on the decision making process and again changed its strategy into a “voice” strategy (Gel’man, 2005: p. 232), that is to say, it started opposing some bills introduced by the government.

The merger of Unity and OVR into YeR discussed above had an enormous impact on KPRF, as we shall see. However, let us first look at three major factors that resulted in the disastrous election result of KRFP in 2003, in which it lost about half its voters (White, 2007). The first reason was the strategic decision of the party to try to become closer to the ruling elite. The second is the dependency of KPRF on the state of the economy since “the party achieved its largest vote totals following the



failings of shock therapy and the 1998 economic crisis” (Lavery, 2008: p. 373). During 2000-2003, the economy was growing, mainly because of high oil prices. The third was a bad campaigning strategy. YeR became powerful after the election, was not amused by the new strategy of KPRF and pushed the Communists out of “all Duma chairs”. Only Duma Speaker Gennady Seleznev was able to keep his position, but this required that he went against the wishes of his party. As a result, he was expelled from the party ranks (Lavery, 2008). After the election, a schism appeared within the party and it lost support from its main financial sponsor. As a result of all this turmoil, the party got stuck in its strategy of keeping the status quo, of not making meaningful decisions. The government saw that KPRF was weak and created the Pensioners Party<sup>7</sup> to further cripple it.

### ***3.2 Actions of Yabloko***

#### ***3.2.1 Yabloko’s Opposition***

Yabloko appeared in 1993 as an electoral coalition. It was lead by Yavlinsky, who ruled in quite an autocratic way (Lavery, 2008: p. 368). From the start, the party “presented itself as a principal democratic opposition, and it explicitly criticized not only governmental policies but also the political regime itself” (Gel’man, 2005: p. 239). During the period of the first parliament in 1993, Yabloko was able to influence the decision making process because the parliament was fragmented, although the party only got 7.86 percent of the party list vote (Gel’man 2005; White, 2007). After this election, Yabloko decided to be visible not only at the national level, but also in the regions. Yabloko was never afraid to make meaningful decisions. Examples of such decisions are the rejections of federal budgets and prime minister candidates. This increased support for the party. On the other hand, Yabloko never sent its people to the government, which gave Yabloko the image that it would not take responsibility for the country and never really be able to change things. Yabloko realized this threat and its “leaders invested serious efforts in building up the party organization, but were inconsistent because of an internal schism” (Gel’man, 2005: p. 239). The organization was rearranged (especially in the regions) and the party attracted experienced politicians. Moreover, they expelled members “to oust party members and organizations that deviated from the Yabloko line” (Lavery, 2008: p. 368).

However, when Yabloko took the position during the second war in Chechnya that Russia should open talks with the Chechens, it lost a lot of support. Internally, there were disputes concerning this position, which it announced to the outside world. In 1999, the party lost about two thirds of its seats in the Duma and Yavlinsky lost the presidential elections in 2000. This caused a change in the party’s strategy: it went from a “voice” strategy<sup>8</sup> to an “exit” strategy, which is to say exercising opposition “in the form of doing ‘petty things’ (i.e. oppositional activities without serious challenge to the status quo)” (Gel’man, 2005: p. 232). So at this time, the party was not trying to gain resources in order to radically change the regime. This can be seen as a tactical mistake by Yabloko for two reasons: (1) they moved towards a position that already was occupied by SPS and (2) Yabloko has always been dependent on its ideology as a resource (Lavery, 2008: p. 368) and this was against its ideology.

---

<sup>7</sup> See section 3.2.2.

<sup>8</sup> See section 3.1.

The last important factor that should be mentioned is that Yabloko started to consult the Kremlin concerning electoral tactics (Gel'man, 2005). This backfired — the government saw Yabloko's weakness and took Yabloko down by arresting Khodorkovsky and thus cutting its financial resources. The party's change of strategy and the subsequent events, when the party took "for granted its limited social base, and its elitist approach to membership recruitment" (White, 2007: p. 222), lead to a huge loss in the 2003 Duma elections. The party did not get enough votes to pass the threshold. Some scholars call this "the end of an era in Russian party politics" (White, 2007: p. 210).

### **3.2.2 Yabloko and SPS**

Before moving to the interaction between Yabloko and SPS, it is necessary to look shortly at the background of SPS. SPS is a proponent of the free market and a small state. Its predecessor Russia's Choice could be seen as a party of power in 1993 and "inherited some of the resources of the former democratic movement" (Gel'man, 2005: p. 236). After some reorganizations, Russia's Choice became Democratic Russia's Choice, which could be seen as "semi-opposition" (Gel'man, 2005: p. 228). This party was not in government but wanted to be so without changing the system radically. It opposed the government only on minor issues, and supported it on major issues. This cost it popular support in the period 1993-1995; however, in 1996, it was successful during the Yeltsin campaign and regained its status as a reformist party among the ruling group. This changed again in 1998: during the economic crisis, the representatives of the party who were in government were forced to step down. In 1999, Democratic Russia's Choice merged with some small parties to become SPS. The strategy of SPS remained the same, though; for example, it "backed the Kremlin's major anti-democratic proposals" (Gel'man, 2005: p. 238). In the 1999 Duma elections, it got more votes than Yabloko, which was seen by the party as a victory. During the 2003 Duma elections, the party did not try to maximize its own vote, but tried to steal votes from Yabloko. Still it was not able to pass the election threshold. It should be noted that Yabloko used similar tactics.

What Yabloko and SPS have in common is that they were not able to pass the threshold in the 2003 Duma elections. This provided a much needed incentive to unite in order to become a stronger political actor because remaining separate actors would mean that they would both not be able to really influence the political environment. In 2005 they started to negotiate, but in the end, they failed to reach an agreement. Both these parties share a liberal ideology, but "Yabloko supports a much stronger social policy for welfare services whereas the SPS is oriented more as a party of orthodox economic liberalism" (Gel'man, 2005: p. 368). It is like uniting the PvdA (Labor) and VVD (liberals) in the Netherlands. Already in the early 90s Yabloko contrasted itself with SPS (or more accurately, the predecessor of SPS) on economic reforms. Not only do the parties differ ideologically, they also attract different electorates; Yabloko attracts academics and teachers, and SPS businessmen (ibid.). Since Yabloko is dependent on its ideology to attract voters<sup>9</sup>, it can not "just unite" with a party that has a different ideology. In the eyes of the public, the two parties may have seem 'closely related', but when we take a closer look, they are ideologically quite different.

---

<sup>9</sup> See section 3.1.1.

Moreover, the parties adopted different strategies; Yabloko adopted a “voice” strategy and SPS a “loyalty” strategy, which is a strategy of “bargaining with the ruling group and consequent cooptation” (Gel’man, 2005: p. 232).

There is, however, more to the story than these principal differences. In the early 90s, Yeltsin decided to choose Gaidar (member of the predecessor of SPS) over Yavlinsky (Yabloko), and since they strongly disagreed on economic reforms, personal animosity arose. This became worse in 1999, when Chubais (SPS) “essentially accused Yavlinsky and Yabloko of treason in a November 1999 televised debate for not supporting the second Chechen War more strongly” (Gel’man, 2005: p. 367-368). We mentioned before that, in the 2003 Duma election, the two parties were busier trying to steal votes from each other than trying to maximize their own votes.

Yavlinsky was criticized for not being able to come to some kind of agreement with SPS. He had failed before to build a coalition with the Congress of Russian Communities (KRO) and the left-democratic Workers’ Self-Government Party in the 1996 presidential elections, again partly because of ideological differences and partly because of personal issues. Hence, Yavlinsky already had a reputation “as a politician unable and unwilling to compromise” (White, 2007: p. 213).

## 4. Role of the Russian People

This section is mainly based on the results of research conducted by the Public Opinion Foundation in 2006 and an analysis of these results by Kertman (2008). The study involved a survey, interviews and discussion groups. We will first discuss the results of the survey and thereafter the results of the interviews and the discussion groups. To conclude, we will take a short look at the voting behavior of the Russian people.

### 4.1 Survey Results

The results of the survey made by the Public Opinion Foundation showed that 19% of the respondents think that parties are not necessary at all and 16% thinks that a one-party system is the best way to govern Russia (Kertman, 2008: p. 25). So in total, 35% thinks that a multi-party system is not the best way to govern the country. In contrast, 45% thinks that such a system is the best way to govern the country (16% favors a two-party system, 24% want at least three parties, and the remaining 5% is unsure). The remaining 20% does not know what would be best (*ibid.*). People who have greater access to social resources tend to be more positive about the idea of a multi-party system than people who have less access.

Although a majority considers a multi-party system favorable, 47% of those who favored a multi-party system believes that competition between parties would be bad for the country. In contrast, only 31% of them believe that competition between parties would benefit the country (Kertman, 2008: p. 27).<sup>10</sup> After calculations, it can be concluded that only 24% believes that at least two parties are needed *and* that competition among parties is a good thing. This means that even if Russian people believe in a Western type of democracy (in other words, believe that Russia needs political parties), they do not necessarily believe in the way the Western type of

---

<sup>10</sup> The question was if the people believed that competition between parties is favourable in general, not just if it is favorable *for Russia*.

democracy works (through competition among parties). This indicates that Russian people believe in a Russian type of democracy.

At the end of the survey, people who believed that at least one party is necessary were asked the following question: “In your opinion, why do we need parties?” (Kertman, 2008: p. 31). Of those who believed that a two-party system is the best way to go, 35% gave answers that can be divided into four categories: “the need for competition”, “to guard against totalitarianism”, “discussion is a way to get better output” and “to provide checks and balances”. A total of 45% of those who believed that more than two parties are necessary gave similar answers, but only 3% of those who believe in a one-party system did so.

So what role should parties play, besides the functions mentioned above? Most people, irrespective of whether they believe that there should be only one party, two parties or multiple parties, “assign to parties functions of power” (Kertman, 2008: p. 34). In other words, they attribute governmental functions to parties. In their view, parties should for example take care of people, rule the country and help raise living standards. When you understand parties in this way, you do not need multiple parties per se — one party can combine these functions.

Kertman also cites a 2001 survey by the Public Opinion Foundation regarding popular dissatisfaction with political parties. Three major complaints were identified: (1) parties are only talking, not ‘producing’ anything; (2) they are always fighting amongst each other; and (3) they try to get power.

#### ***4.2 Results from Interviews and Discussion Groups***

To make sense of the survey results, interviews were conducted and discussion groups organized. One of the results is that the Russians who were interviewed had a rather paternalistic understanding of parties (Kertman, 2008: p. 29). This is to say, they believe that parties should represent different groups within the society and that the aim of parties should be to protect these groups interests. This implicates that parties should not have an ideology and vision of society at large, but should only serve as mechanisms for making sure that everybody’s interests are heard. Furthermore, the state should control the resources and be responsible for society at large. Parties should get funds from voters whose interests they represent in order to promote the interests of these groups. Thus, according to this view, parties are nothing more than a group of specialists in the field of consultancy, “without any political functions” (Kertman, 2008: p. 30). It is the state who has the real political power.

In fact, if parties perform the function of consultants, any political activity they conduct will be negatively evaluated. As long as parties only “help” the state in solving problems of their electorate, they will do a good job. Since every party only solves problems of their specific electorate, there is no party competition. If there still is competition among parties, one of them must be doing something that it is not “supposed” to do and will be evaluated as “bad”.

These ideas were supported by the findings in the discussion groups. The participants in these groups also believed that parties should advise the government and help it make good decisions. In addition, while parties should be able to advise the government, the government or the head of state should have “the final say” (Kertman, 2008: p. 33).

Kertman (2008: p. 36) concludes that the average participant in the study “interprets all political processes and institutions in terms of a binary opposition between ‘power’ (subject) and ‘people’ (object)”. In this case, it does not matter whether a party is in the government or in the opposition, or whether it represents true opposition or fake opposition, because it is in any case part of “the power”. If all parties are part of the power, they are responsible for the current state of affairs within the country. At the same time, when parties try to get power to influence the current state of affairs, they are being viewed negatively because it is not “their job” to get power.

The results from this research are in accordance with the observation made by White (2007: p. 222) that there is “a more general lack of interest among the Russian public in ideological-programmatic politics”.

### ***4.3 Voting Behavior***

What we learned from the 1999 Duma elections is that even if Yabloko did a reasonable job in reorganizing the party structure and attracting experienced politicians, this was not enough for it to get a good election result. We have identified an important reason: the public did not appreciate Yabloko’s position on the war in Chechnya. From this event we can learn two things: people voted based on issues, not based on a broader vision. This means that parties can not be too sure of an electoral basis. Many voters “float like driftwood from one party to another or into and out of political agnosticism” (Colton, 2000: p. 136 in Knox, Lentini & Williams, 2006: p. 9).

## **5. Russia — a Party System?**

Let us now turn to the question of whether there is a party system in Russia. Let us remind ourselves that, in order to determine whether there is a party system, we need to look at the structure of the electoral, parliamentary and governmental arena. Besides that, we have to look at the institutions guiding the system: media, legal rules and genuine choice. This part will be static in the sense that only the Russian situation will be compared to the theoretical notion of a party system and compared with the Dutch situation. The dynamics in Russian politics (why the system is as it is) will be discussed in the next section.

As in the Netherlands, there does not seem to be a clear social cleavage in Russia. The vertical dimension does not seem to play a big role in federal elections anymore. After the collapse of the Soviet-Union, there seemed to be a cleavage between Communists and Non-communists, but looking at the current state of affairs, this does not seem to play a big role anymore. All parties are therefore potential competitors of each other, divided only on the left-right continuum. In the mid-90s, many new parties appeared and disappeared in Russian politics and, as a result, “no opportunity for a set of patterned interactions” emerged (Bardi & Mair, 2008: p. 153). In this sense, no electoral party system was created. With the construction of parties of power, it seems that no party system has still emerged in the electoral arena since the parties of power do not compete with each other in order to maximize their own votes. Even more so, the system is closed, and as Mair (2008: p. 241) predicted “voter preferences are likely to be constrained, with the choice of governing options being limited in a fashion that is comparable to the limits on choice of parties in systems of low fragmentation.” Parties of power compete with non-parties of power, but there is

not a level playing field like in the Netherlands; powers of party have access to resources that non-parties of power do not have. This ensures stability, maybe even more electoral stability than in the Netherlands, when we look at the parties of power as one whole. However, this stability is achieved by preventing a party system from emerging.

When we look at the parliamentary arena, we again have to conclude that no party system exists *any more*. During the mid-90s, the parliamentary parties formed blocs, merged, worked together and opposed each other, although we may question whether stable relationships were formed because of the volatility of the system. When we drop the stability requirement (in view of the fact that the political system of Russia is still young), we can still conclude that no party system developed by looking at the actions of political parties. Nowadays the parties of power and the true opposition parties hardly form any relationships in the parliamentary arena. When we look at the actions of the opposition in the Yabloko/SPS case, we can see that these two parties were competing for votes but were not able to form stable relationships within parliament. The KPRF again refused to work with any other party than the Agrarian Party, thus refusing to engage in any other relationship. Politicians in the Netherlands are in this sense more pragmatic: when they agree on certain issues, they can set aside ideological differences for the moment. In conclusion, a real parliamentary party system has not developed in Russia.

The last aspect we will look at here is the functioning of the party system in the governmental arena. In open systems like in the Netherlands, where there also are low barriers to executive office, it is possible to form a political party system in which partial government turnovers occur. We should note that in this case there is a direct relationship between the results of parliamentary elections and the composition of government since the members of the government are supplied by the parties who form a majority in parliament. In Russia, we see a different picture. The president is elected and forms his own government, not necessarily including party members. So the only way for members of parties to get into the government is through relations with the president. This means that the barrier to executive power is enormous. True opposition parties have tried several strategies to get into office, but were unsuccessful. KPRF was invited into office when the president thought its presence was useful, but was ousted when the president no longer considered its presence necessary. The same goes for SPS after Putin was elected. Currently only members of parties of power are able to make it into the government. The closed nature of the party system displays, as Mair (2008: p. 243) expected, “little if any innovation in government formation” and is “relatively closed to the incorporation of new parties.”

## 6. Dynamics in Russian Politics

Now it is time to look at the relations between the actions of the elite, the actions of the true opposition parties and the role of the Russian people. First, throughout the transition from Communism to the current system, the system has been very instable. After the collapse of the Soviet-Union, a large number of new parties “designed as vehicles for representation” moved into the newly opened political space (Laverty, 2008: p. 364). On the one hand, this instability means that parties appear and disappear at every election; on the other hand, the Russian people are not loyal to

parties. It is hard to say which one causes the other. Whatever the causal relation, most people do not believe in parties since parties are part of “the power” in their eyes.

Second, after the breakup of the Soviet-Union, political parties were fragmented. This volatility and fragmentation, together with different kinds of economic and social problems, “increase[d] the demand for governmental effectiveness, making it almost impossible for the party system to come to the gradual equilibrium between representation and effectiveness” (ibid.). After the unstable period of Yeltsin’s presidency, the Russian people demanded more stability and, thus, wanted a strong state. This was a natural outcome of the paternalistic discourse that thrives among the Russian people. Putin took advantage of the fragmentation to dominate the political stage. All possible elite groups outside the Putin administration, such as business men, media and other political parties “had to agree on their subordinated role or lost their elite status as such.” This loss of autonomy and/or resources by segments of the elite led to “a diminution of political opportunities for the opposition” (Gel’man, 2005: p. 232).

We should not forget that the president already had a lot of power compared to the Duma. This division of power was written down in the 1993 Constitution. The fact that the president can rule by decree and dissolve the legislature paralyzed the Duma in many instances. Thus, the institutional environment was hostile to the true opposition from the start. After the adoption of new laws on elections and political parties, this environment became even more hostile. However, although the environment is hostile, there is still space for opposition. The key is for parties to be stable and have a clear strategy. This is exactly where the opposition parties failed and their weakness was exploited by Putin. He constructed parties of power to draw votes from the true opposition. As a result, the influence of the president grew massively, and (1) the real opposition was marginalized even further, and (2) the Russian people lost even more confidence in political parties. They saw how true opposition parties fought internally and with other parties and how even more or less like-minded parties were unable to form coalitions, and they saw that most other parties were fake. Thus, in a sense common people are right when they say that “Russian political parties are not quite ‘real’ (...)” and that “parties are ‘imposters’” (Kertman, 2008: p. 38). Since parties were not to be trusted, people turned to the state.

However, the influence of the ruling elite over parties and people’s minds did not end here. The ruling elite used the media to promote itself as strong and independent of parties to appeal to people and, at the same time, used the media to undermine possible opposition. Sometimes it resorted to more drastic measures like cutting financial resources to opposition parties and election fraud.

## Conclusions

Since we have demonstrated that the Russian party system, as a system, does not exist or hardly exists and since we have shown the dynamics of Russian politics, we may return to the original research question: why is there a lack of opposition in Russian politics after a period of democratic change and hope amongst the people? We have seen that, in Russia, “the formal trappings of a democracy”, i.e. a parliament, a judiciary, a party system, regular elections, an independent media, the rule of law and a civil society, are present (White, 2007: p. 211). Based on the theoretical

framework presented by Bardi and Mair (2008), we would thus expect that a party system could develop in Russia. Nevertheless, in the current situation, we can not speak of a “real” democracy with a functioning party system in Russia, even though there are free elections. In explaining why there is no real democracy, we have pointed to three elements that reinforce each other. The actions of the ruling elite diminish the political space for the opposition; true opposition parties are unable to effectively use the space that is left; and the Russian people do not believe in, let alone support, true opposition parties.

A second question arises: which factor is the most important in explaining why the multi-party system has failed in Russia? When we look at the role of the opposition parties, we must say that “yes, they have made mistakes”. On the other hand, it seems that their actions are not that important since the true opposition parties have tried all available strategies but “none of them brought about significant achievements” (Gel’man, 2005: p. 232). The Russian people have not helped in creating a true opposition because they have not been loyal to the parties they vote for and have displayed “a more general lack of interest” in “ideological-programmatic politics” (White, 2007: p. 222). At the same time, parties have been coming and going so fast that voters would have been unable to “maintain allegiance to a party through several elections even if they wanted to” (Knox, Lentini & Williams, 2006: p. 9). We may wonder to what extent the Russian people have had qualitatively good information to base their electoral choices on. Laverty (2008: p. 366) is probably right when he notes that “the structural nature of the Russian party system tends to militate against opposition party success in general”. The president has excessive powers, which provides little incentives for other actors to invest in politics. Putin has increased presidential power through institutional changes that have further decreased the political space for the opposition. In addition, the ruling elite dominates non-political actors (like the media).

How much hope is there that a true democratic, multi-party political system will develop in Russia? This question is hard to answer. During his presidency, Putin claimed that he wanted to strengthen political parties and civil society, but at the same time, he implemented various anti-democratic measures (which may or may not have been necessary in the short term to ensure stability). In addition, he did not entrust autonomous organizations with strategic administrative positions (Oversloot & Verheul, 2006). The strongest parties are currently the parties of power, which are supported in several ways by the presidential administration. This situation will not be easy to change. The parties of power provide the necessary support for the president in the legislative branch of government, and if he would try to change the situation, he could expect resistance from within these parties. Probably, change would need to come from outside the elite. The question is from where since 60% of the Russian people think that the president should form the government and only 21% think that the parties that win the elections should do so (Knox, Lentini & Williams, 2006: p. 9).

In spite of this, there is still hope. First of all, time is on the Russian side. It has not even been 20 years since Communism. Secondly, “[t]he rise of antidemocratic trends in Russian politics might produce incentives for the emergence of a coalition of negative consensus among virtually all segments of the opposition” (Gel’man, 2005: p. 241). There are also examples from history that show us that, even when the system tries to marginalize opposition, the opposition can win victories. Examples include the



election of Yeltsin in the USSR Congress of People's Deputies and the formation of an Inter-Regional Deputies Group in the USSR Congress of People's Deputies Group (Knox, Lentini & Williams, 2006: p. 10). Furthermore, in the period from mid-2002 to mid-2004, the number of Russians who believed that political opposition is needed "dramatically increased" (Gel'man, 2005: p. 226). So it may not be true that the Russian people do not want to have a real, strong, opposition.

However, given the importance of the institutional environment in explaining why the multi-party system in Russia has failed *so far*, much will depend on the new president's ability and willingness to make adjustments to the system. Medvedev's announcement that the election threshold will be decreased from seven to five percent may be a first step in this direction.

## References

1. Bardi, L. & Mair, P. (2008), 'The parameters of party systems', *Party Politics*, Vol. 14, No. 2, p. 147-166
2. Cohen, A. (2000), 'From Yeltsin to Putin: Milestones to an unfinished journey', *Policy Review*, Iss. 100, p. 35-49
3. Dalton, R. (2008), 'The Quantity and the Quality of Party Systems. Party System Polarization, Its Measurement, and Its Consequences', *Comparative Political Studies*, Vol. 41, No. 7, p. 899-920
4. Deschouwer, K. & Lucardi, P. (2003), 'Partijen en de partijsystemen in Nederland en Vlaanderen', *Sociologische Gids*, Vol. 50, No. 2, p. 131-155
5. Gel'man, V. (2005), 'Political Opposition in Russia: A Dying Species?', *Post-Soviet Affairs*, Vol. 21, No. 3, p. 226-246
6. Kertman, G. (2008), 'The Status of the Party in Russian Political Culture', *Russian Social Science Review*, Vol. 49, No. 4, p. 24-39
7. Knox, Z., Lentini, P. & Williams, B. (2006), 'Parties of Power and Russian Politics. A Victory of the State over Civil Society?', *Problems of Post-Communism*, Vol. 53, No. 1, p. 3-14
8. Kumar, R. (2008), 'Putin's Legacy and the State of Democracy in Russia', *International Studies*, Vol. 45, No. 2, p. 89-103
9. Laverty, N. (2008), 'Limited Choices. Russian Opposition Parties and the 2007 Duma Election', *Demokratizatsiya*, Vol 16, No. 4, p. 363-381
10. Mair, P. (2008), 'Electoral Volatility and the Dutch Party System: A comparative Perspective', *Acta Politica*, Vol. 43, No. 1, p. 235-253
11. Oversloot, H. & Verheul, R. (2006), 'Managing Democracy: Political Parties and the State in Russia', *Journal of Communist Studies and Transition Politics*, Vol.22, No.3, p. 383-405
12. Sestanovich, S. (2007), 'Another Russia? Putin's Invented Opposition', *Journal of Democracy*, Vol. 18, No. 2, p. 122-124
13. Shevtsova, L. (2007), 'Post-Communist Russia: a historic opportunity', *International Affairs*, Vol. 83, No. 5, 891-912
14. White, D. (2007), 'Victims of a Managed Democracy? Explaining the Electoral Decline of the Yabloko Party', *Demokratizatsiya*, Vol. 15, No. 2, p. 209-229

---

*Nikita Romashkin*

**Textual Analysis of French Socialist Party Motions  
presented at the 2008 Party Congress**

Introduction

One of the main tools applied in political science is textual analysis of political documents. We propose a new approach to analyzing this kind of information, using a subfield of lattice theory called Formal Concept Analysis (FCA).

We illustrate the method by applying it to the analysis of French Socialist Party (PS) motions proposed at the Reims Congress, which took place on 14-16 November 2008. Six motions were endorsed by PS leaders. Each motion is a collection of facts, opinions, and suggestions. During the congress, participants had to vote for a particular motion, thereby choosing the direction of PS policies.

Briefly, our task was:

- On the macro-level: to develop a structural description of the topics discussed in the motions so as to see the differences between the different texts, as well as to identify common topics.
- On the micro-level: to identify the most relevant topics for each motion in a way that would allow comparing topics between different motions.

1. Formal Framework

Firstly, we give a short introduction to formal concept analysis [1]. A (*formal*) context  $\mathbf{K} = (G, M, I)$ , consists of a set of objects  $G$ , a set of attributes  $M$ , and a binary relation  $I \subseteq G \times M$ , which determines which object has which attributes. The *derivation operator*  $(\cdot)^I$  for  $A \subseteq G$  and  $B \subseteq M$  is defined as:

$$A^I = \{m \in M \mid \forall g \in A : g \text{ Im}\};$$

$$B^I = \{g \in G \mid \forall m \in B : g \text{ Im}\}.$$

Literally,  $A^I$  is the set of attributes shared by every object from  $A$ , and  $B^I$  is the set of objects that have all attributes from  $B$ .

It is common to use  $(\cdot)'$  instead of  $(\cdot)^I$  if it does not lead to ambiguity. Double application of  $(\cdot)'$  is a closure operator [1]. Therefore,  $A''$  and  $B''$  are closed sets.

A (*formal*) *concept* of the context  $(G, M, I)$  is a couple  $(A, B)$ , where  $A \subseteq G, B \subseteq M, A = B'$  and  $B = A'$ . It can be easily seen that, in this case,  $A = A''$  and  $B = B''$ . The set  $A$  is called the *extent* and  $B$  is called the *intent* of the

concept  $(A, B)$ . A formal concept  $(A, B)$  is fully defined by its extent  $A$ , as well as by its intent  $B$ .

A concept  $(A, B)$  is a *subconcept* of a concept  $(C, D)$  if  $A \subseteq C$  (or, equivalently,  $D \subseteq B$ ). In this case,  $(C, D)$  is a *superconcept* of  $(A, B)$ . We write  $(A, B) \leq (C, D)$ , and define relations  $\geq, <, >$  as usual. If  $(A, B) \leq (C, D)$  and there is no  $(E, F)$  such that  $(A, B) < (E, F) < (C, D)$ , then  $(A, B)$  is a *lower neighbor* of  $(C, D)$ , and  $(C, D)$  is an *upper neighbor* of  $(A, B)$ . Notation:  $(A, B) \prec (C, D)$  or  $(C, D) \succ (A, B)$ .

The set of all concepts ordered by the relation  $\leq$  forms a lattice, which is denoted by  $\mathbf{B}(\mathbf{K})$  and called the concept lattice of the context  $\mathbf{K}$ . As a rule, lattices are visualized by so-called line (Hasse) diagrams.

Typically, concept lattices for large contexts have a complicated structure, which is hard to interpret. This led to the development of methods for selecting the potentially most “interesting” concepts and thus reducing the size of the lattice. In this work, we use the concept stability index first introduced in [2] in a slightly different form borrowed from [3]. Concepts with lower stability are considered less relevant, as they probably reflect only minor details or are due to noise in data. There are two kinds of stability: intensional and extensional.

**Definition 1.** Let  $\mathbf{K} = (G, M, I)$  be a formal context and  $(A, B)$  be a formal concept of  $\mathbf{K}$ . The *intensional stability index*,  $\sigma^i$ , of  $(A, B)$  is defined as follows:

$$\sigma^i(A, B) = \frac{|C \subseteq A \mid C' = B|}{2^{|A|}}.$$

The intensional stability index shows how much the concept intent depends on each particular object of the extent. A stable concept is less sensitive to the noise in initial data.

**Definition 2.** The *extensional stability index*,  $\sigma^e$ , of concept  $(A, B)$  is defined as follows:

$$\sigma^e(A, B) = \frac{|C \subseteq B \mid C' = A|}{2^{|B|}}.$$

The extensional stability index shows how much the concept extent depends on each particular attribute of the intent.

## 2. The Data

We worked with motions presented at the 2008 Reims Congress of the French Socialist Party. There were six motions:

- “**Clarté, courage, créativité**” (“Clarity, courage, creativity”) — *Bertrand Delanol* ;

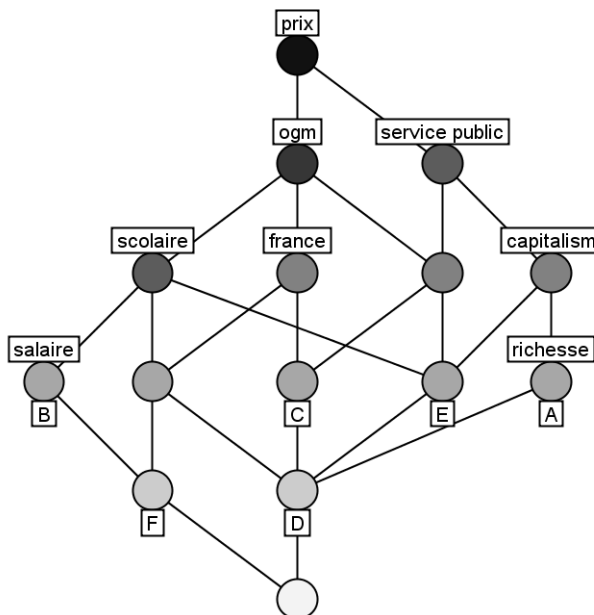
- **“Pour un Parti Socialiste résolument écologique”** (“For a staunchly ecologist Socialist Party”) — le pôle écologique (eco-socialists);
- **“Un monde d’avance, Reconstruire l’espoir à gauche”** (“A World in Front, Rebuilding hope on the left”) — *Benoît Hamon*;
- **“Changer à gauche pour changer la France”** (“Change on the Left to change France”) — *Martine Aubry*;
- **“L’espoir à gauche, fier(e)s d’être socialistes”** (“Hope on the left, proud to be Socialist”) — *Ségolène Royal*; and
- **“Socialistes, Altermondialistes, Écologistes”** (“Socialists, Alterglobalizationists, Ecologists”) — *Franck Pupunat*.

Eighty-five words (or word stems) were extracted from the texts of the motions (which were in French). Then, one “global” table and six individual tables (one for each of the six motions) were constructed with the 85 words as column headings. The global table represents the number of occurrences of each word in each motion, whereas an individual table shows which words occur in which paragraph of the corresponding motion.

As our technique needs a binary matrix (a formal context, see above) as input, we had to binarize the global table using a threshold,  $\delta$ : we say that a motion is characterized by an attribute if the corresponding word occurs in the motion at least  $\delta$  times. In other words, all entries below  $\delta$  in the table were replaced by zeroes and all entries equal to or above  $\delta$  were replaced by ones.

### 3. Results

Figure 1 shows the diagram for the global table with  $\delta = 32$ .

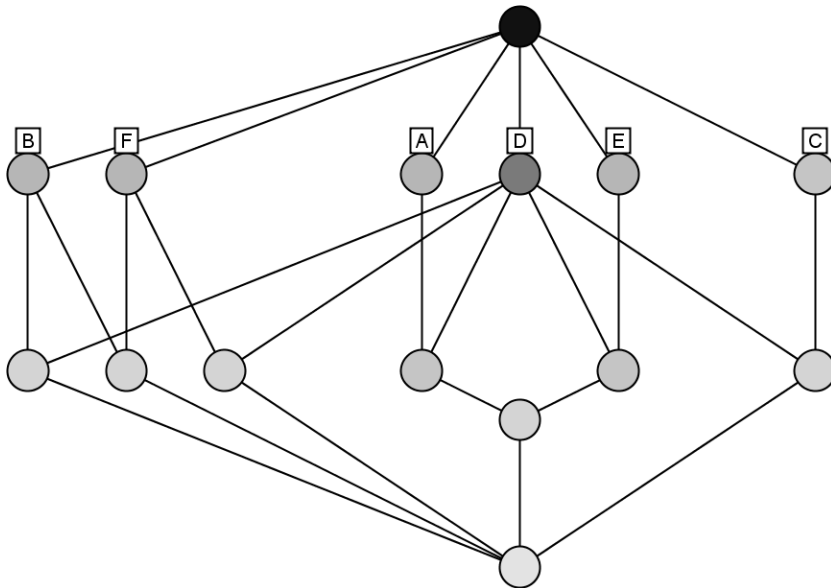


*Figure 1. Diagram of the global lattice.  $\delta = 32$*

Each node in the diagram is a formal concept: a set of objects (concept extent) — in this case, motions — and a set of attributes (concept intent) — in this case, a set of words or word stems occurring in these motions at least  $\delta$  times. Some of the nodes have text labels. A label above the node is an attribute label and one below the node is an object label. To read the extent of a node, we follow the descending paths starting from this node and collect the object labels on these paths. For example, the extent of the node with the attribute label “capitalism” consists of the motions A, E, and D. This means that the word “capitalism” occurs sufficiently frequently only in the motions A, E, and D. The intent of a node can be read similarly, except that one must follow ascending paths and collect attribute labels on these paths. For instance, the intent of the node labeled *A* consists of attributes “richness”, “capitalism”, “service public”, and “prix”.

From the diagram in Figure 1, it is obvious that “prices” (“prix”) was a common topic for all the motions. All except A often mention genetically modified products (“ogm”). B and F often refer to salary issues (“salaire”). A and D often talk about wealth (“richesse”).

By lowering the threshold to 12 ( $\delta = 12$ ), we obtain a bigger lattice that shows some finer details, but can be hard to interpret. Therefore, we keep only 15 extensionally stable concepts. The line diagram for these concepts is shown in Figure 2. (Note that this diagram should be read upside down and we only show object labels.) Let us remark here that intensional stability is not really applicable in this case because of the small number of objects (only 6); every single object in any extent is important.



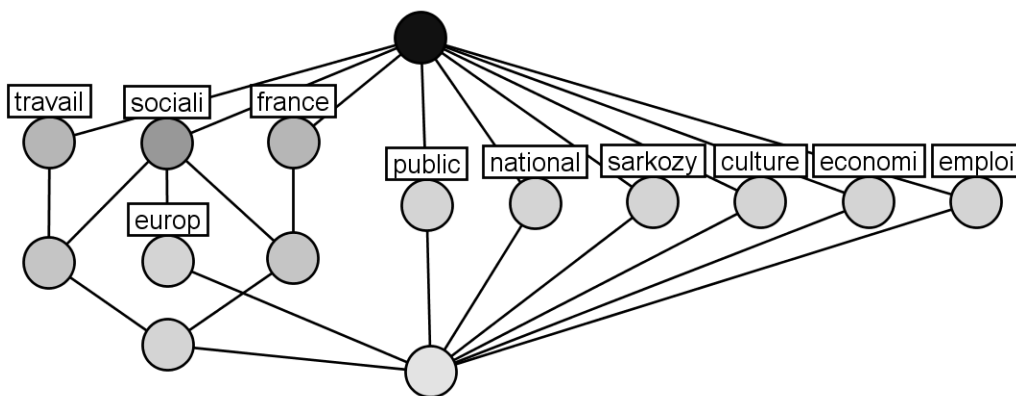
**Figure 2.** Diagram of 15 extensionally stable concepts for the global context.  
 $\delta = 12$

Before going further with the interpretation of the diagram in Figure 2, let us give a short summary of the current conditions of the Socialist Party. The Socialist

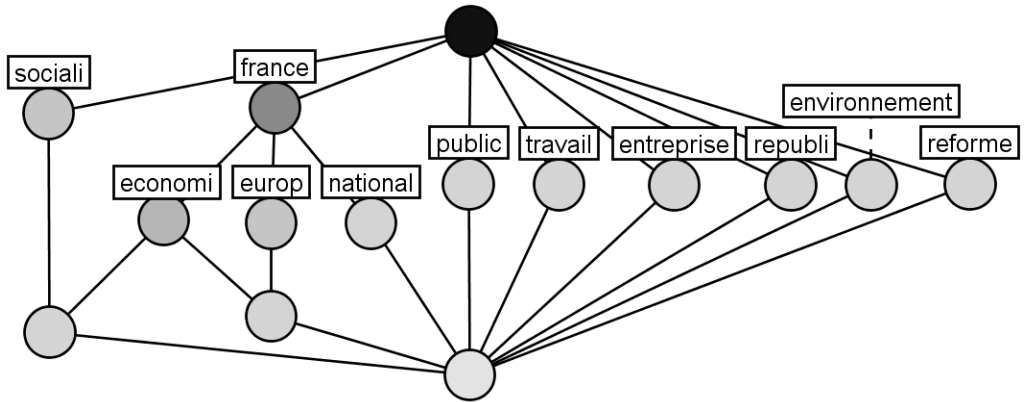
Party is one of the oldest and influential politic parties in France; nevertheless, the party is now going through a severe crisis. The last time the party enjoyed a remarkable success was at the parliamentary elections in 1997. Both in 2002 and 2007, the party was defeated in the parliamentary elections, as well as in the presidential elections. At the Reims congress, none of the motions received a sufficiently large number of votes. Right after the congress, the left wing left the party. Then, the election of the first secretary of the party took place. Votes were divided between Ségolène Royal (42%), Martine Aubry (30%), and Benoît Hamon. Next, Hamon withdrew from the race and endorsed Aubry. In the second round of the election, 220 000 votes were divided almost equally between Royal and Aubry. However, in the end, Martine Aubry won with a margin of 102 votes.

The diagram in Fig. 2 shows the relations between the different motions. Three motions (A, D, and E) are highly connected to each other and, thus, in a way represent the mainstream of the party. This corresponds to the actual situation: these are motions presented by Bertrand Delanoë, Martine Aubry, and Ségolène Royal. Also, there are two motions (B and F) that are closely connected to each other, but less connected with others. They represent the ecological wing within the party. Finally, motion C stands apart and is little connected with other motions — this is the left wing of the party led by Benoît Hamon.

We have also built individual diagrams for each motion. To show what kind of conclusions can be drawn from such diagrams, let us compare two motions, A and E (see Figs. 3 and 4).



*Figure 3. Diagram of 15 intensionally stable concepts for motion A.*



**Figure 4. Diagram of 15 intentionally stable concepts for motion E.**

There are some topics specific to either A (e.g., “culture”) or E (e.g., “enterprise”). Some other topics are shared by the two motions (e.g., “public”). There are also some clearly related but not identical topics: in A, “economy” is a topic in its own right, while in E, “economy” is discussed only in the context of “France”.

## Conclusions

The described technique results can be used by a political analyst as a tool supporting knowledge retrieval and interpretation in textual analysis. The results presented here were obtained in collaboration with Jean-Philippe Cointet and Camille Roth (Ecole Polytechnique, Paris, France). A summary of the results (in French), the datasets, and various diagrams are available at <http://knowledge networks.free.fr/motionsps/>. This work was supported by the Scientific Foundation, Higher School of Economics; grant #08/04/22.

## References:

1. Ganter, B. and Wille, R. *Formal Concept Analysis: Mathematical Foundation*. Heidelberg : Springer, 1999.
2. Kuznetsov, S.O. Stability as an estimate of the degree of substantiation of hypotheses derived on the basis of operational similarity. *Nauchn. Tekh. Inf. Ser.2 (Automat. Document. Math. Linguist.)* 12, 21-29 (1990).
3. Roth, C., Obiedkov, S., and Kourie, D.G. “Towards concise representation for taxonomies of epistemic communities” in Ben Yahia, S., Mephu Nguifo, E. (eds.), *Fourth International Conference on Concept Lattices and their Applications*, CLA 2006, Lecture Notes in Computer Science, vol. 4923, pp. 240-255, Springer (2008).

---

## Chapter Three. Human Rights: from philosophy to legal instruments

*Anita Soboleva, Chuck Hirt*

### ***Introduction by the Group's Academic Leaders***

This chapter contains five articles by the students of the Human Rights Group. Though the scientific interests of the group members differ, as well as their approaches to how they suggest to cope with the problems they discuss, all articles reveal real commitment of the authors to human rights values and their serious attitude to human rights research.

Benjamin Mols in his article “Green Policies, Human Rights and the European Union: A Remarkable Troika in the Ongoing Environmental Debate” argues, that the traditional concept of human rights needs re-thinking in the light of contemporary environmental problems, which force us to reconcile the personal rights with the collective safeguards. Starting from the history of the concept of institutionalized environmental rights, he further proceeds with the analysis of contemporary debates on the nature and content of these rights and provides deep insight into European Union internal and international policies in this area. He evaluates the European Union’s efforts to create open and interactive environmental policies *vis-à-vis* its citizens as one of the most outstanding examples of constructive citizens’ participation in national and transnational policy. He concludes by stating that the democratic actors will act successfully to address emerging environmental problems more likely than the non-democratic ones, because the democratic actors such as the European Union apply in their practice a collective problem-solving approach based on the values of human ingenuity and human rights.

Ekaterina Tarasova, who also writes about environmental rights, approaches the problem from a different angle: she stresses the importance of partnership and cooperation between the European Union and Russia in solving environmental problems. The title of her work — “The EU-Russia Democratic Dialogue on Environmental Policy as a Means for Implementation of the Right to a Favorable Environment” — reflects her main thesis, that only joint environmental policies and joint efforts by EU members states and Russia can guarantee the people their right to favorable environment.

Elena Sorokina chose for her analysis the problem of compliance of Russian NGO legislation with the European Union legal standards in this area. Her comparison reflects the difference, which exists in the conditions for the development of civil society and democracy in Russia and EU countries. Basing her approach to the topic on the premise that friendly, clear, simple and non-discriminative rules for operation of civil society groups contribute to the promotion of democracy, she enumerates legal obstacles for freedom of association in Russia. She also pays attention to the fact that



in Russia Government-organized non-governmental organizations (GONGOs) and NGOs exist, de facto, in different environment, which prevents them from playing more active role in social and political life and interferes with their function to put control over government performance.

Maria Shabanova's article calls for non-discrimination of individuals on the grounds of sexual orientation and gender. Writing on the "Rights of LGBT Minorities in Russian Law and Practice", she stresses, that LGBT people need to enjoy the same human rights as all other individuals in Council of Europe member states, including freedom of expression, freedom of assembly, respect for private life, the right not to be tortured. Today in Russia many of them have bad experience of being treated differently or being subject to verbal or physical violence, prejudice and stigmatization. She draws attention to the point, that while in Europe discussions about LGBT rights mainly focus on marital rights and related issues, Russian LGBT people have to struggle against discrimination in realization of their basic constitutional rights, such as a right to association or peaceful assembly. She reminds about the international standards of non-discrimination and describes case-law of the European Court of Human Rights, aimed at protection of persons from discrimination regardless of their sexual orientation or gender identity.

At last, but not least, Tatiana Milacheva compares the EU and Council of Europe mechanisms of protection against discrimination on grounds of citizenship. While citizenship is not included in the list of protected characteristics in anti-discrimination instruments, different treatment of foreigners in situations, which cannot be regarded as legally significant or can somehow justify such differentiation, may, in the author's point of view, amount to discrimination. She argues, that international documents in the field of human rights oblige the states to respect the fundamental rights and freedoms of all individuals under their jurisdiction, because human rights are universal and inalienable.

---

**Benjamin Mols**  
**Green Policies, Human Rights and the European Union:  
A Remarkable Troika in the Ongoing Environmental  
Debate**

*Abstract*

*In this article, the author contributes to the ongoing environmental crisis debate by introducing the idea of the concept of human rights as an example of institutionalized humanitarian values. Firstly, the author discusses the substantial legal foundations and the philosophical backgrounds of the institutionalization of environmental rights. Secondly, he reviews the past and contemporary debate on the role of human rights within the Malthusian vs. Cornucopian/Institutionalist debate. Finally, he briefly examines the European Union as an example of a workable embodiment in the light of institutionalist aspirations.*

**Introduction**

Two hundred years ago, Thomas Malthus (1766-1834)<sup>1</sup> anonymously published his polemical pamphlet '*An Essay on the Principles of Population*'.<sup>2</sup> In this ground-breaking pamphlet, he proposed that the problems caused by uncontrolled population increase and non-infinite exploitation of the world's resources (on the basis of *natural law*) cannot be solved by positivistic and rational thinking. Eventually, the continuously widening gap between supply and demand (inflicted by differential evolution patterns) will eventually end in conflict, hunger and general chaos.<sup>3</sup> This eighteenth and nineteenth century misanthropic worldview can be easily transposed to our contemporary and strongly heated debate on a secure and healthy environment

---

<sup>1</sup> Malthus reclassified the existence of mankind in two postulata: (a) 'food is necessary for the existence of man[kind]' and (b) 'passion between the sexes is necessary and will remain nearly in its present state'. In accordance with these postulata, he evaluated that populations will increase when production of resources increases. Malthus held that the population would increase according to a geometrical ratio, while the production of vital food resources would increase according to a more restrained arithmetic ratio. Although the production of food and other resources may be sufficient during the initial period of population increase, the gap between the size of the population and available food resources will eventually widen to fatalistic extents. In order to assure a constant equilibrium in the world's population, Malthus proposed a framework of positive checks (e.g. wars, famines and diseases) and negative checks (restriction of social benevolence, birth control and voluntary sexual self-restrictions) on the population. A comprehensive outline of Malthus' works and thoughts can be found in: Dupaquier, J., Fauve-Chamoux, A. and Grebenik, G. eds. *Malthus Past and Present*, New York: Academic Press, 1983.

<sup>2</sup> Malthus published six versions of his work between 1798 and 1826. In this paper, we only use the first version of '*An Essay on the Principles of Population*'.

<sup>3</sup> Dupaquier, J., Fauve-Chamoux, A. and Grebenik, G., eds. *Malthus Past and Present*. New York: Academic Press, 1983, 12-17.

versus economic development, which is taking place in a post-World War II situation of continuous economic expansion and population increase.<sup>4</sup>

The ideas expressed by Malthus have substantially influenced the academic world since the late eighteenth century up to the present. Alongside the fashionable but paradoxical *resource abundance* versus *human apocalypse* dichotomy, the concept of human rights and its institutionary foundations are still underexposed. This is an astounding intellectual hiatus, if we take into account the fact that human rights are regarded a cornerstone of our contemporary democratic societies. In addition, human rights, with its general assumptions of universal equality and dignity, can be considered a key concept in debunking the Malthusian *cul-de-sac*.

To understand this debate and its connection with the concept of human rights, this article delineates the concept of human rights and how this concept can provide new insight into past and ongoing environmental debates. The article seeks to understand the dichotomy between the consideration of environmental rights as a humanitarian safeguard and the idea that a decline in personal rights is necessary to successfully cope with the contemporary environmental crisis. Furthermore, it attempts to examine whether the European Union could serve as an illustration of a successful ideological assimilation of humanitarian aspirations and safeguarding of the collective environment, as well as how the European Union is positioning itself as the global *primus inter pares* in this area by “greening” its internal and international policies.

## The Concept of Institutionalized Environmental Rights: History and Terminology

‘All human beings are born free and equal in dignity and rights. They are endowed with reason and conscience and should act towards one another in a spirit of brotherhood.’<sup>5</sup>

Article I of the *Universal Declaration of Human Rights* is the inspirational epigraph for our contemporary framework of international human rights and underlines the very historical and moral foundation of the concept of human rights. The general roots of this endorsement concerning equality and humanitarian aspirations date back to the Antiquity and the Middle Ages. Readopted during the late eighteenth century, these ideas evolved from premature philosophic assumptions to clear political implementations. In 1776 the United States of America announced its independence from the British Crown and adopted a statement of equality in its *Declaration of Independence*. Twelve years later, as a result of the French Revolution, the *Déclaration des Droits de l’Homme et du Citoyen* was adopted. This was the first statement of universal humanitarian values. The post-World War II institutionalization of human rights, which started with the *Universal Declaration of Human Rights* in 1948, generated a new international framework for human morality and jurisdiction within the United Nations. This initiative was followed by several regional initiatives such as the Council of Europe and the African Union, and the international community

---

<sup>4</sup> Numerous studies have examined recent major conflicts and linked them to Malthusian assumptions. See for example: Urdal, H., “People vs. Malthus: Population Pressure, Environmental Degradation, and Armed Conflict Revisited.” *Journal of Peace Research* 42, no. 4 (2005): 417-434.

<sup>5</sup> *Universal Declaration of Human Rights* (10 Dec. 1948), U.N.G.A. Res. 217 A (III) (1948), Article I.

finally created a constructive web of international norms to safeguard mankind from severe actions against humanity.<sup>6</sup>

The academic world has substantially questioned the construction, content and universality of the concept of human rights. Furthermore, academicians have exemplified the differentiated content of this concept by introducing three generations and seven specific families of human rights. Two generations and five families are applicable within the Malthusian debate.<sup>7</sup> The so-called first generation of human rights is based on a classical interpretation of human rights and includes among others<sup>8</sup> *liberty rights* and *political rights*. The first ones protect in particular man's freedom of expression and belief and serve as a collective foundation to protect mankind from fundamental violations such as slavery and serfdom. *Political rights* set out basic minimum standards for the *people versus government* interaction.<sup>9</sup>

Second generation rights are a set of human rights whose successful implementation is considered to require affirmative government action. Second generation rights are often described as *group rights*. *Group rights*<sup>10</sup> can be considered a global attempt to assure non-discriminatory treatment of national and regional minorities.<sup>11</sup>

The recently constructed concept of third generation rights<sup>12</sup> is distinguished from the other two generations of rights in that it transposes human rights outside of the *state versus subject* framework. These so-called solidarity rights impose collective duties upon each single individual. The idea of two families of human rights is related to this fairly new conception of human rights. *Social Rights* are focused on protecting the population from severe poverty, inferior education and state actions that undermine human dignity, while *equality rights* include the non-discrimination principle and guarantee human equality.<sup>13</sup>

Taking into account *inter populum* benevolences, we can address the concept of *environmental rights* as a compatible example to these third generation of human rights. The intense interrelationship between human rights and preservation of the human environment is used as the main argument to include environmental rights in international and national legal systems. Stepping away from the narrow definition of

---

<sup>6</sup> X. *Human Rights*, Stanford Encyclopaedia of Philosophy ([plato.stanford.edu/entries/rights-human/](http://plato.stanford.edu/entries/rights-human/)).

<sup>7</sup> The *Universal Declaration of Human Rights* (1948) covers six families of human rights. In addition, it is often argued that group rights are an additional seventh family. Only *due process rights* and *security rights* are not directly applicable in this paper.

<sup>8</sup> Also *due process rights* and *security rights* are considered first generations constructions.

<sup>9</sup> *Human Rights*, Stanford Encyclopaedia of Philosophy ([plato.stanford.edu/entries/rights-human/](http://plato.stanford.edu/entries/rights-human/)).

<sup>10</sup> *Group rights* do not only focus on ethnic or religious minorities. They emphasize a multi-level approach and concern distinctions of any kind, such as ethnic background, religion, race, language, race, political preference, property, birth, etc.

<sup>11</sup> *Human Rights*, Stanford Encyclopaedia of Philosophy ([plato.stanford.edu/entries/rights-human/](http://plato.stanford.edu/entries/rights-human/)).

<sup>12</sup> In opposition to the idea of third generation human rights, Nobel Prize Winner in economics Milton Friedman (1912-2006) presented a market based doctrine of humanitarian state intervention in his work *Capitalism and freedom*. This doctrine is remarkably interconnected with the *Environmental Kuznet Curve*. Friedman introduced a simple extension of Adam Smith's (1723-1790) idea of an *invisible hand* on emerging social problems. In line with his thoughts, enterprises should not bear social responsibilities but merely focus on commercial activities and increasing profit. However, free-market competition will indirectly create better living conditions for citizens through increasing number of jobs, increased wages and technological improvements. This issue is discussed in more detail in Madrick, J. "Milton Friedman: Not a Man for All Season." *Challenge* 50, no. 1 (2007): 124-129.

<sup>13</sup> *Human Rights*, Stanford Encyclopaedia of Philosophy ([plato.stanford.edu/entries/rights-human/](http://plato.stanford.edu/entries/rights-human/)).

environmental rights as rights of nature and animals, we may propose that man and nature hold fundamental common rights. After all, protection of the right to a healthy environment (including clean water, soil and air) requires a healthy common environment. With the aim of safeguarding aspirations such as and preventing further environmental damage, environmental rights do not only require governments to ensure environmental security, but also establish third party restrictions and the duty of the state to interfere when necessary.<sup>14</sup>

Human rights, as an expression of a worldwide agreement on the need to protect mankind's basic rights and freedoms, are a phenomenon of modern times. Reaffirming this general contemporary character of human rights, we can still view the modern concept of human rights in a historical light by interpreting it as an institutionalization of the *volonté générale*.

The idea of an ideal society ruled by the *volonté générale* emerged from Thomas Hobbes' (1588-1679) and John Locke's (1632-1704)<sup>15</sup> seventeenth century works. Hobbes and Locke referred to man's self-preservation instinct in anarchistic evolution stages as the *State of Nature*, while Hobbes portrayed man *a priori* as aggressive. In order to overcome a vicious circle of insecurity, people gather in a collective social pact, in which they abandon personal liberties in return for "many conveniences, from the labour, assistance, and society of its whole strength"<sup>16</sup> This is a clear statement in favor of communal security and prosperity.<sup>17</sup>

Reaffirming the seventeenth century ideas of Hobbes and Locke, their intellectual successor French philosopher Jean-Jacques Rousseau (1712-1778) postulated that to successfully govern new harmonious societies based on the concepts of the *rule of law*, institutionalization of the *social contract* concept is necessary. While he introduced the *social contract* as the new foundation of civil society, Rousseau was also fully aware of its weaknesses. Therefore he stated that the state/law can take measures to ensure its preservation.<sup>18</sup> In accordance with the *voice of duty*, which will emerge from the *social contract*, man will set aside his self-centred world view and incorporate favorable rules that promote equality and the welfare of all citizens.<sup>19</sup>

## 'Human Rights' as a Commonly Shared Value as Evidence in the Environmental Crisis Debate

Human rights as an institutional set of human moralities are both used as a positive and negative instrument within the environmental debate. Economic and social optimists strongly believe that the introduction of human rights itself underlines humanity's capability to seek and create optimal beneficial solutions for all.

---

<sup>14</sup> Ibid.

<sup>15</sup> See Thomas Hobbes' *Leviathan* and John Locke's *The Second Treatise of Civil Government*.

<sup>16</sup> Locke, J. *The Second Treatise of Civil Government*, Chapter IX, 1690, Sec. 130. Furthermore, in comparison with Locke, Hobbes defers in applying the ruling aspect of a monarch. Locke includes republican assumptions in his thesis.

<sup>17</sup> Fontanel, J. and Coulomb, F. "The Genesis of Economic Thought Concerning War and Peace." *Defence and Peace Economics* 19, no. 5 (2008): 323.

<sup>18</sup> Rachels, J. "The idea of a Social Contract." Chap. 11 in *The Elements of Moral Philosophy*. Hill: MacGraw, 2003, 141-144.

<sup>19</sup> *Ibid.*, 144-145.

Nevertheless, the idea of the fundamental protection of human rights can lose ground in the face of a possible environmental collapse. With neo-Malthusian proclamations to set aside some basic human rights in the area of political rights, group rights, equality rights and social rights, this discussion divides into two extremes.

Thomas Malthus — the founding father of the Malthusian approach on environment pressure — is depicted in many works as a *Scrooge*, the stingy old merchant from Dickens nineteenth century novel *A Christmas Carol*. A scarred personality trapped in fear during the ongoing political and economical changes of his time.<sup>20</sup> Left wing philosopher Karl Marx even depicted him as a “shameless sycophant of the ruling class.”<sup>21</sup> When Malthus postulated his tragic future world scenario for what will follow if population growth continues unchecked and exceeds the world’s resource capacities, he clearly rejected the possibility of any form of humanitarian improvement and universal legal protection.<sup>22</sup> In his view, any acknowledgement of the rights of mankind would destabilize the ancient balance between resources and population and therefore inevitable lead to war and famine accompanied by vice and misery.<sup>23</sup>

In a similar vein, the nineteenth century Malthusians expressed clear doubts about state provided humanitarian protection systems. They held that such systems would only free man from his individual responsibilities with respect to his relatives. In line with these thoughts, Malthusians strongly objected the introduction of supplementary humanitarian laws, the creation of worker’s unions and even increases in wages. According to them, such changes would only result in exponential population increase, which again would lead to higher resources prices, increase property interests and create a realm of unproductive expenses.<sup>24</sup>

In the late eighteenth century, and the height of the *Republican Wars*, scholars such as William Godwin (1756-1836) and the Nicolas de Condorcet (1743-1794) advocated a society based on the ideas of the French Revolution. They expressed novel ideas on the ideal state, which they considered to be a state no longer ruled by a divine and absolute monarchy, but founded on the *rule of reason* and the institutions of the *social contract*.<sup>25</sup> Mankind’s social imperfection and natural limits in a *State of Nature* would be overcome by an *ad hoc* institutionalization of a social and economic society. This institutionalization would liberate mankind from economic and social monopolies, and other restricting privileges, and finally result in a communal society of liberty and equality to which each person would contribute.<sup>26</sup>

Although this debate originated in a two hundred year old world projection, it is easily transposable to the current scholarly debate in which resource scarcity is

---

<sup>20</sup> Emmet, R.B. Malthus Reconsidered: Population, Natural Resources, and Markets. Bozeman, PERC Policy Series, 2006, 5-6.

<sup>21</sup> Karl Marx quoted in: Richard, S. “Conversations With Malthus.” *History Today* 49, no. 12 (1999): 49.

<sup>22</sup> Emmet, R.B. Malthus Reconsidered: Population, Natural Resources, and Markets. Bozeman, PERC Policy Series, 2006, 13.

<sup>23</sup> Brezis, E.S and Young, W. “The New Views on Demographic Transition: A Reassessment of Malthus’s and Marx’s Approach to Population.” *Euro. J. History of Economic Thought* 10, no. 1 (2003): 27-28.

<sup>24</sup> Fiashi, D. and Signorino, R. “Consumption Patterns, Development and Growth: Adam Smith, David Ricardo and Thomas Robert Malthus.” *Euro. J. History of Economic Thought* 10, no. 1 (2003): 17-18.

<sup>25</sup> Emmet, R.B. Malthus Reconsidered: Population, Natural Resources, and Markets. Bozeman, PERC Policy Series, 2006, 14-15.

<sup>26</sup> Winch, D. “Malthus versus Condorcet Revisited.” *The Europe Journal of the History of Economic Thought* 3, no. 1 (1996): 45-47.

linked to global crises. Current neo-Malthusian assumptions hold that an unprecedented population increase in the present century will severely threaten the environment and its resources. Accordingly, fatalistic Malthusian speculations of global misery and vice under a constant threat of inter-communal violence have been reintroduced by several scholars.

A clear repudiation of this pessimistic picture of the future can be found in the optimistic views of the neo-institutionalists, who identify themselves within institutionalistic foundations of Godwin and Condorcet. They reaffirm the belief in the power of a society guided by a rigid institutional framework and focus on a free-market environment that can “directly boost the physical availability of resources and reduce total resource demand.”<sup>27</sup> In such a population equilibrium, properly functioning policies and institutions will eventually encourage the adoption of environmental policies, human rights and other social security constructions.<sup>28</sup>

While neoliberalism is the main economic drive behind the neo-institutionalist concept, the establishment of democratic institutions is considered to be a primary foundation to attain a stable society based on reason and free-market principles. It is held that societies based on basic equality are more likely to adopt a system of “enlightened environmental performance[s]”<sup>29</sup> and consequently overcome the Malthusian population threshold.

In this debate, Roger Payne (1935-...) has emphasized that a democratic regime has certain specific characteristics which improve interaction with the environment. First, Payne underlines the “permit freedom of information and expression”<sup>30</sup> and pluralistic interaction within democracies.<sup>31</sup> He suggests that, in democratic settings, information flows more freely, which ensures basic education on environmental issues. The creation of a strong public opinion will, in a pluralistic sense, generate a constructive counterpart for policymakers when they adopt less favorable environmental policies.<sup>32</sup> A second argument is that democracies have “greater respect for human life”<sup>33</sup>, which prevents them from drifting away to drastic environmental repudiation and ensures *ad hoc* interventions before environmental consequences can negatively influence the prosperity of society.<sup>34</sup>

Emerging from this local viewpoint, the concept of constructive liberal international relations for the purpose of environmental cooperation took ground. Eric Neumayer (1970-...) argues that democracies constantly create cooperative ventures with other states in the face of a common environmental threat.<sup>35</sup> This state strategy of seeking compromise rather than resorting to violence against each other is best

---

<sup>27</sup> Homer-Dixon, T.F. *Environment, Scarcity, and Conflict*. Princeton: Princeton University Press, 1999, 31.

<sup>28</sup> *Ibid.*, 29-33.

<sup>29</sup> Homer-Dixon, T.F. *Environment, Scarcity, and Conflict*. Princeton: Princeton University Press, 1999, 480.

<sup>30</sup> Payne, R. A. “Freedom and the Environment.” *Journal of Democracy* 6, no. 3 (1995): 44.

<sup>31</sup> Li, Q. and Reuveny, R. “Democracy and Environmental Degradation.” *International Studies Quarterly* 50, no. 4 (2006): 936-938.

<sup>32</sup> Payne, R. A. “Freedom and the Environment.” *Journal of Democracy* 6, no. 3 (1995): 45.

<sup>33</sup> *Ibid.*, 46.

<sup>34</sup> *Ibid.*, 48.

<sup>35</sup> Li, Q. and Reuveny, R. “Democracy and Environmental Degradation.” *International Studies Quarterly* 50, no. 4 (2006): 935-936.

reflected in the signing of multilateral agreements and participation in international environmental organizations.<sup>36</sup>

Let us also briefly touch upon the neo-Malthusian interpretation of the benevolent consequences of the institutionalization of human rights. A prominent example of neo-Malthusian interpretation is offered by Garret Hardin. In his well known work *The Tragedy of the Commons*<sup>37</sup>, Hardin underlined the weaknesses of democracies to respond to “the evils of overpopulation.”<sup>38</sup> He also depicted contemporary democratic society as totally inefficient in reducing environmental degradation. In his view, our democratic societies will even accelerate environmental degradation. Personal liberty and common benevolence, which are two key concepts in a democratic society, will paradoxically lead mankind to fatal destruction by allowing for the continued pursuance of individual benefits.<sup>39</sup> This view interferes with Hardin’s personal adoration of human rights; he notes that it is “painful” and “uncomfortable” to deny the validity of rights.<sup>40</sup>

*Au contraire* to the neo-Malthusian approach discussed above, neo-institutionalists reaffirm their belief in the capabilities of democratic institutions and economic systems to safeguard human ingenuity. Therefore, the neo-institutionalist camp fiercely debunks the neo-Malthusian contra-democratic proclamations. Nobel Prize winner Elinor Ostrom (1933-...) has argued that democratic institutions can successfully manage resources by private property actions and positively influence the general protection of human environment. Some neo-institutionalists optimists even argue that prudent “reservation[s] of particular resources for later use may contribute little to the welfare of future generations.”<sup>41</sup> The heritage of well-functioning democratic institutions, business capital and scientific knowledge will be of more value to the prosperity of future generations.

## The European Union: A Green Institutional *Primus Inter Pares*

As discussed above, in accordance with the positive institutionalist approach, it is necessary to adopt a far-reaching and ingenious institutional framework to successfully respond to contemporary environmental problems. This framework will

---

<sup>36</sup> Gleditsch, N.P. “Environmental Conflict: Neo-Malthusians vs. Cornucopians”, ch. 26 in Brauch H.G., ed. *Security and the Environment in the Mediterranean: Conceptualising Security and Environmental Conflicts*. Berlin: Springer, 2003, 481.

<sup>37</sup> Hardin’s *The Tragedy of the Commons* contributed a renewed thought on the malpractice of common goods and values. Hardin applied the human self-interest dilemma to a fairly simplified herdsman scenario. In this scenario, each herdsman will put an additional animal on the common grounds, whereby two conflicting components will emerge. A positive component due the extra profit gained on the sale of the additional animals and a negative component inflicted by the commonly shared burden of overgrazing. Hardin concluded this statement with the following sentence: ‘Each man is locked into a system that compels him to increase his herd without limit in a world that is limited. Ruin is the destination toward which all men rush, each pursuing his own best interest in a society that believes in the freedom of the commons. Freedom in a commons brings ruin to all.’ (see: Hardin, G. “The Tragedy of the Commons.”, *Science* 162, (1968): 1243.)

<sup>38</sup> Hardin, G. “The Tragedy of the Commons.”, *Science* 162, (1968): 1244.

<sup>39</sup> *Ibid.*, 1245.

<sup>40</sup> Hardin, G. “The Tragedy of the Commons.”, *Science* 162, (1968): 1245.

<sup>41</sup> Harold Barnett and Chandler Morse as quoted in: Homer-Dixon, T.F. *Environment, Scarcity, and Conflict*. Princeton, Princeton University Press, 1999, 33.



depend on the existence of effective international cooperative structures/institutions, which can guide individual states in adopting necessary environmental policies.

The European Union is an example of an institutionalized body that adopts successful environmental policies on the basis of human rights principles. We can conclude that the European Union is an example *par excellence* of the embodiment of the concepts of human rights and democracy. The *Charter of Fundamental Rights of the European Union*<sup>42</sup> (enforced by Article 6 of the Treaty of the European Union, TEU)<sup>43</sup> clearly reflects the EU's aspiration to present itself as *the* world leader in promoting and protecting human rights (as set out in Article 2 of the TEU)<sup>44</sup>.

The *Charter of Fundamental Rights of the European Union* can be considered a valuable starting point for highlighting four main institutionalist arguments concerning the environmental capacities of democratic institutions. These include: (a) the power of the free market to generate "green" innovation, (b) the aspiration to respect and protect human dignity true the adaptation of protective environmental regulations and laws, (c) the drive for constructive international cooperation, and (d) the presences of a strong public opinion that demands correct information and favorable actions. Article 37 of the EU Charter delineates an ambition to assimilate human rights values and environmental aspirations into a solid collective policy. The article states that '*a high level of environmental protection and the improvement of the quality of the environment must be integrated into the policies of the Union and ensured in accordance with the principle of sustainable development.*'<sup>45</sup>

A clear archetype of this kind of assimilation is the incorporation of environmental benchmarks into the European Union's economic policies. The enormous economic backbone of the European Union has generated a need for the Union to represent and sustain itself as one of the most prominent innovative regions in the world. The Lisbon Strategy<sup>46</sup>, which was adopted at the Lisbon European Council of 2000, established the aim of securing and strengthening the European Union's position as a strong competitive and knowledge based economy embracing high environmental standards. In line with this strategy, the European Union has implemented various policies to support the development of an environmental economy.<sup>47</sup> In addition, and clearly in line with liberal free market principles, EU

---

<sup>42</sup> See: Charter of Fundamental Rights of the European Union, *O.J.* C364/01 of 18 December 2000.

<sup>43</sup> Consolidated Version of the Treaty on European Union, *O.J.* C115/47 of 9 May 2008 (hereafter TEU), Article 6. Note that the Treaty was amended again as a result of the entry into force of the Lisbon Treaty on 1 December 2010.

<sup>44</sup> Article 2 of the TEU states: '*The Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities. These values are common to the Member States in a society in which pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men prevail.*' In addition, Article 49 of the TEU incorporates these values in the relationship *vis-à-vis* candidate member states. See: Smith, K.E. *European Union Foreign Policy in a Changing World*, Cambridge, Polity Press, 2008.

<sup>45</sup> Charter of Fundamental Rights of the European Union, *O.J.* L 364/01 of 18 December 2000, Article 37.

<sup>46</sup> Conclusion of the Presidency, Lisbon European Council of 23 and 24 March 2000, Bulletin, 2000, nr. 1, § 8-23.

<sup>47</sup> For examples of these initiatives see e.g. COM(2004) 38, Communication from the Commission to the Council and the European Parliament — Stimulating Technologies for Sustainable Development: An Environmental Technologies Action Plan for the European Union, 28 January 2004; **and** Decision n° 1639/2006/EC of the European Parliament and the Council of 24 October 2006 establishing a Competitiveness and Innovation Framework Programme, *O.J.* L 310/15, 9 November 2006.

Directive 2003/87/EC<sup>48</sup> created the world's largest greenhouse gas emission trading system based on the general notion of providing economic incentives by establishing a market based solution of trading emission rights.

Moreover, Article 11 of the Treaty of the Functioning of the European Union (TFEU) expresses the idea that 'environmental protection requirements must be integrated into the definition and implementation of the Union policies and activities, in particular with a view to promoting sustainable development.'<sup>49</sup> In accordance with this, the European Union has included a precautionary approach into its environmental legislation and improved the assimilation of environmental and economic policies.<sup>50</sup>

Secondly, the European Union acknowledges the transcendent cross-border characteristics of environmental problems, which cannot be handled alone by states. Article 191 § 1 of the TFEU establishes the collective objective of '*promoting measures at international level to deal with regional or worldwide environmental problems, and in particular combating climate change.*'<sup>51</sup> In other words, the EU wholeheartedly embraces the idea of collective actions that combine continued institutional reform and adequate implementation of existing commitments to tackle contemporary environmental problems.<sup>52</sup>

Furthermore, it is no exaggeration to depict the European Union's efforts to create open and interactive environmental policies *vis-à-vis* its citizens as one of the most outstanding examples of constructive citizens' participation in national and transnational policy making. The EU's participation in and implementation of the Aarhus Convention (1998)<sup>53</sup> and its adoption of the Registration, Evaluation, Authorisation and Restriction of Chemicals Regulation (REACH)<sup>54</sup>, are the foremost indicators of this open and interactive approach.

---

<sup>48</sup> Council Directive 2003/87/EC of 13 October 2003, establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC, *O.J.* L 275/32, 25 October 2003.

<sup>49</sup> Consolidated Version of the Treaty on the Functioning of the European Union, *O.J.* C115/47 of 9 May 2008 (hereafter TFEU), Article 11. Furthermore, Article 6 (a) of the TFEU reaffirmed the role of the European Union '*to carry out actions to support, coordinate or supplement the actions of the Member States.*' Secondly, although the free market is the main engine of the European Union, Article 36 (e) of TFEU offers an individual *opt out* safeguard for member states on the '*protection of health and life of humans, animals or plants*' within the European Single Market.

<sup>50</sup> Article 3 §3 of the TEU highlights the need for *positive* legislation for the purpose of '*improvement of the quality of the environment*'. An early example of *positive* environmental legislation is Directive 2003/30/EC of 8 May 2003 on the promotion of the use of biofuels or other renewable fuels for transport, *O.J.* L 123/42, 17 May 2003. See Jans, J. and Vedder, H., *European Environmental Law*, Groningen, Europa Law Publishing, 2008.

<sup>51</sup> Consolidated Version of the Treaty on the Functioning of the European Union, *O.J.* C115/47 of 9 May 2008, Article 191 § 1.

<sup>52</sup> Vogler, J. and Stephan, H. "The European Union in Global Environmental Governance: Leadership in the Making?", *International Environmental Agreements: Politics, Law and Economics* 7, 4 (2007): 391.

<sup>53</sup> United Nations Economic Commission for Europe Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters, better known as the *Aarhus Convention*, adopted on 25 June 1998. For a wider overview of the *Aarhus Convention* and its relation to the European Union see: Pallemarts, M., ed. *The Aarhus Convention at Ten: Interactions and Tensions Between Conventional International Law and EU Environmental Law*, Groningen, Europa Law Publishing, 2010.

<sup>54</sup> Council Regulation (EC) n° 1907/2006 of 18 December 2006, concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), establishing a European Chemicals Agency, *O.J.* L 396/1, 30 December 2006.

The Aarhus Convention, which was adopted in 1998, established a set of public rights with respect to environmental policies, including the right to have access to information concerning the environment, the right (and duty) to contribute to environmental decision making processes and the right to judically challenge environmental decisions. In accordance with the Aarhus Convention, the European Union adopted Directives 2003/4/EC<sup>55</sup> and 2003/35/EC<sup>56</sup>, which incorporated the principles of the Convention in the national laws of its member states. Furthermore, it adopted Council Regulation (EC) n° 1367/2006<sup>57</sup> to make the Aarhus Convention directly applicable to the European Union's institutions, bodies, offices and agencies.

The REACH regulation, which was adopted in 2006, is aimed at safeguarding citizens from the unhealthy impact of chemicals. Under the general principle of *no data, no market*, it requires producers to provide full information before allowing these to be introduced into or sold in the EU market.<sup>58</sup> The adoption of the REACH regulation demonstrated the power of European civil societies to bring about a collective regulation on chemical substances. We can describe the historical interplay between European civil society and the European Union in the course of the adoption of the REACH regulation as a textbook example of the struggle of David versus Goliath, in other words the environmental lobbyists representing European civil society vs. the chemical industry lobbying machine. Fortunately history repeated itself, and resulted in an inspiring victory for European civil society.

## Conclusions

As we enter the second decade of the third millennium and the world is facing a population increase of five billion, the Malthusian fatalistic proclamations seem both completely irrelevant and remarkably up to date. By assuming that uncontrolled population increase and resource scarcity (which according to the Malthusian approach cannot be solved by positivistic and rational thinking) eventually will end in general chaos, the Malthusians held a simply transposable fatalistic worldview. Furthermore, the Malthusian camp underlined that the introduction of institutionalized human rights will not resolve the problem of the Malthusian population threshold. According to them, human rights will only corroborate the egocentric misuse of commonly shared rights and values. In line with their misanthropic consciousness, they depicted the implementation of human rights as an obstacle created by modern human reasoning.

Fortunately, numerous academics debunked this misanthropic disconnection in the power of human ingenuity and unlimited human prosperity, and introduced the concept of solidarity rights, including institutionalist environmental countermeasures.

---

<sup>55</sup> Council Directive 2003/3/EC of 28 January 2003 on public access to environmental information and repealing Council Directive 90/313/EEC, *O.J. L 41, 14 February 2003*.

<sup>56</sup> Council Directive 2003/35/EC of 26 May 2003 providing for public participation in respect of the drawing up of certain plans and programmes relating to the environment and amending with regard to public participation and access to justice Council Directives 85/337/EEC and 96/61/EC, *O.J. L 156, 2 June 2003*.

<sup>57</sup> Council Regulation (EC) n° 1367/2006 of 6 September 2006 on the application of the provisions of the Aarhus Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters to Community institutions and bodies, *O.J. L 264, 25 September 2006*.

<sup>58</sup> REACH applies to European producers of chemical substances, as well as non-European producers that export such substances to the EU. Producers are required to provide specific information before a certain chemical can enter the EU. REACH is also applicable to already existing chemicals.

Advocating the imposition of collective duties upon individuals, positivistic institutionalists proclaimed that these so-called third-generation human rights were the main instrument to ensure the right to a secure and healthy environment.

The Latin phrase *Argumentum ad ignorantiam* — argumentation by lack of imagination and trust — summarizes this positivistic contra-Malthusian line of thinking. Although institutionalists agree with the popular assumption that the Malthusian specter is no fully banished from the stage, we may not underestimate the power of *human ingenuity* to counteract unpleasant consequences. Accordingly, modern institutionalized democratic societies offer the best defense against an environmental overkill. Advocating the importance of upholding human rights in a world where humanity often poses a clear threat to the environment, institutionalists formulated human rights as the basic foundation of modern democratic welfare states. Consequently, as efforts are made to preserve and improve humanity, equality and liberty will prevent mankind from the fatal consequences of overpopulation.

As we conclude this article, we must draw attention to the European Union as a clear embodiment of the use of institutionalized principles of human rights to successfully counteract contemporary environmental problems. In view of this, we have to acknowledge once more the power of human reasoning in resolving the negative effects of our earthly existence on the environment. *Par exemple*, it is still more likely that democratic actors such as the European Union will act successfully to address emerging environmental problems than non-democratic actors. Collective problem solving based on the values of human ingenuity and human rights, which is practiced by the European Union, can be considered the starting point of continued measures to resolve the current environmental deadlock.

## References

1. Brezis, E.S and Young, W. “The New Views on Demographic Transition: A Reassessment of Malthus’s and Marx’s Approach to Population.” *Euro. J. History of Economic Thought* 10, no. 1 (2003): 25-45.
2. Dupaquier, J., Fauve-Chamoux, A. and Grebenik, G., eds. *Malthus Past and Present*. New York: Academic Press, 1983.
3. Emmet, R.B. *Malthus Reconsidered: Population, Natural Resources, and Markets*. Bozeman, PERC Policy Series, 2006.
4. Fiashi, D. and Signorino, R. “Consumption Patterns, Development and Growth: Adam Smith, David Ricardo and Thomas Robert Malthus.” *Euro. J. History of Economic Thought* 10, no. 1 (2003): 5-24.
5. Fontanel, J. and Coulomb, F. “The Genesis of Economic Thought Concerning War and Peace.” *Defence and Peace Economics* 19, no. 5 (2008): 321-330.
6. Gleditsch, N.P. “Environmental Conflict: Neo-Malthusians vs. Cornucopians”, ch. 26 in Brauch H.G., ed. *Security and the Environment in the Mediterranean: Conceptualising Security and Environmental Conflicts*. Berlin: Springer, 2003, 477-485.
7. Hardin, G. “The Tragedy of the Commons.”, *Science* 162, (1968): 1243-1248.
8. Homer-Dixon, T.F. *Environment, Scarcity, and Conflict*. Princeton, Princeton University Press, 1999.

9. Li, Q. and Reuveny, R. "Democracy and Environmental Degradation.", *International Studies Quarterly* 50, no. 4 (2006): 935-956.
10. Payne, R. A. "Freedom and the Environment." *Journal of Democracy* 6, no. 3 (1995): 41-55.
11. Rachels, J. "The idea of a Social Contract." Chap. 11 in *The Elements of Moral Philosophy*. Hill: MacGraw, 2003, 141-159.
12. Richard, S. "Conversations With Malthus." *History Today* 49, no. 12 (1999): 47-53.
13. Vogler, J. and Stephan, H. "The European Union in Global Environmental Governance: Leadership in the Making?", *International Environmental Agreements: Politics, Law and Economics* 7, no. 4 (2007): 389-413.
14. Winch, D. "Malthus versus Condorcet Revisited." *The Europe Journal of the History of Economic Thought* 3, no. 1 (1996): 44-60.
15. X. *Human Rights*, Stanford Encyclopaedia of Philosophy. (plato.stanford.edu/entries/rights-human/).
16. Charter of Fundamental Rights of the European Union, *O.J.* C364/01 of 18 December 2000.
17. Conclusion of the Presidency, Lisbon European Council of 23 and 24 March 2000, Bulletin, 2000, nr. 1.
18. Consolidated Version of the Treaty on European Union, *O.J.* C115/47 of 9 May 2008.
19. Consolidated Version of the Treaty on the Functioning of the European Union, *O.J.* C115/47 of 9 May 2008.
20. Council Directive 2003/3/EC of 28 January 2003 on public access to environmental information and repealing Council Directive 90/313/EEC, *O.J. L* 41, 14 February 2003.
21. Council Directive 2003/35/EC of 26 May 2003 providing for public participation in respect of the drawing up of certain plans and programmes relating to the environment and amending with regard to public participation and access to justice Council Directives 85/337/EEC and 96/61/EC, *O.J. L* 156, 2 June 2003.
22. Council Directive 2003/87/EC of 13 October 2003, establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC, *O.J. L* 275/32, 25 October 2003.
23. Council Regulation (EC) n° 1367/2006 of 6 September 2006 on the application of the provisions of the Aarhus Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters to Community institutions and bodies, *O.J. L* 264, 25 September 2006.
24. Council Regulation (EC) n° 1907/2006 of 18 December 2006, concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), establishing a European Chemicals Agency, *O.J. L* 396/1, 30 December 2006.
25. Universal Declaration of Human Rights (10 Dec. 1948), U.N.G.A. Res. 217 A (III) (1948).

---

**Ekaterina Tarasova**  
**The EU — Russia dialogue on implementation  
of the right to fair environment**

*Abstract*

*The first partnership and cooperation agreement between the European Union and Russia was signed in 1994. It is now time to replace it with a new one, covering political, economical and security matters, as well as the matter of environmental collaboration. The right to a favorable environment is protected by the Constitution of Russia and the constitutions of many European countries and is realized by means of environmental policy. Environmental problems are global and cannot be solved by countries alone. Hence, cooperation is essential in particular among states on the same continent. One of the most significant objectives of EU-Russia cooperation in the field of environmental policy is currently harmonization of environmental legislation, which is aimed at making possible the implementation of common projects and guaranteeing respect for the right to a favorable environment. The author tries to identify and compare major features of environmental policy in the European Union and Russia in order to determine the strengths and weaknesses of current policies, pinpoint possibilities for cooperation, and make recommendations with respect to important aspects of cooperation that should be covered by the next EU-Russia agreement.*

*Key words: Right to a favorable environment, EU environmental policy, Russian environmental policy, EU — Russia cooperation in the environmental sphere, new EU-Russia agreement*

## **Introduction**

The European Union and Russia have different political backgrounds, but they are both interested in extensive cooperation. The right to a favorable environment is protected by Russian and European laws, and it is being considered to include this right in the new EU-Russia cooperation agreement that is due to replace the current one, which is about to expire. The adoption of a new agreement is associated with great opportunities, particularly in the field of environmental protection. The European Union and Russia are located on the same continent and experience similar environmental problems, which creates an incentive for them to work hard together in this sphere. The European Union's experience in environmental policy and realization of human rights is considerable and can be used by other countries, for instance Russia. In this paper, we will examine in detail and compare EU and Russian environmental policies with a view to determining possibilities for future cooperation in this area, in particular as regards realization of the right to a favorable environment

and the implementation of common policies, and to make appropriate recommendations with respect to the new EU-Russia agreement. We will consider that the implementation of environmental policies and the realization of the right to a favorable environment is successful if adequate legislation has been adopted since this is a key condition for effective policies.

## European Union Environmental Policy

The principles of current EU environmental policy are laid down in the Amsterdam Treaty and include the principle of anticipatory action, the precaution principle, the principle of rectifying consequences and compensating for damages to the environment and the principle according to which the actor responsible for damage pays compensation<sup>1</sup>. The basis of the principles lies in the similarity of environmental problems experienced by the member states, the obligation of member states to implement commonly accepted decisions and an aspiration to coordinate actions taken in the struggle against pollution and to ensure coordinated and uniform EU positions in international negotiations. Today EU environmental legislation is based on various international conventions and EU directives and regulations. The most significant EU decisions are Council directive 85/337/EEC of June 1985, which concerns public and private environmental projects, and Council regulation 1210/90 of May 1990, which concerns the founding of the European Agency of Environment and the European network of information and observation on the environment<sup>2</sup>. EU environmental policy influences not only the national environmental policies of the EU member states but also the policies of its neighbors. The EU monitors environmental developments and tries to prevent environmental crises in neighboring countries such as Serbia, Ukraine, Tajikistan, Armenia, Georgia and Belarus<sup>3</sup>.

After the EU started using so-called flexible instruments in its environmental policy, a number of market-based instruments were introduced. These include trading regulations to decrease emissions (for instance, CO<sub>2</sub> emissions) or the over-exploitation of natural resources; environmental taxes; payments covering the expenses of environmental services; environmental grants and privileges created to stimulate the development of new technologies, environmental goods and services markets; responsibility and compensation schemes aimed at providing adequate compensation for the consequences of environmental damaging activities<sup>4</sup>.

In spite of fact that the EU implements well-developed environmental policies, it still experiences great environmental problems due to the ***lack of a long-term environmental strategy***, an ***imperfect legislative base***, extensive usage of natural resources and inadequate accounting of indirect effects. Another serious problem of EU environmental policy is the lack of financial support. The most significant source of funding for environmental policy in the EU is the Financial Instrument for the Environment (LIFE), which was founded not as an agency to solve financial issues of EU environmental policy but as an agency to oversee financial support from different sources, as well as the efficiency of how this money is spent.

---

<sup>1</sup> Environmental problems in the draft EU Constitution — Gusev A.A. — Polis №1, 2009.

<sup>2</sup> Ibid.

<sup>3</sup> The most important issues of environmental policy implementation — UN — New York, Geneva — 2007.

<sup>4</sup> Environmental problems in the draft EU Constitution — Gusev A.A. — Polis №1, 2009.

The following positive aspects of EU environmental policy can be identified:

Recognition of the importance of environmental issues in the EU integration process and in the development of national policies in the member states, as well as the adoption of six Environmental Action Programmes that structure action in this area;

Adoption of adequate environmental legislation and advanced principles of work performance concerning each member state; and

Use of market-based instruments for environmental protection and involvement of citizens in environmental policy.

The failures of EU environmental policy include:

Lack of sufficient financial support and inefficient use of funds available;

Superficial development of environmental protection issues. The EU should pay more attention to details and regulate details in legislation.

Lack of practical problem solution strategies despite good legislation. The EU should do more to deal effectively with environmental issues in practice.

We can conclude that the failures of the EU's current environmental policies are greater than their positive features.

## The Impact of the EU Environmental Policy on the National Environmental Policies of Member States

The accession of new member states has influenced the future prospects of the EU's environmental policy and environmental development. The decision of the EU's old member states, which are well-developed economically and democratically, to pursue common environmental policies was motivated by economical factors. As is known, an environmentally friendly economy with strong environmental legislation is more competitive than other economies. While the old EU member states initially considered environmental integration as a supplement to economic integration, they have later realized that environmental aspects greatly influence economic developments and are a highly important for sustainable development.

Part of the states that have joined the EU at a later stage are also states with developed economics (these include Great Britain, Denmark, Ireland, Spain, Portugal, Sweden, Finland and Austria). However, other states joining it (in particular those that joined in and after 2004) can be called countries with economies in transition. Their economies are not as highly developed as the economies of the first group of countries and their reasons for joining the EU were largely related to the prospects of future support by the more powerful member states. This difference in economic development is a great division line within the EU. *While the first group of developed countries are among the richest economies in the world and can well afford to carry out environmental policies, the weak newcomers are mostly concerned about ensuring that their economics grow quicker and do not want to "waste" money on environmental protection. The two groups of member states also differ with respect to "environmental background" and environmental policy.* The significant differences between the two groups of countries make the process of adopting and implementing EU environmental policies more complicated. On the one hand, the member states should unite and bring their environmental policies in line with common standards. On the other hand, since the current member states joined the EU over a long period of



time, it is inevitable that there are a priori differences in their level of development. Hence, today the European Union has a mixed structure of member states that influence the implementation of the EU's environmental policy.

Transition to sustainable development requires an appropriate environmental policy based on strong environmental legislation. The competitiveness of national businesses and the competitive advantages of a country depend on the realization of environmental policies. In view of this, it is very important for the EU member states to harmonize their national legislation with common environmental standards. Moreover, the EU member countries do not really have a choice since they are required to comply with the principles of the EU's environmental policy and harmonize their national environmental laws with common ones. The first group of countries discussed above has already carried out harmonization, but the environmental legislation of the second group is still under preparation. The EU's environmental legislation enables the newcomers to adapt to changing realities and ensure a sustainable development process.

For instance, in France, the development of environmental norms has been influenced by common EU policies. A so-called Environmental Charter was developed, adopted and given the status of a constitutional law, which changed the Constitution of France. This document incorporates human rights provisions and principles of the so-called third generation<sup>5</sup>. The Scandinavian countries and the Netherlands were the first ones to start using environmental taxes and remain leaders in this area. Germany and Great Britain have made considerable progress in this area since the middle of 1990s.

The greatest impact that the EU's environmental policy has had on the EU member states is to ensure that they recognize the significance of environmental protection issues. For the new member states the implementation of common environmental policies has had a negative impact in the sense that they, despite lack of finances, have been required to comply with common standards or else risk being punished. We can conclude that it is more difficult for the new member states to ensure respect for the right to a favorable environment.

### Recommendations to European Union in the Sphere of Environmental Policy and Realization of the Right to a Favorable Environment

While the EU's environmental policies are considered one of the most important aspects of the EU integration process, these policies remain largely unsuccessful because of their mostly declarative character. The implementation of common environmental standards in the national policies of the member states has also not been particularly successful. Let's look at the reasons for this. As noted above, the *diversity* of the member states in an economic and environmental respect makes it complicated to find joint solutions to environmental problems. This is the case even though more flexible mechanisms of environmental policy in the form of market-based instruments have been proposed. Another reason is *lack of financing*. When we look at the environmental expenditure by the public sector in different member states, it becomes clear that it has remained unchanged in almost all countries

---

<sup>5</sup> The environmental policy of France — Kalinichenko V.T. — Politics and Society — 2006. №6. — 1.

despite the adoption of new, improved EU legislation on environmental policy<sup>6</sup>. A related problem is the lack of an effective common agency to deal with the financing of environmental policies. A third reason is that the sectors of the economy that are based on the exploitation of natural resources, which are less environmentally friendly than other sectors, are generally highly profitable and prioritized in the member states.

To prevent an increase of the gap between different member states in terms of environmental protection and to improve the implementation of common environmental policies, an advanced *common strategy* concerning the development of all aspects of environmental policy should be adopted. As part of this strategy, it will be essential to recognize the differences existing between the two groups of member states and the differences in their needs and possibilities with respect to environmental policies. Above all, the European Union should take into account the differences in the economical situations of the member states and the impossibility of bringing into line the policies of all member states given their varied economics. Another important measure will be to adopt a long term strategy for how to *help the newcomers to develop their environmental policies* more efficiently on the basis of the well-developed environmental policies of the old member states. An additional measure would be to include environmental policy among the aspects evaluated in the process of admitting new members. The EU should also be more involved in *concrete environmental actions* consistent with its declarations of the value of sustainable development.

To sum up, the EU environmental policy is one of the most interesting cases of international environmental policy because it regulates the policies of the member states at a level above their national policies. In comparison with the environmental policies of other countries, those of the EU member states can be considered quite successful. However, the EU environmental policy has greater potential than currently realized. If the EU improves its environmental policy strategy, it may achieve unprecedented results with respect to environmental protection in the member states and ensure respect for the human right to a favorable environment. The fact that the EU has the most advanced environmental policy in the world and the special character of the EU as an actor speak for such an outcome.

## Environmental policy in Russia

The Russian modern environmental policy started to take form in the early 1990s with the modernization process of the political system, the transition to a democratic state and market economy and the establishment of the right to a favorable environment in the Constitution in 1993. By now, the Russian environmental policy has found its main lines and basic features. There are special features of the Russian environmental policy that makes it distinct from the policy of other countries, but there are also similarities with the policies of other countries. The following major features can be identified:

Although almost twenty years have passed since the beginning of the transition process in Russia, the main problem of Russian environmental policy remains the same: *legislation in the sphere of environmental protection is very complicated, exhibits gaps on numerous issues and overlaps with laws on other issues.*

---

<sup>6</sup> Table on environmental expenditure by the public sector (% of GDP) — 2008.

Although new legislative acts have emerged, the basic problem of unconsidered environmental legislation remains.

The problems with respect to environmental legislation are due to the government's inadequate attitude to environmental issues. There is no recognition of modern and future environmental problems by politicians. Thus, there is a lack of understanding of the magnitude of environmental problems and the necessity of decision-making in this sphere.

The lack of understanding of the risk of future environmental catastrophes also heavily influences the political decision-making process and, above all, the financing of environmental government departments, the implementation of environmental policies, the development of new environmentally friendly technologies etc..

There is public disinterest in environmental policy and its implementation. This factor is closely related to the previous ones. Thus, the high level of public disinterest in environmental issues is highly correlated with government operations in this sphere, while the development of environmental policies can only be pushed forward with public involvement and public demands for efforts to elaborate an environmental policy ensuring sustainable development.

*A policy approach that could help improve the current situation would be to develop a long-term strategy instead of using short-term and mid-term projects and frameworks.* Russian environmental policy has a lot of specific features that separates it from the environmental policy of other countries. As noted above, some environmental problems have been successfully dealt with in the EU. For instance, EU politicians, and subsequently the EU public, have recognized the significance of environmental issues. Russian politicians should learn from the experiences and successes of EU environmental policy. Although there are many problems with the environmental policies in both Russia and the EU, and the European and global environmental situation has not improved as much as could have been expected as a result of the policy responses to date, there is still room for dialog and collaboration between Russia and the EU on certain issues.

## The Future Direction of EU-Russia Cooperation in the Sphere of Environmental Policy

A comparison of the EU's and Russia's environmental policy can help us to appreciate the boundaries of cooperation and to determine what EU countries could contribute to continued collaboration. While the EU's environmental policy is more advanced and the EU plays a leading role in EU-Russia environmental cooperation, the Russian side can also offer insights on some successful practices and progressive technologies<sup>7</sup>. Russia and the European Union began to cooperate on environmental issues under the Partnership and Cooperation Agreement, which was signed in 1994 and subsequently complemented by four declarations on so-called common EU-Russia spaces. Environmental issues are covered by the declaration on a "common economic space" and a document on dialog in the area of environmental issues. Cooperation has been undertaken in the following areas: general environmental policy, climate change,

---

<sup>7</sup> Russia and EU collaboration: climatic and energy security — Russian Regional Environmental centre — 2008 — <http://www.rusrec.ru/ru/news/1488>

water and sea problems, biodiversity and nature conservation, assessment of environmental impact, law enforcement and administration in forest sector, prevention of environmental pollution and ecologically harmless production.

### ***Adjustments needed by the Russian side***

The Russian government should explore EU achievements in the sphere of environmental policy and adapt them to Russian practice. First of all, the Russian authorities should recognize the importance of environmental problems and change attitude to these issues. Recently the Russian Natural Resources Ministry was transformed into the Ministry of Natural Resources and Ecology of the Russian Federation, which can be interpreted as a sign that existing problems are beginning to be recognized. The Russian government has also stressed the importance of public involvement in environmental protection and of public awareness of existing problems. Moreover, promises have been made to adapt current legislation on environmental protection so as to take into account developments in the international management of environmental issues (such as the ratification of the Kyoto protocol by Russia). The Russian government should also give consideration to modern EU market-based instruments used for environment protection purposes and to the possibility of applying them in Russia.

### ***Adjustments needed by both sides***

In the EU, one of the main problems in environmental protection is that there is no effective enforcement of principles and standards agreed in the member states. In Russia, appropriate legislation is lacking. Long-term strategies are lacking in both the EU and Russia and environmental policies are unbalanced in both cases. As environmental issues are global in character and concern at least all Eurasian states, the best solution would be if there was a common strategy for a number of countries, including in particular Russia and the EU member states.

### ***Possible joint actions***

As mentioned above, a new cooperation agreement between Russia and the EU is still under discussion. While Russia and the European Union disagree on various political, economic and other matters, their interests are less conflicting in the environmental policy arena since they have similar views regarding the regulation of environmental issues. They have already worked together in accordance with the Kyoto protocol and share the same values with respect to environmental protection. In their continued cooperation, the EU and Russia should pay more attention to the problem of law harmonization. As part of the new cooperation agreement that is being negotiated, Russia and the European Union should adopt common theses concerning environmental policy and develop a common strategy on environmental issues.

There are a number of main issues that the author believes should be included in the new EU-Russia agreement. Implementation of these suggestions would simplify common transition to sustainable development.

First, the European Union and the Russian government should discuss and consider the possibility of adopting a long-term strategy. The lack of such a strategy currently undermines environmental policies, e.g. legislative acts are adopted without any fundamental conception of what their purpose is. Both in view of the environmental policies of the EU and Russia separately and their common

environmental policy, it would be more beneficial to develop a common long-term strategy than to adjust two different long-term strategies.

Another measure of collaboration that should be covered by the new agreement or documents accompanying it is the creation of a common foundation for providing financial support for state activities in the sphere of environmental policy. Such a foundation could be jointly funded by the EU member states and Russia and have the function of investing available funds in the implementation of common environmental policies and of channeling support to regions with great environmental problems. The establishment of a mechanism of this kind would be a response to the current lack of financing caused by the bureaucratic structure in the EU and the lack of recognition of environmental problems in Russia.

An additional measure by the European Union and Russia should be to ensure a common response to urgent environmental problems in view of the fact that the environmental security of a state is influenced not only by developments within its frontiers but also by developments outside its border and in third countries (the so-called third side effect). Both the EU member states and Russia would benefit from making joint environmental decisions. For this purpose, a special committee should be established. It could be a joint organization with the foundation for financial support discussed above.

In the new EU-Russia agreement, law harmonization should be improved. On the Russian side, a whole new legislative basis for environmental protection is needed. On the European side, current environmental legislation should be developed further.

The following point but should be mentioned as a voluntary aspect in the agreement: reduction of fuel consumption and efforts to develop renewable sources of energy.

These are the most important aspects of future EU-Russia collaboration on environmental issues. They would add to previous common achievements, such as the working group already functioning in the framework of the EU-Russia dialog on environmental issues and successes in common work and common projects that have been undertaken.

## Conclusions

The European Union's and Russia's environmental policies have different backgrounds, achievements and failures. However, there are also certain common features. On the basis of their specific characteristics, the EU and Russia can develop their cooperation in the environmental sphere as a unique case of coordinated environmental policy implementation.

Advanced cooperation by the EU and Russia for the purpose of realizing the human right to a favorable environment seems possible because of the good intentions on both sides to develop good relations in this area. There are also some examples of common achievements in this sphere and of adjustments in the environmental policy of one side as a result of influence by the other side.

Both sides should make more efforts than so far on elaborating an agreement in the environmental sphere. Considerable success would be reached if the European Union and Russia would pay attention to the recommendations made above and to ensuring respect for all human rights, including the right to a favorable environment.

In case a new cooperation agreement is adopted without due attention to these recommendations, the continued cooperation is not likely to have much success. *The new EU-Russia agreement, which is expected to be adopted soon, will show the readiness of politicians to move from declarations of readiness to cooperation on environmental issues to concrete decision-making and implementation of common environmental policies and from the inclusion of provisions protecting human rights (including in particular the right to a favorable environment) in constitutions to the realization of rights. Environmental protection is an appropriate area for the EU and Russia to forget about political discord and ensure cooperation across the Eurasian continent.*

## References

1. The main directions and the stages of formation the EU environmental policy — Gusev A.A. — 2007 <http://www.wpec.ru/text/200704171418.htm>
2. Environmental problems in the draft EU Constitution — Gusev A.A. — Polis №1, 2009.
3. The most important issues of environmental policy implementation — UN — New York, Geneva -2007.
4. The environmental policy of France — Kalinichenko V.T. — Politics and Society — 2006. №6. — 1.
5. Table on environmental expenditure by the public sector (as % of GDP), <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=ten00049&plugin=1>
6. The involvement of the EU: risks. — 2004 — Greenpeace — <http://www.greenpeace.org/russia/ru/news/17390>
7. Russia and EU collaboration: climatic and energy security — Russian Regional Environmental centre — 2008 — <http://www.rusrec.ru/ru/news/1488>

---

*Elena Sorokina*  
**Legislation on NGOs in Russia and Europe**

This paper analyses some aspects of legislation on NGOs in Russia and within the European Union. Comparing legislation in place in Russia and in EU countries, the author tries to identify factors that contribute to differences in the conditions of civil society and democracy in these countries, bearing in mind that the existence of a healthy civil society is a sign of a high level of democracy in a society.

### Russian Legislation

According to the Constitution and the legislation in force, Russian citizens hold all the rights guaranteed by democratic regimes. However, there are a number of factors that create difficulties with respect to the effective implementation of these rights in practice.

Legislation regulating the activity of non governmental organizations and associations was adopted in 1995-1996. The formulation of this legislation was guided by economic rather than political principles and justified state regulation of the NGO sector was replaced by paternal and detailed regulation of all aspects of NGO activity — from the establishment and registration of NGOs to tax assessment and accounting.<sup>1</sup> Different NGO laws are not always consistent and sometimes openly contradict each other.

The legal status of non governmental organizations in Russia is regulated by the Civil Code of Russian Federation (section 50, sections 116-123), the Federal Law “About Non-For-Profit Organizations” (1996), the Federal Law “About Public Associations” (1995), and by a range of special federal laws. According to this legislation, an NGO is essentially a legal body that does not distribute profit among its members but uses it only to achieve purposes set out in its statute. A broad number of different legal forms of NGOs exist, including public associations (with the sub-categories of public organizations, social movements, social funds, social volunteer groups, associations and labour unions), foundations, not-for profit partnerships, consumer cooperatives, bar associations and religious organizations.<sup>2</sup> It should be noted that Russian legislation does not make any clear distinction between different kinds of NGOs with respect to the type of profit they seek, which create difficulties with respect to accounting and tax issues. Not-for-profit organizations and associations may also be governmental in character (if they are established or co-established by governmental bodies).

---

<sup>1</sup> Kvashonkin A.V. “Legal forms, establishment and registration of NPO in Russian Federation. Problems and features of legislation”. Public administration, on-line journal, issue 6, 10 August 2005.

<sup>2</sup> Federal Law, 1995.19.05, N 85 “About Public Associations” (as amended 1997.05.17, 1998.08.19, 2002.08.12, 2003.12.08, 2004.11.2 2006.02.2), Federal Law, 1996.01.12, N7 “About Non-for-Profit Organizations” (as amended 1998.11.26, 2003.12.23, 2006.02.02).

The issue of NGO participation is primarily regulated by the law “About Public Associations”. This law highlights the important principle according to which citizens have the right to establish associations without prior permission of government bodies and to freely join associations. Associations may register and acquire legal status or, also, function legally without state registration and the acquisition of judicial personality.

The same law sets out basic characteristics of the main types of associations. A *public organization* is based on membership, while a *social movement* does not have any members but consists of participants who get together for pursuing a common social purpose. A *social fund* is organized in the form of an endowment based on voluntary contributions and other legal credits and uses this endowment to realize socially useful purposes. A *community organization* has the purpose to render specific services and it is managed by individuals appointed by the establishers. *Social volunteer bodies* are created to address concrete social problems, with the main difference from a *public organization* apparently being its absence of fixed membership.

With regard to geographic criteria, the following types of associations are distinguished: all-Russian associations (which operate in more than half of all regions of the country); inter-regional associations (which operate in more than one region); regional associations (which operate in one region); and local associations (which operate at the local level).

In accordance with the law “About Public Associations”, associations operate on the basis of the following legal principles: voluntariness, equality, self-government, lawfulness, publicity and compliance with their own statutes and programmes. The law prohibits associations from engaging in activities that are directed at:

Forced change of the constitutional system

Violation of the territorial integrity of the Russian Federation

Undermining the safety of the state

Incitement of social, national, religious or ethnic hatred.

Separate legislation prohibits organizations from engaging in “extremist” activities.

According to article 41 of the law “About Public Associations”, associations (including not registered ones) have the responsibilities prescribed in this law and other legislation of the Russian Federation.<sup>3</sup>

The process of establishing and registering an NGO is complicated and bureaucratic and may be considered a form of government interference with the activities of civil society. Registration grants associations a range of rights and obligations. Rights include owning and managing property, pursuing legal civil cases, engaging in litigation, obtaining government and other grants and enjoying tax benefits. Obligations include regularly providing accounting reports to tax services, law-enforcement agencies and statistical bodies.

In practice, the requirements related to the process of registration and the accounting responsibilities that registration gives rise to often outweigh the advantages of obtaining registration. Registration bodies do not have the right to refuse to accept documents submitted for registration, but they have been granted wide discretion to

---

<sup>3</sup> Belyaeva N.Y. “Legal regulation in civil society: purposes, forms, results”..



deny registration, thus opening up the possibility for arbitrary treatment of organizations seeking registration. The fact that the registration process involves a great amount of agreements, operations and documents also considerably complicates and delays the establishment of NGOs and gives bureaucrats plenty of opportunities to abuse power. It is necessary to have a specific process through which NGOs can achieve legal status, but in Russia this process has been carried to the point of absurdity by the complex system of government regulation that it involves.

According to a 2007 report of the Public Chamber concerning the state of civil society in Russia, amendments made to the laws “About Non- for-Profit Organizations” and “About Public Associations” further complicated the processes of NGO registration and reporting, resulting in a reduction of the number of registered NGOs and an increase in the level of control of NGOs by different state bodies. Following the adoption of these amendments, 60% of all NGOs were not able to hand in required activity reports on time and in the required format.<sup>4</sup>

By providing for such a complicated system of regulation of NGOs, the government contributes to pushing informal social activity into the margins of society, where it is more difficult to control it and prevent undesired actions. At the same time, the government also loses opportunities for dialogue with citizens and for joint actions to address social problems. Such a short-sighted policy shows not only how poorly the state machinery works, but also reveals the non-democratic character of the state.

Because of the reasons mentioned above, so-called initiative groups have recently appeared in the public policy field. These groups are civil society actors that operate independently without registration or legal status, which considerably simplifies their activities as they do not have to waste resources on complying with various government requirements. At the same time, they often act just as effectively and responsibly as registered groups, guided by internal forms of self-regulation.

Initiative groups have been created to deal with different problems, among which the most widespread are problems related to real estate and real estate management, land relationships, protection of consumers’ rights and lack of citizens’ control of government activity. Initiative groups also campaign for the safety and development of culture and entertainment centres and other places for social interaction and monitor the safety of urban and rural areas, including improvement of houses, courts, streets, maintenance of old relics and monuments and cultural reserves.<sup>5</sup>

## European Legislation

In the countries of the European Union, the situation with respect to NGO legislation differs significantly from that in Russia.

As such, regulation of the Third Sector is not among the aims of the EU. That does not mean that the EU is not interested in the Third Sector. The EU promotes not only free trade but also democracy, so it is apparently interested in the flourishing of non-governmental organizations. There have been several meetings on European level

---

<sup>4</sup> See [http://opr.ru/files/Doklad2007-1.doc\\_Toc185694179](http://opr.ru/files/Doklad2007-1.doc_Toc185694179)

<sup>5</sup> “Initiative group of citizens as a new player of advocacy in Russian Federation in 2000s”, graduate qualification work by Evgeniya Achmedjanova, student of HSE, scientific adviser Belyaeva N.Y., Moscow, 2008.

on the role of the Third Sector, by which it becomes clear that the EU, as well as the Council of Europe intend to promote a democratic society in which non governmental organizations have an important place in social and political life, including inter alia the provision of educational, social and health services to the public. At an open meeting organized by the Council of Europe, this was formulated as follows: “[...]The existence of many NGO is a manifestation of the right of their members to freedom of association and their host countries adherence to principles of democratic pluralism”<sup>6</sup>.

The European Convention on Human Rights (ECHR) provides an important framework for NGO legislation adopted by EU-countries. Especially important are the right to freedom of association, the right to privacy and the principle of non-discrimination, which are safeguarded by this treaty. The ECHR provides under what conditions restrictions of these rights are allowed and justified. The specific strength of the European Convention on Human Rights lies in the fact that it gives standing to citizens and NGOs to bring cases against member states to the European Court of Human Rights in Strasbourg. Moreover, the judgments of the court are binding on the member states. Thus, the ECHR provides for effective protection of human rights and fundamental freedoms. The Committee of Ministers of the Council of Europe has in the past and recently in 2007 issued principles with regard to the legal status of NGOs. They can be seen as guidelines to the participating countries, also with regard to their legislation, developed on the basis of the ECHR, the case-law of the European Court of Human Rights and other international documents of human rights.<sup>7</sup>

A review of NGO legislation existing in a selected number of EU countries shows that this legislation openly contradicts the ECHR only in a few cases; and in a few more cases the principles issued by the Council of Ministers of the Council of Europe.

For example, the Belgian law on non-governmental organizations, which was first adopted in 1921 and subsequently has been amended only a few times, is essentially complies with the ECHR any the Council of Europe principles. In order to establish a non-governmental organization, it is enough for three persons to register its statutes and to prepare an accounting report. The registration is made with a government agency, and this agency also checks if the establishment and the statutes of the organization conform to the law. In other countries, where registration is undertaken in court or in the Chamber of Commerce, compliance with existing legislation is checked to varying degrees, and in some cases, not at all.<sup>8</sup>

According to the authors of the review, some problems of government interference with the establishment of NGOs can be observed in view of the right to freedom of association. This freedom may be at stake in cases where the government is involved in the establishment of NGOs to a degree that goes beyond a technical control of whether the establishment is in conformity with the law. Freedom of association is best guaranteed when there is no governmental control of the establishment of NGOs and the government only issues rules for establishing

---

<sup>6</sup> Communication of the European Commission: “Promoting the Role of Voluntary Organizations and Foundations in Europe,” COM/97/0241/final and “The role and contribution of third sector organizations in the building Europe, a report from the social and Economic Committee of the EU, PB C 329, 17/11/1999 p.2.

<sup>7</sup> Preamble Recommendation 2007.

<sup>8</sup> Tymen J. van der Ploeg, “The regulation of the third sector in the European Union”.

organizations. The authors of the review note that control exercised by court and the Chamber of Commerce may be a good alternative.

In most EU countries surveyed, NGOs are required to prepare an annual balance sheet and a statement of income and expenditure. In most cases, this information must be published in the specific NGO registers or otherwise be made publicly available. Such a requirement is not contrary to the right of privacy. In Belgium, organizations are also required to keep registers of their members, while this is not required in other countries.

A common distinction regarding different types of NGOs is that between “associations” and “foundations”. An association is characterized by the fact that it has members with voting rights at the general meeting of the organization. A major characteristic of a foundation is that it has an endowment with which its purposes can be realized.<sup>9</sup> The criteria for the size of this endowment vary considerably. In Belgium, the size is fixed. In addition to “associations” and “foundations”, Belgian legislation recognizes “international non-for profit associations”. Consistent with the right to freedom of association as protected by the ECHR, Belgian NGOs may also operate without legal personality.

In some EU countries, associations may also have commercial purposes on condition that they are not involved in unfair competition with companies and that there are safeguards in place to prevent profit-making by directors, members etc. In other countries, including Belgium, the economic activities of associations are more strictly regulated. This commonly means that associations may carry out some economic activities, but only when these are related to their non-economic purpose.

Looking at the practice in the EU countries, it is interesting to note that the 2007 recommendations issued by the Council of Ministers of the Council of Europe state that NGOs should be free to engage in any lawful, economic activities to support their own non-for-profit activities.<sup>10</sup> This is the case with respect to all forms of NGOs only in a few EU countries.

The authors of the review of NGO legislation point out, however, that the existence of different legal types of NGOs, which are characterized by different limitations, does not as such constitute a threat to freedom of association, as long as the legislation does not restrict legitimate objects and activities of the NGOs other than in the case of violations of public order, public safety etc.

## Conclusions

On the basis of the comparison of NGO legislation in Russia and in EU countries undertaken in this paper, we can make some conclusions concerning the implications of this legislation for the role of NGOs in society.

First, most countries with a developed civil society emphasize the non-governmental character of organizations in their legislation. That gives civil society actors the opportunity to act independently and to defend the legal interests of concrete groups of people in front of bureaucrats who represent the state. Russian legislation speaks about non-for-profit organizations, which are divided into governmental and non-governmental organizations. In fact, organizations that have

---

<sup>9</sup> Recommendation CM/REC 2007, principle 18.

<sup>10</sup> Tymen J. van der Ploeg “The regulation of the third sector in the European Union”.

been established with the participation of the government are much more developed than non-governmental ones because of their attractiveness to the state. Such organizations are granted budgetary funds for social projects almost without any competition and act largely under the state control.

Second, the fact that the Russian legislation does not contain any clear distinction of organizations on the basis of types of the type of profit they seek create serious difficulties with respect to tax assessment and accounting and, consequently, benefits and advantages. And the third and the most serious factor that influences the state of civil society in Russia is the complicated and bureaucratic process of registration. Taken together, these factors considerably restrain the development of the civil society sector in Russia.

A survey of legislation on NGOs in different EU countries shows that such legislation varies considerably among countries in the region. The role of NGOs in the social and political life in a specific country strongly depends on its national tradition, legal culture and dominant ideology regarding the Third Sector. The ideologies concerning civil society are different in different European countries: in some countries liberal values prevail, in others communitarian ones, and in still others socialist values. Nevertheless, the legislation on NGOs in place in different EU countries is united by compliance (to a greater or lesser degree) with the European Convention of Human Rights and with EU and Council of Europe standards. In general, NGO legislation in different EU countries provides for simple processes for establishing and registering NGOs and simple requirements for NGO accounting (requirements may vary depending on the type of organization and tax account, which organizations choose themselves) and make emphasis on the self-governing of organizations and public accounting. NGOs are often the intermediaries between citizens and the state and provide a means for small-scale democratic participation to citizens. As intermediaries, they have a better feeling for the needs of people than government agencies and may play an advocacy role.

## References

1. Federal Law, 1995.19.05, N 85 “About Public Associations” (as amended 1997.05.17, 1998.08.19, 2002.08.12, 2003.12.08, 2004.11.2 2006.02.2)
2. Federal Law, 1996.01.12, N7 “About Non-for-Profit Organizations” (as amended 1998.11.26, 2003.12.23, 2006.02.02)
3. Belyaeva N.Y. “Legal regulation in civil society: purposes, forms, results”.
4. Kvashonkin A.V. “Legal forms, establishment and registration of NPO in Russian Federation. Problems and features of legislation”. Public administration, on-line journal, issue 6, 10 August 2005.
5. Report of the Public Chamber, 2007, [http://opr.f.ru/files/Doklad2007-1.doc\\_Toc185694179](http://opr.f.ru/files/Doklad2007-1.doc_Toc185694179)
6. “Initiative group of citizens as a new player of advocacy in Russian Federation in 2000s”, graduate qualification work by Evgeniya Achmedjanova, student of HSE, scientific adviser Belyaeva N.Y., Moscow, 2008
7. European Convention On Human Rights, <http://www.hri.org/docs>

8. Recommendation CM/REC (2007) of the Committee of Ministers of the Council of Europe to member states on the legal status of non-governmental organizations in Europe (10 October 2007), <http://www.coe.int/>
9. Regulation of the Council of the EU on 22 July 2003, <http://europa.eu/>
10. Tymen J. van der Ploeg, "The regulation of the third sector in the European Union".

---

*Tatiana Milacheva*  
**Comparison of Mechanisms for the Protection against  
Discrimination on Grounds of Nationality  
in the European Union and the Council of Europe**

### Introduction

The European Union and The Council of Europe are two respectable institutions in the European zone. The Council of Europe (CE) differs from the European Union (EU) in terms of its membership. The EU has 27 member states, while the Council of Europe has a membership of 47 countries. Their goals and priorities are not the same either.

Set up in 1949, the Council of Europe is a purely intergovernmental organisation whose main aims include the protection of human rights and the promotion of democracy and the rule of law<sup>1</sup>. It also promotes Europe's cultural identity and addresses challenges to European society such as racism and xenophobia. The European Union, which is based on the European Communities, was founded to enhance political, economic and social co-operation. Thus, the EU does not accentuate human rights protection in the same way as the CE, though it does not ignore this subject either.

As was said earlier, citizens of the Council of Europe member states are not necessarily citizens of the European Union. In this paper I will make an attempt to compare the EU and the CE human rights instruments with respect to the protection against discrimination on grounds of nationality of non-EU member states citizens. A significant part of all individuals who live or work in the EU states are not EU member states citizens, and there are some examples of their discrimination on grounds of nationality or national affiliation.

It should be noted that, in the Russian language, the word “nationality/nationalite” is connected with ethnic origin rather than with citizenship. On the contrary, the English notion of “nationality” relates to citizenship and refers to a legal bond between a person and a state rather than to ethnic origin. It is also important to note that the treatment of foreigners in many cases do not raise any human rights concerns.

When discussing problems of discrimination on grounds of nationality, the following issues should be kept in mind. On the one hand, regulations in the field of immigration and residency of foreigners are the prerogative of the government of the respective country. The right to enter another country and to obtain residency there in it is not a human right, but rather a privilege bestowed upon an individual by the authorities of that country. On the other hand, international documents in the field of

---

<sup>1</sup> See the official website of the organization at <http://www.coe.int/>

human rights oblige states to respect the fundamental rights and freedoms of all individuals under their jurisdiction because human rights are universal and inalienable<sup>2</sup>.

The **object** of this research is the EU and the CE human rights instruments, while the **subject** is the efficiency of the EU and the CE human rights instruments in ensuring protection of non-EU citizens against discrimination on grounds of nationality..

The **main goals** of the research include:

- comparing the EU and the CE human rights instruments;
- identifying and analyzing violations of the right to non-discrimination on the ground of nationality of foreigners (non-EU citizens)
- comparing the EU and the CE legal documents in the field of protection against discrimination by nationality of non-EU citizens

The following **methods** are used:

- analysis of relevant literature; and
- case-study analysis.

The legal sources used include:

- International law in general;
- Domestic legal regulations in the area of human rights protection;
- The Charter of Fundamental Rights of the European Union; and
- The European Convention for the Protection of Human Rights and Fundamental Freedoms.

This paper contains three sections. Special attention is paid to the treatment of non-EU citizens from Russia. All human rights violations covered are considered in the context of the Charter of Fundamental Rights of the European Union and the European Convention for the Protection of Human Rights and Fundamental Freedoms as mechanisms of human rights protection and promotion.

The **hypothesis** of this research is:

The Council of Europe has a larger variety of human rights instruments for the protection of discrimination of grounds of nationality than the European Union.

## The EU and the CE Human Rights Instruments

First, it is important to look at where human rights obligations are laid down in the two organizations. In the Council of Europe, human rights are protected by the European Convention on Human Rights, which was signed in 1950 and, implemented through the European Court of Human Rights. This system ensures that human rights are respected in practice and do not only exist on paper.

The Charter of Fundamental Rights is the European Union's fundamental document in the area of human rights. It was adopted by the European Union on 7 December 2000. The content and spirit of this document were influenced by the European Convention of Human Rights and by laws regulating human rights adopted on the basis of the convention. The Charter sets out the protection of a broad scope of rights and freedoms and requires unconditional observance of rights and freedoms protected by current legislation.

---

<sup>2</sup> Учебное пособие по дисциплине “Защита личности от дискриминации” Тема 11. Дискриминация по признаку гражданства.

Second, it is important to compare what the two documents say about discrimination on grounds of nationality. The Convention for the Protection of Human Rights and Fundamental Freedoms says: “The High Contracting Parties shall secure to everyone within their jurisdiction the rights and freedoms defined in Section I of this Convention”. According to Article 14 (“Prohibition of discrimination”), the enjoyment of the rights and freedoms set forth in the Convention “shall be secured without discrimination on any ground such as sex, race, colour, language, religion, political or other opinion, national or social origin, association with a national minority, property, birth or other status”. As for citizens of other countries, they are mentioned in Article 1 (“Procedural safeguards relating to expulsion of aliens”) of Protocol No. 7 to the Convention. This article states: “An alien lawfully resident in the territory of a State shall not be expelled there from except in pursuance of a decision reached in accordance with law and shall be allowed: a) to submit reasons against his expulsion, b) to have his case reviewed, and c) to be represented for these purposes before the competent authority or a person or persons designated by that authority. An alien may be expelled before the exercise of his rights under paragraph 1.a, b and c of this Article, when such expulsion is necessary in the interests of public order or is grounded on reasons of national security”.

According to Article 21 of the EU Charter, “Any discrimination based on any ground such as sex, race, colour, ethnic or social origin, genetic features, language, religion or belief, political or any other opinion, membership of a national minority, property, birth, disability, age or sexual orientation shall be prohibited”. The same article further states: “within the scope of application of the Treaty establishing the European Community and of the Treaty on European Union, and without prejudice to the special provisions of those Treaties, any discrimination on grounds of nationality shall be prohibited.”<sup>3</sup> However, it does not specifically mention citizenship. Non-EU citizens are mentioned in Article 15 (“Freedom to choose an occupation and right to engage in work”), which says: “Nationals of third countries who are authorized to work in the territories of the Member States are entitled to working conditions equivalent to those of citizens of the Union.” Article 16 allows states to restrict the political activity of foreigners. The Court of Justice of the EU has ruled that member states cannot consider the nationals of other member states to be aliens.

In the European Union, equal treatment of third country nationals is both an obligation, under the general principle of respect for fundamental rights, and a political commitment. The Tampere Presidency conclusions in 1999 stated that: “The European Union must ensure fair treatment of third country nationals who reside legally on the territory of its Member States.”<sup>4</sup> The same commitment was reaffirmed in the Common Basic Principles on Integration adopted by the European Council in 2004, which provide a “clear, though implicit, indication of the link between equal treatment of third country nationals and protection against racial and ethnic discrimination.” According to these principles, “If immigrants are to be allowed to participate fully within the host society, they must be treated equally and fairly and be

---

<sup>3</sup> “Global Studies: Encyclopedia”. M. Raduga Publishers. 2003. P. 144-145.

<sup>4</sup> Presidency Conclusions 1999, Area of Freedom, Security and Justice Assessment of the Tampere programme and future orientations. Retrieved from:  
[http://ec.europa.eu/justice\\_home/news/consulting\\_public/tampere\\_ii/ENAR\\_IR.pdf](http://ec.europa.eu/justice_home/news/consulting_public/tampere_ii/ENAR_IR.pdf)



protected from discrimination. EU law prohibits discrimination on the grounds of racial or ethnic origin in employment, education, social security, healthcare, access to goods and services, and housing”.

## Human rights Abuses Involving Discrimination of Non-EU Citizens on the Grounds of Nationality

There are different kinds of human rights abuses involving discrimination of non-EU citizens on grounds of their nationality.

Let us start by dividing non-EU citizens into different groups. Unfortunately there are some gaps in the definition of “foreigners” and “third country nationals” in official documents. In this paper, we will consider any person who is not a citizen of the Union a third country national (TCN) or an alien.

Legally recognized aliens are entitled to enter and remain in the EU as long as they maintain this status. The definition of non-EU citizens covers a number of categories of persons: refugees, asylum seekers, migrant workers, individuals who enter the EU for the purpose of family reunion, undocumented immigrants, and stateless persons.

In Latvia and Estonia, there is a special kind of aliens with the status of non-citizens. These individuals are citizens neither of the countries where they reside nor any other country. In accordance with the Latvian law "Regarding the status of citizens of the former USSR who possess neither Latvian nor other citizenship", these aliens are entitled to a non-citizen passport issued by the Latvian government and to certain specific rights. Citizens of the former USSR who reside in Latvia or who are temporarily resident elsewhere, as well as their children, may be recognized as aliens provided that the following conditions are met: 1) on 1 July 1992 they were registered in the territory of Latvia, or as of 1 July 1992 their last registered place of residence was in Latvia, or it has been determined by a court judgment that they have resided in the territory of Latvia for 10 consecutive years until the mentioned date; 2) they are not citizens of Latvia; and 3) they are not and have not been citizens of another state.<sup>5</sup> Children born after Latvia reestablished its independence (21 August 1991), both of whose parents are non-citizens, are entitled to citizenship upon request of the parents. While the issue of non-citizens is often equated to the problem of statelessness, the status of non-citizens in both Latvia and Estonia is unique and did not previously exist in international law<sup>6</sup>.

Another particular group of non-citizens are members of national minorities, who are often victims of human rights abuses.

After identifying different groups of non-EU citizens, we will consider cases of discrimination of non-EU citizens on grounds of nationality. In order to do this, we will look at court decisions.

Discrimination by nationality can take different forms. One of them is discrimination of employees by employers. Another form concerns restrictions on

---

<sup>5</sup> Section 1, Law "On the Status of those Former U.S.S.R. Citizens who do not have the Citizenship of Latvia or that of any Other State"

<sup>6</sup> I. Круминя М. Интеграция этнических меньшинств в Латвийской Республике. — Рига, 1997, стр. 12-13  
Цит. по Гушин В. 15 лет в состоянии раскола 2. Латвия — чья она родина? Рига, 1994, стр.105-106.  
Цит. по: Приедитис А. Мультикультурализм и перспективы демагогии.

participation in social, political and cultural life, while a third one concerns discrimination with respect to housing and place of residence. These issues are closely related to such topics as respect for family life, inhuman treatment or punishment and extradition.

### The applicability of EU and CE Provisions to the Problem of Discrimination by Nationality of Non-EU Citizens (Case Studies)

This section includes an analysis of EU and CE provisions relevant to the problem of discrimination by nationality of non-EU citizens. These provisions are analyzed through court decisions.

First, I will consider cases of the **European Court of Human Rights** of the Council of Europe.

In the case of **Gaygusuz v. Austria**<sup>7</sup>, the applicant had applied for an advance on his pension in the form of an emergency payment under the Austrian Unemployment Insurance Act. The Linz Labour Office and the Upper Austria Regional Labour Office rejected the application on the ground that the applicant was not an Austrian citizen, while by law only Austrian citizens were entitled to this type of payment. In its decision, the European Court of Human Rights noted that the applicant was lawfully resident in Austria, worked there and paid contributions to an unemployment insurance fund in the same capacity and on the same basis as Austrian nationals. The authorities' refusal was based exclusively on fact that he did not have Austrian citizenship. Therefore the Court considered that the difference in treatment between Austrian and non-Austrians as regards the entitlement to emergency assistance, of which the applicant was a victim, was not based on any "objective and reasonable justification". It concluded that there had been a violation of Article 14 of the Convention taken in conjunction with Article I of Protocol No. 1. In view of the above conclusion, the Court found it unnecessary to consider the case also under Article 6(1) and Article 8 of the Convention. Under article 50 of the Convention, it finally awarded the applicant reimbursement of his costs and expenses and a specified amount for pecuniary damage.

In the case of "**Bigaeva v. Greece**", the applicant (Violetta Bigaeva) was a Russian national living in Athens who had graduated from the Athens University Law Faculty. Relying on Articles 8 (right to respect for private and family life) and 14 (prohibition of discrimination), she complained about the refusal of the Athens Bar Association to put her name forward for examinations to become a member of the Athens Bar on the ground that she was not a Greek national, a requirement stipulated by the lawyers' code<sup>8</sup>. The Court held that there had been a violation of Article 8 (right to respect for private and family life) as the authorities had shown a lack of coherence and respect towards Mrs Bigaeva and her professional life. At the same

---

<sup>7</sup> ECHR : *Gaygusuz v. Austria* Publication : 1996-IV, no. 14, at <http://sim.law.uu.nl/SIM/CaseLaw/hof.nsf/d0cd2c2c444d8d94c12567c2002de990/10e4183d40f47562c1256640004c304a?OpenDocument>

<sup>8</sup> Press release issued by the European Court of Human Rights Registrar, at <http://cmiskp.echr.coe.int/tkp197/viewhbk.asp?sessionId=24577660&skin=hudoc-en&action=html&table=F69A27FD8FB86142BF01C1166DEA398649&key=73422&highlight=20.5.2009>

time the Court ruled that there was no violation of article 14 (prohibition of discrimination). Mrs Bigaeva accused Greece of excluding non-EU foreign nationals from access to the legal profession in an arbitrary and discriminatory manner. The Court reiterated that the Convention did not guarantee the right to freedom of profession and that the legal profession was somewhat special because of its public-service aspects.

The EU Court of Justice has only considered a few cases concerning alleged discrimination of foreign nationals on the grounds of nationality. The case I will discuss involved the issue of working conditions for professional football players in national competitions in the EU member states.

Igor Simutenkov is a Russian national who held a residence permit and a work permit in Spain. Employed as a professional football player under a contract with Club Deportivo Tenerife, he held a non-Community player's licence issued by the Spanish Football Federation. Under the rules of that football federation, in competitions at the national level, clubs may field only a limited number of players from non-EU countries that do not belong to the European Economic Area (EEA). Relying on the EC-Russian Federation Partnership Agreement, which, in regard to conditions of employment, imposes a prohibition of discrimination of Russian nationals on the ground of their nationality, Mr Simutenkov requested that his licence be replaced by a Community player's licence. The Spanish Football Federation, however, turned down that request. When considering the case, the European Court of Justice examined the scope of the principle of non-discrimination laid down in the EC-Russia Partnership Agreement. It noted that the limitation based on nationality established by the rules of the Spanish Football Federation does not relate to specific matches between teams representing their respective countries but to official matches between clubs and, thus, to the essence of the activity performed by professional players. It held that such a limitation cannot be justified on grounds of sport. For these reasons, it held that the EC-Russia Partnership Agreement precludes the application of the limitation in a case such as the one considered, where a professional sportsman of Russian nationality was lawfully employed by a club established in a member state<sup>9</sup>.

Following this ruling, the European Commission introduced a legislative proposal to end discrimination against third country nationals who are currently unable to maintain their social security rights when they move between EU countries for reasons of staying, living or working there. The EC, the EU's executive arm, explained that two objectives of the proposal was to promote the integration of third country nationals by establishing rights and obligations for them that are comparable to those of EU citizens and to encourage mobility of workers, including of non-EU nationals.

## Conclusions

After analyzing the above mentioned court decisions, we can conclude that the judicial institutions of the Council of Europe and the European Union have different approaches to the issue of discrimination by nationality. The European Court of

---

<sup>9</sup> Press release No 32/05. Judgment of the Court of Justice in Case C-265/03. The first judgement on the effects of a partnership agreement: equal working conditions for Russian professional football players in national competition within the member state [http://curia.europa.eu/jcms/jcms/P\\_27349/cp050032en](http://curia.europa.eu/jcms/jcms/P_27349/cp050032en)

Human Rights, which has played a positive role in some discrimination cases, acts on the basis of the European Convention on Human Rights and considers disputable cases also from a moral point of view. The EU Court of Justice approaches discrimination cases primarily from an economical point of view. If discrimination by nationality relates to existing gaps in official documents, and such a state of affairs is not profitable for the EU member states, there is a high probability that the court will rule in favor of non-EU citizens. For example, the restrictions concerning football players from non-EU countries that were discussed above meant that Spanish football teams had to refrain from fielding such players in important games, thus worsening their chances of winning these games. However, it seems that the Court of Justice's focus on economical issues does not always help to stop discrimination.

The European Court of Human Rights has considered many cases of discrimination on grounds of nationality, while the EU Court of Justice has considered only a few. So the former has more experience in this field and, as a consequence, better developed strategies for addressing cases on protection against discrimination.

## References

1. Council of Europe official web-site, at <http://www.coe.int>
2. "Global Studies: Encyclopedia". M. Raduga Publishers. 2003. P. 144-145
3. ECHR : *Gaygusuz v. Austria*. Publication : 1996-IV, no. 14, at <http://sim.law.uu.nl/SIM/CaseLaw/hof.nsf/d0cd2c2c444d8d94c12567c2002de990/10e4183d40f47562c1256640004c304a?OpenDocument>
4. EU Presidency Conclusions 1999. Area of Freedom, Security and Justice. Assessment of the Tampere programme and future orientations. Retrieved from: [http://ec.europa.eu/justice\\_home/news/consulting\\_public/tampere\\_ii/ENAR\\_I\\_R.pdf](http://ec.europa.eu/justice_home/news/consulting_public/tampere_ii/ENAR_I_R.pdf)
5. Press release issued by the European Court of Human Rights Registrar, 20 May 2009, at <http://cmiskp.echr.coe.int/tkp197/viewhbk.asp?sessionId=24577660&skin=hudocen&action=html&table=F69A27FD8FB86142BF01C1166DEA398649&key=73422&highlight=>
6. Press release No 32/05. Judgment of the Court of Justice in Case C-265/03. The first judgement on the effects of a partnership agreement: equal working conditions for Russian professional football players in national competition within the member state, at [http://curia.europa.eu/jcms/jcms/P\\_27349/cp050032en\\_](http://curia.europa.eu/jcms/jcms/P_27349/cp050032en_)
7. Section 1, Latvian Law "On the Status of those Former U.S.S.R. Citizens who do not have the Citizenship of Latvia or that of any Other State".
8. Заковряшина Е. Принцип недискриминации в праве Совета Европы // Конституционное право: восточноевропейское обозрение. 2002. № 2 (39). С. 113 — 134.
9. Круминя М. Интеграция этнических меньшинств в Латвийской Республике. — Рига, 1997, стр. 12-13 Цит. по Гущин В. 15 лет в состоянии раскола 2. Латвия — чья она родина? Рига, 1994, стр.105-106. Цит. по: Приедитис А. Мультикультурализм и перспективы демагогии

10. Полещук В. Неграждане в Эстонии. — М.: Европа, 2005
11. Учебное пособие по дисциплине “Защита личности от дискриминации”  
Тема 11. Дискриминация по признаку гражданства.

---

*Maria Shabanova*  
***Rights of LGBT Minorities***  
***in Russian Law and Practice***

Introduction: What Do We Refer to as “LGBT Rights”?

LGBT stands for “lesbian, gay, bisexual and transgender”, which covers people whose sexual orientation is other than heterosexual and whose gender identity differs from their physical sex. As is the case with most minorities, belonging to this group entails social consequences such as different treatment by law or in practice, and being subject to verbal or physical violence, prejudice and stigmatization.

It needs to be stressed that LGBT people “are not demanding special rights. They simply need to enjoy the same human rights as all other individuals in Council of Europe member states, which are enshrined in international instruments, in particular in the European Convention on Human Rights, such as the right not to be tortured, freedom of expression, freedom of assembly, respect for private life, etc.”<sup>1</sup>

In Europe discussions about LGBT rights mainly focus on marital rights (and related issues, ranging from the right not to testify in court against one’s spouse to the benefits for spouses or partners provided by the employer, et al.) and child adoption rights by same-sex couples. While Russian LGBT people are also deprived of such rights, discussion of these issues in Russia is overshadowed by the fact that LGBP people are frequent victims of violations of basic civil rights and freedoms guaranteed by the Russian Constitution (e.g. the right to equal treatment by the law and courts, the right to assemble peacefully and the right to association).

LGBT-related legal issues include, but are not limited to: government recognition of same-sex relationships (in the form of partnership or marriage), child adoption by LGBT persons and couples, the right to serve in the military, anti-discrimination laws, hate crime laws regarding violence against LGBT people, higher ages of consent for same-sex activity, and laws on proliferation of information about LGBT issues.

This paper will focus on analyzing gaps in current Russian legislation that are misused to allow and justify discrimination on the basis of sexual orientation and gender identity, and on discussing what the guidelines for improving this legislation could be and why the initiation of changes meets resistance.

The analysis will cover the following aspects:

Analysis of the consistency of Russian legislation with the standards of the Council of Europe on protection of LGBT minorities against discrimination and providing full access to rights and freedoms;

---

<sup>1</sup> Report on Discrimination on the basis of sexual orientation and gender identity. Parliamentary Assembly of the Council of Europe, p. 15. 16.11.2009.

Analysis of the practice of government officials and bodies towards LGBT people and the problems LGBT people face in accessing rights;

Analysis of factors that prevent positive changes in legislation and practice towards LGBT minorities.

This analysis will provide a basis for making recommendation on how to guarantee access to rights and freedoms for individuals belonging to LGBT minorities.

A report by the Parliamentary Assembly of the Council of Europe (PACE) on Discrimination on the Basis of Sexual Orientation and Gender Identity states:

“Under international law, all human beings are born free and equal in dignity and rights. Sexual orientation and gender identity are recognized as a prohibited ground of discrimination. According to the European Court of Human Rights, a difference in treatment is discriminatory if it has no objective and reasonable justification.

Negative attitudes on the part of a heterosexual majority against a homosexual minority cannot amount to sufficient justification, any more than similar negative attitudes towards those of a different race, origin or color”<sup>2</sup>;

“The lack of knowledge and understanding about sexual orientation and gender identity is a challenge to be addressed in most Council of Europe member states since it results in an extensive range of human rights violations, affecting the lives of millions of people. Major concerns include physical and verbal violence (hate crimes and hate speech), notably by law enforcement bodies, undue restrictions on freedom of expression, freedom of assembly and association, violations of the right to respect for private and family life, violations of rights to education, work and health, as well as regular stigmatization.”<sup>3</sup>

The Council of Europe and the European Court of Human Rights on the Protection of Rights of LGBT People

The Council of Europe has issued several recommendations that alert its member states to the problem of discrimination and stigmatization of citizens on the grounds of sexual orientation and gender identity and to the need to explicitly prohibit discrimination on these grounds in national laws on discrimination, incitement of hatred, hate crime etc.

The PACE has repeatedly vocalized its position on hate speech: “Hate speech by certain public figures, including religious leaders, and hate speech in the media and internet are also of particular concern. The Assembly stresses that it is the paramount duty of all public authorities not only to protect the rights enshrined in human rights instruments in a practical and effective manner, but also to refrain from speech likely to legitimize and fuel discrimination or hatred based on intolerance”<sup>4</sup>

Another source of anti-discrimination legal material are the judgments of the European Court of Human Rights (ECHR). The ECHR regards treatment as discriminatory if it is unequal to individuals who find themselves in equal situations, and this differentiation in treatment has no objective or reasonable justification.

---

<sup>2</sup> Report on Discrimination on the basis of sexual orientation and gender identity. Parliamentary Assembly of the Council of Europe. 16.11.2009.

<sup>3</sup> Report on Discrimination on the basis of sexual orientation and gender identity. Parliamentary Assembly of the Council of Europe. 16.11.2009.

<sup>4</sup> Report on Discrimination on the basis of sexual orientation and gender identity. Parliamentary Assembly of the Council of Europe. 16.11.2009.

According to the ECHR approach, negative attitudes on the part of a majority against a minority on the grounds of sexuality or gender identity are not a sufficient justification for differentiated treatment similarly as negative attitudes towards those of a different race, origin or color are not an acceptable ground for such treatment.

Below a list of judgments of the European Court of Human Rights related to LGBT-issues, as enumerated in the PACE Report on Discrimination on the Basis of Sexual Orientation and Gender Identity<sup>5</sup>:

Consensual sexual relations in private, between adults of the same-sex, must not be criminalised; see *Dudgeon v. United Kingdom* (1981);

**Age of consent for homosexual and heterosexual acts must be equal:** see *Sutherland v. United Kingdom* (1997); (in the case of *S.L. v. Austria* (2003), the Court reiterated that “sexual orientation is a concept covered by Article 14”);

The right of freedom of assembly and association for LGBT people was violated: see *Baczowski and others v. Poland* (2007);

Public authorities are not allowed to discriminate based on sexual orientation when it comes to custody of children, employment and services (armed forces): see *Lustig-Prean and Beckett v. United Kingdom*: ban on homosexuals in the armed forces; see *Salgueiro Da Silva Mouta v. Portugal* (1999): refusal to grant custody to a parent living in a homosexual relationship on the basis of the interest of the child;

Same rights/benefits must be granted to same-sex cohabiting partners as to different-sex cohabiting partners: see *Karner v. Austria* (2004): unequal tenancy rights of heterosexual and same-sex couples;

**If single heterosexuals are allowed to adopt, single homosexuals must be allowed to adopt;** see *E.B v. France* (2008): refusal to authorize an adoption application by a woman in a same-sex relationship on the basis of her sexual orientation;

**Legal recognition of acquired gender and transsexuals’ right to marry:** see *Christine Goodwin v. United Kingdom* (2002): denial of legal recognition of acquired gender and transsexuals’ right to marry;

The requirement to provide for the possibility for transgender persons to undergo medical treatments leading to full gender reassignment, and to make provision for the funding of such treatments on the basis that they are medically necessary: see *Van Kück v. Germany* (2003), refusal to order reimbursement of top-up costs of transsexual’s gender re-assignment treatment; *L. v. Lithuania* (2008), legislative gap concerning full gender-reassignment surgery; and *Schlumpf v. Switzerland* (2009) refusal of an insurance company to pay for the gender-reassignment surgery.

## Protection of LGBT Rights and Russian Legislation

The legal framework of the Council of Europe (of which Russia is a member) provides ample opportunity to fight against discrimination on the basis of sexual orientation and gender identity.

Russian law does not mention sexual orientation or gender identity as prohibited grounds for discrimination or incitement of hatred or violence. In fact, the

---

<sup>5</sup> From Report on Discrimination on the basis of sexual orientation and gender identity. Parliamentary Assembly of the Council of Europe, p. 15. 16.11.2009.



only mentioning of homosexuality in Russian laws is in articles 131 and 132 of the Criminal Code, which deal with rape (article 131 refers to heterosexual rape, while article 132 refers to nonconsensual sexual intercourse between people of the same gender, with the same punishment foreseen in both cases).

However, Russian legislation leaves room for interpretations that include these characteristics of a person's identity in provisions on "other circumstances" or "belonging to any social group" that form part of articles that deal with hate speech and hate crime and guarantee equal rights and treatment.

Attempts to use this "window of opportunity" to file suits against public officials expressing openly homophobic opinions have, however, proved unsuccessful. For example, in 2008-2009, Russian courts failed to classify a homophobic statement of the governor of the Tambov region ("Tolerance? To hell with it! We should tear the faggots into pieces and throw them into the wind!"<sup>6</sup>) as incitement of hatred towards homosexuals under article 282 of the Criminal Code, which provides punishment for incitement of hatred on the grounds of gender, race, ethnicity, language, social background, religion, and belonging to a social group. According to the courts, "sexual preferences cannot be considered a basis for a social group"<sup>7</sup>.

Moreover, Russian courts have failed to recognize bans on gay pride parades imposed by the Moscow authorities as violations of the freedom of assembly and freedom of expression of those wanting to attend such parades. However, in the case of freedom of assembly, LGBT people are not the only ones who cannot enjoy their constitutional freedoms, as there is a general trend on the part of Russian authorities to find a pretext for denying the right to hold public actions at the planned time and place if such actions do not conform to the current political mainstream dominated by the United Russia party. Thus, while comments made by Moscow Mayor Yuri Luzhkov reveal that the reason for the "bans" on gay pride parades is precisely the fact that such parades would attract attention to the issue of LGBT discrimination in Russia, I will return to the hate speech case as it demonstrates several important points.

First, the courts did not qualify that the statement made by the Tambov governor as hate speech although it clearly amounted to incitement of violence. Second, the courts denied that sexual orientation has a social dimension apart from the sexual one. This is one of the major stereotypes about LGBT people, usually expressed in the following fashion "I do not mind what you do in bed, as long as it's legal, but don't bring your sex life into the press or television, or into the streets". The point, which is entirely missed by this sort of argument, is that being a member of an LGBT minority entails many social dimensions, ranging from acceptance on the daily level to legal recognition of same-sex unions as well as protection against incitement of hatred.

To put it briefly, while Russian courts and legislators have access to instruments adopted by the Council of Europe and the ECHR that can help them to fight against discrimination on the grounds of sexual orientation and gender identity,

---

<sup>6</sup> The case was covered by different internet-media, including LGBT-related websites, e.g. GayRussia.Ru, at <http://www.gayrussia.ru/events/detail.php?ID=13487&r1=rss&r2=yandex>

<sup>7</sup> The case was covered by different internet-media, including LGBT-related websites, e.g. GayRussia.Ru, at <http://www.gayrussia.ru/events/detail.php?ID=13487&r1=rss&r2=yandex>

they choose not to do so, even when the issue is specifically brought up. They prefer to deny that the problem of LGBT discrimination exists or is relevant.

Apart from revealing the homophobic attitudes of most public authorities, the lack of measures to address LGBT discrimination brings into question the efficiency of measures to fight discrimination and prejudice on other grounds (race, ethnicity, gender, religion, etc). We cannot be successful in fostering tolerance and fighting prejudice and hate-based crime and speech if we explicitly encourage such hatred and prejudice towards one group.

The most common prejudices against LGBT people reveal rigid stereotypes regarding gender roles and generally aggressive or suspicious attitudes towards “the other”. While some say that xenophobia is a “natural” survival reaction, it is widely recognized in the modern world that it is unacceptable to incite hatred or violence towards persons or groups because they are different.

However, creating a negative image of “the other” is a powerful method of consolidation, both in international relations and domestic politics. In today’s Russia, authorities carefully consider what groups to use as scapegoats, and given the high number of ethnicities in Russia, it is extremely unwise to use racial/ethnic groups for this purpose (unfortunately, this does not mean that ethnically motivated violence or hate speech is rare in modern Russia, but it means that the expression of ethnically xenophobic views is not considered acceptable by the political mainstream). On the contrary, LGBT people are an easy target as 70-80% of the Russian population expresses negative attitudes towards gays, lesbians, bisexuals or transsexuals<sup>8</sup>. Stigmatization of this group also goes well with anti-Western rhetoric, with homosexuality being portrayed as a “Western vice” designed to corrupt the Russian population and its values.

Most articles in Russian mass-media that address LGBT issues are either “yellow press” articles dealing with scandals or articles that reinforce prejudice and stereotypes against LGBT minorities. As a result, people do not have access to basic information about homosexuality (starting with the fact that it is not an illness), transsexuality and their social implications.

## Recommendations

It is vitally important to include provisions that forbid discrimination on grounds of sexual orientation and gender identity into Russian laws. Otherwise, the efficiency of legal protection mechanisms against discrimination and violence (physical or verbal) depends entirely on the will of the judge. Given the fact that homophobic and transphobic attitudes are widespread in Russia, the lack of legal provisions prohibiting discrimination on grounds of sexual orientation and gender identity basically leaves LGBT people without any legal protection by national laws if their rights or dignity are violated on the grounds of them being LGBT.

The human rights organization the Moscow Helsinki Group regards the following legislative changes regarding LGBT people as the most necessary ones in the current situation:

---

<sup>8</sup> Igor’ Kon. Homophobia as a form of xenophobia. 06.03.2006.  
<http://www.pseudology.org/Kon/Zametki/GomofobiyaXenofobiya.htm>

“The main task to be solved at this stage from the viewpoint of legislation is to ensure non-discrimination in general (enshrinement of the corresponding provisions in the Constitution of RF, doctrines, codes, etc., completion of the lists of prohibited discrimination grounds with sexual orientation and gender identity, establishment of liability for homophobic actions), to create conditions for spreading the culture of tolerance (with a special attention to it on the part of state authorities and their officials, as well as mass media). It is also necessary to equalize the situation of men and women in the field of reproductive rights (first of all, the right to assisted reproduction regardless of marital status), as well as to solve general issues of the legal status of transsexuals, establishing legal mechanisms that would subject them to a regime corresponding to their new sex.”<sup>9</sup>

Without providing relevant information about LGBT that does not demonize the group in mainstream mass-media, it is impossible to fight the source of discriminatory attitudes, i.e. prejudices. Establishing more clear-cut legal instruments for targeting hate and derogatory speech is a crucial step towards ensuring a balanced coverage of the social, psychological and other problems that LGBT people face.

### References:

1. Report on Discrimination based on sexual orientation and gender identity in Russia. Moscow Helsinki Group in cooperation with the Russian LGBT Network. 2008. <http://lgbtnet.ru/news/detail.php?ID=4336#2.3>
2. Report on Discrimination on the basis of sexual orientation and gender identity. A. Gross, Committee on Legal Affairs and Human Rights of the PACE. 2009.
3. Report on LGBT rights and problems in Russia. The Moscow Helsinki Group. 2009. <http://www.mhg.ru/publications/C6FC1EA>
4. Igor’ Kon. Homophobia as a form of xenophobia. 06.03.2006. <http://www.pseudology.org/Kon/Zametki/GomofobiyaXenofobiya.htm>
5. Igor’ Kon. A report for the PACE. <http://www.pseudology.org/Kon/Articles/SpravkaPASE.htm>
6. Igor’ Kon. Do homosexuals constitute a “social group”? 2008. <http://www.pseudology.org/Kon/Articles/HomoSocGruppa.htm>

---

<sup>9</sup> Unedited excerpt from Report on Discrimination based on sexual orientation and gender identity in Russia. The Moscow Helsinki Group in cooperation with the Russian LGBT Network. 2008. <http://lgbtnet.ru/news/detail.php?ID=4336#2.3>

---

## **Chapter Four. Corporate Governance: between markets and policy**

*Olga Melitonyan, Vladimir Zuev*

### ***Introduction by the Group's Academic Leaders***

For most economies of the world, 2009 was a tough year of financial, economic and structural changes. These changes have not ended yet, but continue to take place, shaping new forms and principles of running businesses, attracting investments and implementing industrial policies.

The recession of 2008-2009 has significantly impacted relatively new-established corporate governance practices in Russia as owners, investors, employees, and government officials struggle to deal with the rapid contraction of the natural resource and manufacturing sectors of the economy. The global downturn caused a 7.9% decline in Russian GDP in 2009 after nearly ten years of economic expansion. Corporations are struggling for their survival and, in this climate, good corporate governance practices have to some degree been lost although their importance has grown immensely both in Russia and in the rest of the world.

The papers included in this section deal with recent trends and topics related to changing practices of corporate governance and economic cooperation. Yulia Sonina focuses on analyzing the importance of corporate governance for a company's performance and its attractiveness for investors. Not only she describes existing principles and key aspects of the corporate governance process, but she also analyzes how these areas were influenced by the global crisis and why the quality of corporate governance will be extremely important for investment decisions in the next decade. Sonina pays special attention to the role of corporate governance failures in shaping the global financial crisis.

Another paper dedicated to corporate governance and management practices is presented by Denis Kurakin, who analyzes the influence of shareholders' and top-managers' decisions on a company's market value. Kurakin also focuses his attention on various groups of investors interested in the company's value dynamics.

Maria Sinichkina sheds light on another actual topic — challenges and opportunities for Russian investors in the EU market. In the first part of the paper, she analyzes key motivation factors of Russia-EU cooperation, giving special attention to the attractiveness of the EU market for Russian investors. Thereafter she brings up key obstacles and difficulties of the Russia-EU cooperation process, including political, social and economic barriers and strong skepticism of EU authorities and the EU community towards Russian investors and their activity in the European Union. Sinichkina concludes her paper suggesting several ways and measures for overcoming the obstacles and hurdles in Russia-EU cooperation.

The topic selected by Natalia Churkina may seem quite unusual for this section. She focuses on the integration of businesses' and authorities' interests in solving the problem of climate change mitigation. Her paper is related both to the area of companies' corporate governance and corporate social responsibility (CSR) practices. The key question posed by Churkina is whether it is possible to harmonize the interests of business, community and authorities in solving the problem of climate change. And if yes, what would be possible mechanisms and procedures for doing so? Part of the paper contains quite a detailed analysis and comparison of Russian and Swedish climate policies.

Another paper is presented by Svetlana Borisova, who focuses on the growing importance of changes in Russian tax policy given the on-going structural changes caused by the economic crisis. The author chose small businesses as the key area of her research, and among the numerous taxes shaping the Russian taxation system she chose to give particular attention to VAT given its unarguable topicality for most Russian companies and the fact that this tax is an important source of income for the federal budget. The paper provides an outline of the author's further research in the field. Borisova examines various taxation cases in detail, emphasizes existing problems of the Russian VAT policy and discusses a number of options for changing the situation.

In 2009 our group paid much less attention to the issue of corporate social responsibility than previously although, as is becoming clear, properly functioning CSR mechanisms will eventually become a new driving force for solving social problems caused by the economic crisis and structural economic changes, as well as of stimulating "soft" components of companies' competitiveness.

---

*Yulia Sonina*  
**Corporate governance practices.  
Is it important for companies**

## Introduction

The overall objective of this study is to determine whether corporate governance practice is important for companies.

Due to the process of globalization of the world economy, great number of investors search for the most profitable spheres and objects of applying their capital beyond the national frontier. They come to other countries and leave them as soon as the business sphere faces problems. As more and more companies are needed in additional financing, the competition for investors' resources has become more intense. As a result, new standards have appeared, to which potential borrowers should adhere. These are so-called standards of best practices or quality of corporate governance, which are appreciated and recognized by investors from different countries:

Research findings based on observations of investor behavior in different countries (such as Brazil, Germany, Korea, China and USA) point to the fact that "in the long run investors value good corporate governance and are willing to pay a premium for it"<sup>1</sup>.

Thus, we can conclude that corporate governance practice is important because it helps investors to choose objects of investment that ensure an appropriate level of risk and return. However, discussion about the importance of corporate governance has recently intensified and it has been proposed that a strategic response to the current financial crisis should contain measures to ensure better co-ordination and implementation of corporate governance standards. Moreover, many analysts consider that the current crisis and its consequences (a significant reduction of investments, the fall in the world stock markets and collapses or takeovers of large financial institutions) can, to an important extent, be attributed to failures and weaknesses in corporate governance. This can again be regarded as additional proof of the importance of good corporate governance for companies, and it can be assumed that the importance of corporate governance will increase further as a result of the current financial crisis.

In order to achieve the objective of this paper, it is necessary to study different aspects of corporate governance and existing standards, as well as the procedure of corporate governance rating and its influence on a company's value, and to analyze the influence of failures in corporate governance on the current financial crisis. It is also important to analyze existing legislation and government recommendations. The

---

<sup>1</sup> Fong Eddy. "The Importance of Corporate Governance for an International Financial Center". September 2008.

author will make conclusions on the basis of applicable documentation, official information from the web-sites of rating agencies and findings from other research works.

## Corporate Governance and Its Principles

According to the Organisation for Economic Co-operation and Development (OECD), corporate governance is a system by means of which companies are managed and controlled. It is important to emphasize that corporate governance practices exist in companies where ownership and management is separated. The shareholders, who own the company, elect a board of directors, who in turn appoint managers. In this way, the shareholders pass their governance rights to the managers, in return for yield (Figure 1).

Companies should be effectively governed by the managers in accordance with the interests of the shareholders. The shareholders want the management to increase the value of the firm, but the managers may ELECT have their own “axes to grind” or “nests to feather”. Good corporate governance should be oriented toward solving this problem of incongruity of interests, which is called the agent problem.

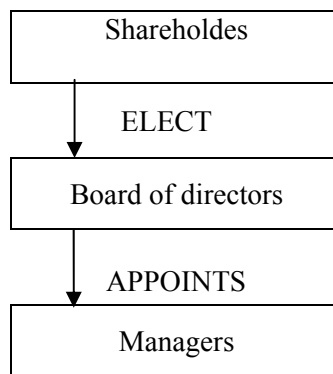


Figure 1

In May 1999, ministers from the 29 countries that comprise the OECD unanimously endorsed the so-called OECD Principles of Corporate Governance. These standards were based on corporate governance experience of the member countries. It should be noted that the principles are non-binding and do not aim at detailed prescriptions for national legislation. Rather, they seek to identify objectives and suggest various means for achieving them. Their purpose is to serve as a reference point. They can be used by policy makers as they examine and develop legal and regulatory frameworks for corporate governance that reflect the economic, social, legal and cultural circumstances of individual countries, and by market participants as they develop their own practices. Since their endorsement, the principles have been recognized as a declaration of minimum acceptable governance standards for companies and investors around the world. These basic principles of corporate governance include:

Ensuring the basis for an effective corporate governance framework

The corporate governance framework should promote transparency and efficiency of the markets, correspond to the rule of law and clearly set out the division of responsibilities among different supervisory, regulatory and enforcement authorities<sup>2</sup>.

The rights of shareholders and key ownership functions

The corporate governance framework should secure and facilitate the exercise of shareholders' rights. Basic shareholder rights should include the right to: 1) secure methods of ownership registration; 2) convey or transfer shares; 3) obtain relevant and material information on the corporation on a timely and regular basis; 4) participate and vote in general shareholder meetings 5) elect and remove members of the board; and 6) share in the profits of the corporation<sup>3</sup>.

The equitable treatment of shareholders

“The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights”<sup>4</sup>.

The role of stakeholders in corporate governance

“The corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises”<sup>5</sup>.

Disclosure and transparency

The corporate governance framework should provide timely and accurate disclosure of information about all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company<sup>6</sup>.

The responsibilities of the board

“The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders”<sup>7</sup>.

Russia has taken certain steps in order to meet these standards. “Along with the improvement of corporate legislation and related normative acts the Federal Commission for the Securities Market (FCSM) adopted the “Corporate Code of Conduct” that was recommended by the Government of the Russian Federation for Russia's companies to follow when developing corporate governance framework”<sup>8</sup>.

## ***1.2 Corporate Governance Ratings***

The level of implementation of the OECD principles by different companies is accessed by different rating agencies. In Russia, such evaluation is undertaken by the consortium of the Russian Institute of Directors (RID), the rating agency “Expert RA” and representatives of international rating agencies (e.g. Standard & Poor's). As an

---

<sup>2</sup> OECD Principles of Corporate Governance (2004), p. 17.

<sup>3</sup> Ibid, p. 28.

<sup>4</sup> Ibid, p.20.

<sup>5</sup> Ibid, p.21.

<sup>6</sup> Ibid, p.22.

<sup>7</sup> Ibid, p.24.

<sup>8</sup> Sheveleva G.I. “Corporate Governance as a Main Factor of Attracting Investments in Russia's Power Industry”, p.1



example of how evaluation is done we can look at the methodology used when developing a national corporate governance rating. This rating includes over 100 indicators of corporate governance practice, which are combined into four basic groups:

*Shareholder rights* (include rights of ownership, participation in the company management, share in profits, risks of infringement of shareholder rights and additional obligations of the company to protect shareholder rights);

*Activity of management and supervision bodies* (covers the structure and an overall performance of governing and supervising bodies, the system of supervision of financial and business activity and interaction between management and supervision bodies);

*Disclosure of information* (non-financial and financial disclosure level, general discipline of information disclosure and the question of equal access to information);

*Observance of the interests of the parties concerned and corporate social responsibility* (evaluate how the company's corporate social policy takes into account the interests of groups affected by its activities, e.g. labor conflicts, social projects for the personnel and the local population and environmental protection).

The corporate governance rating given to a company is an integral indicator based on evaluation of each of the above-cited categories and shows the company's compliance with Russian legislation, recommendations of the Russian Corporate Conduct Code, advanced corporate governance practice standards and the requirements of the Russian stock market regulator. Basically the higher rating, the lower the corporate governance risks in the evaluated company. Rating is made on a scale (NRKU) from 1 (the lowest value) to 10 (the maximum value).

According to recent corporate governance ratings, many Russian firms have governance practices that leave much to be desired (see Appendix 1). These ratings indicate that only few companies observe corporate governance requirements of Russian law and follow international recommendations for advanced corporate governance practice and, thus, demonstrate low corporate governance risks. Most companies, which have taken only limited steps to comply with basic recommendations of the Russian Corporate Code of Conduct, have moderate governance risks. Partly this can be explained by the lack of effective domestic regulation of governance and disclosure practices. Many Russian companies are satisfied with attaining moderate governance standards in the absence of specific national regulations and in view of the relatively weak corporate governance requirements that most international exchanges impose on foreign issuers, such as ensuring that transparency corresponds to the minimum standards of international exchanges, setting up an investor relations function and appointing a limited number of independent directors to the board. It should be noted that the cited list of ratings does not contain "blue chips", whose shares are traded on international stocks and are likely to have stronger corporate governance practices.<sup>9</sup> Moreover, the negative financial trends of 2008 put the governance mechanisms of all the companies, and the reliability of their obtained ratings, to the test.

---

<sup>9</sup> Shvyrkov O., Corporate Governance Infrastructure in Russia. S&P, December 2008.

## ***2.1 Importance of Corporate Governance: Research Findings***

There are number of research works where the authors try to analyze the correlation between the quality of corporate governance in a company and its performance. This research covers both foreign and Russian companies:

Drobetz et al. (2003) conclude that there is a positive correlation between a company's corporate governance rating and and its performance after analyzing a sample of German companies<sup>10</sup>.

Klapper and Love (2002) also find a positive correlation and provide evidence that "corporate governance provisions at the company level matter more in countries with a weak legal environment"<sup>11</sup>.

An analysis carried out by Tomoradze and Gulyaev shows a positive correlation between the quality of corporate governance practices and certain indicators of the performance of Russian companies. However, this correlation is not strong and can only be seen in the market-to-book value and ROE indicators (companies with higher governance ratings have higher market-to-book value indicators than poorly governed companies). They nevertheless conclude that companies with good corporate governance practices are much more effective in making returns to the shareholders than companies with poor corporate governance.<sup>12</sup> Black, Love and Rachinsky (2005) found a strong correlation between the quality of governance and a company's market value. They conclude that, along with traditional financial criteria, the governance of a corporation is an essential factor that investors take into consideration when deciding how to invest their capital<sup>13</sup>.

There are also research papers that document the absence of correlation or even negative correlation between the quality of corporate governance and a firm's performance. However, such findings contradict with the fact that the world's two leading international financial markets (New York and London) for many years have been seen as leaders in setting standards for corporate governance. It appears that this relationship cannot be dismissed as a simple coincidence. It is more reasonable to conclude that strong corporate governance is an important advantage in attracting investments and that a company that wants to attract additional funding needs to show a strong corporate culture and effective corporate governance, in addition to other economic ratios that reflect its effectiveness, stability and prospects of growth.

## ***2.2 Corporate Governance Failure as a Sign of the Importance of Good Corporate Governance***

The global economy currently suffers from a financial crisis. By mid 2008, it was clear that the crisis in the subprime market in the US, and the associated liquidity squeeze, was having a major impact on financial institutions and banks in many countries. As is well known, the huge drop in value (see Appendix 2) was not the only vicissitude during this period. The takeover of Bear Stearns by JPMorgan with the support of the Federal Reserve Bank of New York; major losses on assets of financial institutions in both the US (Citibank and Merrill Lynch) and in Europe (UBS, Credit

---

<sup>10</sup> Tomoradze I. and Gulyaev K..Measuring Corporate Governance Effectiveness in Russia", p.3.

<sup>11</sup>Ibid, p.3.

<sup>12</sup> Ibid, p.1.

<sup>13</sup> Ibid, p.4.

Suisse, RBS, HBOS, Barclays, Fortis and Société Générale); the nationalization of Freddie Mac and Fannie Mae, important intermediaries in the US secondary mortgage market, and the nationalization of Northern Rock (in Britain) and IKB and Sachsenbank (in Germany)<sup>14</sup>; a huge growth of the unemployment rate; severe losses on the stock market; a significant reduction of property prices; and increased difficulties concerning mortgages are the most evident consequences of this crisis.<sup>15</sup>

Generally speaking, it is hard to estimate what the total costs of the crisis will be, but it is clear that the damage will be substantial and long-term. The crisis has been described as the most serious one since the Great Depression. A great amount of analysts consider that the current financial crisis can be, to an important extent, be attributed to failures and weaknesses in corporate governance arrangements, which did not serve their purpose of safeguarding against excessive risk taking. According to the International Corporate Governance Network, corporate governance failings were a significant cause of the financial crisis, if not the only one. Boards “failed to understand and manage risk and tolerated perverse incentives”.<sup>16</sup> Marcello Bianchi, chair of the OECD Steering group on Corporate Governance, thinks that corporate governance failures played a very relevant role in the financial crisis. They created problems not only at company level but also with respect to financial stability and economic growth.

In view of this, a good way to appreciate why corporate governance matters is to see what happens when corporate governance is weak. Recent experience of the market turmoil offers some useful insights on what happens when governance goes wrong (not only during the current crisis).

The development and refinement of corporate governance standards have often followed the occurrence of corporate governance failures. The Enron/Worldcom failures highlighted areas of particular concern and provided important corporate governance lessons, leading to actions by international regulatory institutions and the adoption of additional governance principles. In the case of the Enron scandal, the board was ineffective in checking management. In addition, the company’s audit committee has been criticized for not scrutinizing the accounts closely enough and for not paying serious attention to a whistleblower’s concern over the extensive use of special purpose entities, which were treated as off-balance sheet items in accounts that ultimately enabled Enron to conceal its losses from investors. With regard to the board, findings have shown that its independence was questionable given the involvement of some board members in consultancy work for Enron or their outside interests being dependent on Enron.

A recent survey made by KPMG showed that companies believe that there are many problems in corporate governance that should be resolved in the current situation. Everyone agreed that changes are needed and 90% of the respondents pointed out that risk management practices should be improved (see Appendix 3). These results can be seen in light of the fact that shortcomings in risk management

---

<sup>14</sup> Kirkpatrick Grant. “The Corporate Governance Lessons from the Financial Crisis”. *Financial Market Trends*, ISSN 1995-2864 — OECD (2008), p. 4

<sup>15</sup> [Http://www.publications.parliament.uk/pa/cm200809/cmselect/cmtreasy/416/41604.htm](http://www.publications.parliament.uk/pa/cm200809/cmselect/cmtreasy/416/41604.htm)

<sup>16</sup> [Http://www.ft.com/cms/s/0/a308a71e-b275-11dd-bbc9-0000779fd18c.html](http://www.ft.com/cms/s/0/a308a71e-b275-11dd-bbc9-0000779fd18c.html)

(such as the lack of or poorly functioning risk management committees) have exposed many companies to excessive risk-taking and losses in the course of the current crisis.

In the following, we will consider in more detail some recent corporate governance failures that according to OECD probably lead to the crisis.

### ***2.2.1 Severe Shortcomings in Risk Management Practice***

To a great extent, shortcomings in risk management practice concerns the supervisory role of company boards. In dealing with losses through the end of 2007, some firms made strategic decisions to retain large exposures to super senior tranches of collateralized debt obligations that far exceeded the firms' understanding of the risks inherent in such instruments, and failed to take appropriate steps to control or mitigate those risks.<sup>17</sup> However, these failures were not only the fault of boards of directors because in a number of cases information about exposures did not reach the boards and even senior levels of management in time. Thus it is important for companies to have both technically functioning risk management systems and effective channels for the transmission of information.

According to a recent survey of nearly 150 UK audit committee members and over 1000 globally, only 46 % were very satisfied that their company had an effective process to identify the potentially significant business risks facing the company and only 38% were very satisfied with risk reports they receive from management.<sup>18</sup>

Another example of failure to transmit information concerns UBS. Although the group risk management body was alerted to potential subprime losses in Q1 2007, the investment bank senior management only appreciated the severity of the problem in July 2007.<sup>19</sup>

This shows that corporate governance practice must involve a more effective process of transmission of information to the board of directors, which in turn should be responsible for reviewing and guiding corporate strategy and risk policy and for ensuring that appropriate systems for risk management are in place.

### ***2.2.2 Remuneration and Incentive Systems: Strong Incentives to Take Risks***

In light of recent events, regulators in the major financial centers began to consider the extent to which remuneration practices may have contributed to the financial crisis. The UK Financial Services Authority (the "FSA") considers that remuneration practices may have been a significant contributory factor to the market turmoil.<sup>20</sup> According to the UK Treasury Select Committee, the "bonus culture" contributed to excessive risk-taking and short-termism and thereby played a contributory role in the crisis.<sup>21</sup> Joseph Stiglitz, the Nobel-Prize-winning economist, also considers that "the system of compensation almost surely contributed in an important way to the crisis. It was designed to encourage risk-taking — but it encouraged excessive risk-taking. In effect, it paid them to gamble. When things

---

<sup>17</sup> Kirkpatrick Grant. "The Corporate Governance Lessons from the Financial Crisis". Financial Market Trends. ISSN 1995-2864 — OECD (2008), p. 8.

<sup>18</sup> Ibid, p.11

<sup>19</sup> Ibid.

<sup>20</sup> [Http://www.mondaq.com/article.asp?articleid=79210](http://www.mondaq.com/article.asp?articleid=79210)

<sup>21</sup> House of Commons, *Banking Crisis: Dealing with the Failure of the UK Banks*, Treasury Committee Publication, April 2009.

turned out well, they walked away with huge bonuses. When things turned out badly — as now — they don't share in the losses. Even if they lose their jobs, they walk away with large sums".<sup>22</sup>

According to a number of codes of conduct, executive directors should have a meaningful shareholding in their companies so as to align their incentives with those of the shareholders. Nevertheless, meaningful does not mean excessive. A study of European banks indicated that, in 2006, the fixed salary accounted for only 24% of CEO remuneration, while annual cash bonuses accounted for 36% and long-term incentives awards for 40%.<sup>23</sup>

In other words, the financial crisis has exposed serious flaws and shortcomings in remuneration practices in parts of the banking sector and, in particular, within investment banking. In too many cases, the design of bonus schemes in the banking sector were flawed and not aligned with the interests of shareholders and the long-term sustainability of banks.

### ***2.2.3 Rating Agencies***

Credit ratings issued by credit rating agencies (CRAs) are regarded as an objective measurement of financial institutions or financial products. Purchasers of debt, as well as other participants in the market may rely on such ratings as indicators of the credit risk of investment. There were many instances when the original debt was split into varying tranches by the new financial instrument, supposedly with different risk/return characteristics. The CRAs advised companies on how to structure the instrument so as to achieve a desired rating and "did not understand how securitisation increased problems of information asymmetries, distorted incentives, and made the problems of resolving bad debts more difficult".<sup>24</sup> Over-reliance on ratings issued by the CRAs, which were in some ways deficient, played a key role in the banking crisis.

Stephen Hester, Group Chief Executive of RBS, has noted that "many market participants who use financial markets do not have the resources, time and expertise to do the work themselves."<sup>25</sup> Some banks relied entirely on the ratings and did not establish their own risk analysis. Such banks have fared badly in the crisis.

It is noteworthy that the problems of lack of integrity and fair evaluation by rating agencies and over-reliance on their evaluations received attention already in the early 2000s. In the case of the Enron scandal (which was revealed in 2001), Moody's had supposedly "exhaustively" reviewed the company's off-balance sheet activities and made a decision to upgrade its rating one notch only a few months before the scandal unfolded. However, the problems and shortcomings highlighted in this case were not eliminated but continued to exist and thereby contributed to the current crisis.

### ***2.2.4 Disclosure and Accounting Standards***

Many financial institutions and especially banks produce financial statements that are exceedingly long, which creates a problem of readability and understanding of

---

<sup>22</sup> Seltzer Connie, "Joseph Stiglitz: You ask the questions", *The Independent*, 24 March 2008.

<sup>23</sup> Kirkpatrick Grant. "The Corporate Governance Lessons from the Financial Crisis". *Financial Market Trends*. ISSN 1995-2864 — OECD (2008), p.13

<sup>24</sup> Seltzer Connie. "Joseph Stiglitz: You ask the questions", *The Independent*, 24 March 2008.

<sup>25</sup> UK House of Commons. *Banking Crisis: Dealing with the Failure of the UK Banks*. Treasury Committee Publication. April 2009.

underlying risks. Lengthy and complex financial reports obstruct understanding of a company's financial health and future risks.

Thus, poor disclosure and accounting standards have also partly contributed to poor corporate governance outcomes in the financial services sector.

### Conclusions

On the basis of numerous research findings and official reports, the author of this paper concludes that the initial assumption that good corporate governance is important for companies is valid. This conclusion is supported by both research findings (most research regarding the quality of corporate governance has identified a positive correlation between corporate governance and company performance) and by practice (the current financial crisis can to an important extent be attributed to failures in corporate governance).

Moreover, it is obvious that good corporate governance pays both in good times (by resulting in growth in company value and performance) and in difficult times (by helping a company to escape major losses). Good corporate governance practices give investors confidence in the value proposition of a particular company over the long term and attract investors who are prepared to pay a premium for shares of well-functioning companies. Russian companies should understand the importance of such practices and do more to implement relevant standards and recommendations in order to attract financing from institutional and conservative investors rather than speculative ones.

### Appendix 1:

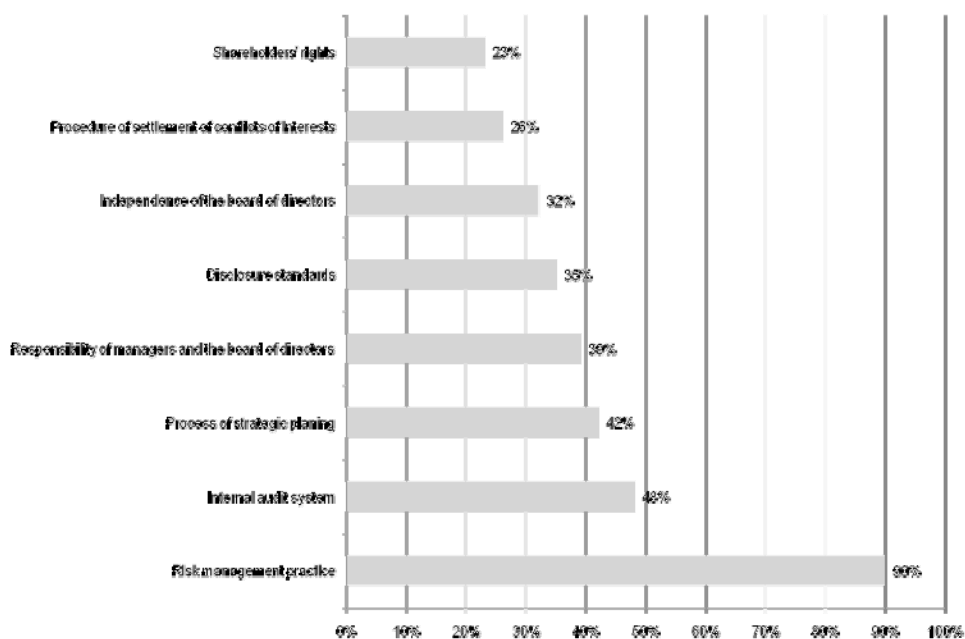
Issuer name	Global scale CGS	The date of last assignation	Rating Agency
Wimm-Bill-Dann Foods OJSC	7+	21.08.2008	Standard & Poor's
VolgaTelecom	5	13.11.2008	
Dalsvyaz	5	02.12.2008	
EuroChem	6+	18.04.2008	
MDM-Bank	6+	26.01.2009	
Mobile TeleSystems (MTS)	7	29.12.2008	
RusHydro	5+	14.11.2008	
North-West Telecom	5+	09.12.2008	
Sibirtelecom	5	01.12.2008	
Transtelecom	4+	11.03.2009	
Southern Telecom Company (UTK)	5	09.10.2008	
Magnitogorsk iron and steel works	7+	21.07.2008	RID — Expert RA
Kamaz	5+	28.07.2006	
Tatenergo	6	28.03.2009	
TNK-BP	6	18.07.2007	
Belon	5+	02.03.2009	
Rostelecom	7+	09.10.2008	

## Appendix 2:

Market capitalization of banks in FTSE-100 (£ billion)			
Banks in FTSE-100	02 April 2007	07 April 2008	06 April 2009
Alliance and Leicester	5	2.2	..
Barclays	47.1	32.1	14.3
Bradford & Bingley	2.9	..	..
HBOS	39.3	21.5	..
HSBC	103.1	100.9	74.8
Lloyds-TSB/ Lloyds Banking Group	31.6	25.8	12.9
Northern Rock	4.8	..	..
RBS	62.8	37.1	17.2
Standard Chartered	20.3	25.5	18.9
Total	316.9	245.1	138.1

Source: Financial Times

## Appendix 3:



## References

1. Brealy Richard A., Myers Stewart C. Principles of Corporate Finance. 2005.
2. Fong Eddy. The Importance of Corporate Governance for an International Financial Center. Hong Kong Securities and Futures Commission. September 2008. Available at [http://www.sfc.hk/sfc/doc/EN/speeches/speeches/08/ef\\_20080909\\_1stalcc.pdf](http://www.sfc.hk/sfc/doc/EN/speeches/speeches/08/ef_20080909_1stalcc.pdf)

3. Kirkpatrick Grant. The Corporate Governance Lessons from the Financial Crisis. *Financial Market Trends*. ISSN 1995-2864 — OECD (2008),
4. Material from the website of the rating agency “Expert RA”, at <http://www.raexpert.ru/>
5. Material from the website of the rating agency Standard&Poor’s, at <http://www.standardandpoors.ru/>
6. OECD Principles of Corporate Governance, 2004. Available at [http://www.oecd.org/document/49/0,3343,en\\_2649\\_34813\\_31530865\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/49/0,3343,en_2649_34813_31530865_1_1_1_1,00.html)
7. Seltzer Connie. “Joseph Stiglitz: You Ask the Questions”. *The Independent*. 24 March 2008. Available at <http://www.independent.co.uk/news/people/profiles/joseph-stiglitz-you-ask-the-questions-799885.html>
8. Sheveleva G.I., Corporate Governance as a Main Factor of Attracting Investments in Russia’s Power Industry. August 2006. Available at [http://www.sei.irk.ru/articles/2006\\_05.pdf](http://www.sei.irk.ru/articles/2006_05.pdf)
9. Shvyrkov O. Corporate Governance Infrastructure in Russia. S&P. December 2008.
10. Skypala P. Time to Reward Good Corporate Governance. *Financial Times*, 17 November 2008.
11. Tomoradze I. and Gulyaev K. Measuring Corporate Governance Effectiveness in Russia. 2006.
12. UK House of Commons. Banking Crisis: Dealing with the Failure of the UK Banks. Treasury Committee Publication. April 2009. Available at <http://www.publications.parliament.uk/pa/cm200809/cmselect/cmtreasy/416/41604.htm>



---

*Natalia Churkina*  
***Integrating Interests of Business and Government  
in Solving the Problem of Climate Change Mitigation***

Climate change is today one of the most discussed questions at the international level. This problem was one of the main issues at the last G8 Summit, which was held on 7-9 of July 2008 in Japan. Climate change is also actively discussed at other international forums, for example, EU summits. Nevertheless, climate change remains one of the most difficult issues in international negotiations. In the 20<sup>th</sup> century most greenhouse gas (GHG) emissions came from developed countries, but in the current century an increasing amount will come from emerging economies such as China and India. While many developed countries are now actively trying to reduce their GHG emissions, developing countries often lack an effective policy on climate change mitigation.

Nowadays international negotiations on climate change are managed mainly by the Climate Change Secretariat, or the body responsible for the United Nations Framework Convention on Climate Change and the Kyoto Protocol realization. All developed countries and economies in transition have committed themselves to GHG emissions reduction under these documents. The Kyoto Protocol was the first mechanism for regulating GHG emissions at the international level.

However, another problem is how to regulate GHG emissions at the national level. There are different actors with different interests in individual countries. From one side, there is business as the main emitter of GHG. From the other side, there is the government of the country, which is interested in fulfilling international commitments, and society, which wants a healthy environment.

In the framework of this paper, we will answer the following questions:

1. What are the differences between business and government interests and how can business be made to address environmental problems?
2. What actions do companies undertake to mitigate climate change?
3. What are the peculiarities of climate policy in Sweden and Russia?
4. What are the mechanisms and procedures for aligning business and government interests in climate change mitigation?

In order to answer these questions, we will analyze national climate policies and business climate activities in countries with different levels of economic development (the EU, the USA, Japan, China, Brazil etc.), with a main focus on Russia and Sweden.

What are the Differences between Business and Government Interests and How Can Business Be Made to Address Environmental Problems?

### ***1.1. Differences between Business and Government Interests and the Necessity of Aligning these Interests in Climate Change Mitigation***

As a rule, governments and business have different purposes of their activities. While a government has commitments to society and is expected to increase the welfare of its citizens, companies are mainly interested in profit growth. At the same time, successful business is a condition for a country's welfare, and a well-functioning society ensures the well-being of companies. This means that many issues of economic development cannot be solved without a culture of partnership between authorities and business.

Partnership of government and business is often used as an instrument of regional and municipal development whereas it is easier for government and business actors to engage in dialogue at the level of cities and regions than at higher levels. However, in the current conditions of globalization, interaction between companies and authorities includes new dimensions both at national and international levels.

Climate change is a problem of the global world, which cannot be solved not only without interaction between countries but also, and first of all, without dialogue between governments and business. It is the function of governments to provide a safe environment for its citizens and, at the same time, to create conditions for economic growth through prosperity of business, which again is the main source of GHG emissions. It follows from this that partnership with business is inevitable in addressing climate change.

The question is who should be the initiator of business-government dialogue. Public-private partnership is traditionally connected with the philosophy of government leadership. However, recently business has begun to play an active role in solving climate problems.

What Can Stimulate Business to Become Climate Responsible Today?

Climate responsibility can provide access to international markets

For example, the EU countries, which pursue a strict policy on GHG restrictions, has considered the possibility of protecting European products from competition with pollution-intensive goods from other countries with the help of trade barriers. Moreover, at the Gleneagles G8 Summit in 2007, a decision was made to eliminate tariff and non-tariff barriers for ecologically and, in particular, climate proof goods and services in the framework of the World Trade Organization.

Climate responsibility creates incentives for resource-saving in companies

For instance, if emissions allowances are charged at a price of about 25 EUR per ton of CO<sub>2</sub> (the current price in the European Union Emissions Trading System), the cost of an oil barrel increases by about 14 USD. As a result of emission allowance policies, aluminum producers have begun to develop recycling facilities, which use 10-20 times less energy than primary aluminum production. The company Alcoa has announced that it will increase the share of recycled aluminum in its production to 50% by 2020, while UC RUSAL plans to increase its share at the recycled aluminum market to 50% by 2013.

Polices for reducing GHG emissions result in growing competitiveness of new climate proof technologies

Although the average tariff of coal generation is about two times higher than that of nuclear generation, preference is often given to coal power because of the high capital costs of nuclear stations. At the same time, if we take into consideration the cost of CO<sub>2</sub> emissions at about 25 EUR per ton, the difference in tariffs increases three to five times and the appeal of nuclear energy grows.

What companies do to protect the climate influences their reputation among investors, clients and international organizations (i.e. corporate governance practice)

Corporate governance is also affected by companies' climate policies. First of all, such policies influence a company's reputation, an important non-material asset that plays a growing role in defining a company's market value and its attractiveness for both minority (portfolio) and majority shareholders. Russian companies have started to pay more attention to this factor after deciding to compete for IPOs at major world stock-markets, such as the New York Stock Exchange (NYSE), the London Stock Exchange (LSE), the Tokyo Stock Exchange (TSE) etc. The NYSE has the most severe listing procedure due to scandals involving several well-known international corporations at the beginning of the 2000s. The global stock-markets have also clearly demonstrated to the management and shareholders of Russian companies how easily their market value can be affected by supposedly "non-performance" issues, such as extensive emission of poisonous substances, violations of labor legislation, lack of social investments etc.

There is no national regulation of GHG emissions in most Asian countries. Nevertheless, Asian companies have begun to reduce their emissions to provide the competitiveness of their production among consumers and investors. Climate responsible behavior has mainly developed among companies whose products are exported (e.g. high technology products and building materials). For example, the Siam Cement Group from Thailand has undertaken voluntary commitments on GHG emissions reduction in response to pressure from nongovernmental organizations, industrial associations and the Thai government.

Climate mitigation policies create new opportunities for business

Following the adoption of international and national policies on GHG emissions reduction, companies have begun to develop new promising methods of production. (See Table 1)

**Table 1. New opportunities for companies in conditions of international policy on climate change mitigation**

Industry	New opportunities	Examples
Electricity generation	Changes in energy balance with increase of the share of gas, nuclear and renewable sources of energy	<b>Duke Energy</b> — nuclear generation development
Machinery and equipment production	Increase in energy efficient and carbon low equipment production	<b>Philips Electronics</b> — energy efficient lighting production <b>Siemens</b> — coal gasification technology development, nuclear equipment producing Honda Motor, Magna Int., Peugeot, Toyota — "clean" automobiles development
Chemical industry	Producing materials for renewables and energy efficiency improving	<b>DuPont</b> — production of renewables and biotechnologies to facilitate increase in biofuel development

Building	Development of ecological and energy efficient building designs	<b>Compagnie de St Gobain</b> — new heat-insulating materials production
Agriculture	Biofuel production	<b>Cosan SA</b> — production of ethanol in Brazil instead of sugar exporting
Financial sector	New financial mechanisms at carbon markets	Chicago Mercantile Exchange — future contracts for ethanol <b>Swiss Reinsurance</b> — insurance at carbon markets
Telecommunications, IT	Growth of demand for IT services as a result of decrease in business travel to reduce GHG emissions	<b>Telecom Group, New Zealand</b> — promotion of videoconferences as an alternative to business travel
Consulting	New consulting services in the sphere of energy efficiency and carbon trade	<b>SGA Energy, Canada</b> — consulting in the sphere of environment protection, energy efficiency and renewables

## 2. What Do Companies Do to Mitigate Climate Change?

### *2.1. The Role of Companies in National and International Climate Policies*

The activity of some companies in the sphere of GHG emissions reduction may be more meaningful for climate change mitigation than national policies as the volume of companies' carbon emissions may exceed the emissions of individual countries. For example, Exxon Mobil, American Electric Power and Shell emit more CO<sub>2</sub> than such countries as Austria, Finland, Denmark and Norway.

As a result, in the current conditions of climate change, new competition frameworks are formed not only by international and national policies, but also under the influence of businesses themselves. For instance, Shell understood at an early stage that GHG emissions will have a price in future. The company organized an inventory of its emissions and began to develop carbon trade resources and take into account the CO<sub>2</sub> price its decision making process. The company launched the first carbon market in 2003, the main result of which was not emissions reduction but an increase in employee awareness of climate change problems. Moreover, this experience enabled Shell to influence national policies on GHG emissions reduction and was used in the development of the European Union Emissions Trading System, which began to work in 2005.

### *2.2. Differences in Business Strategies in Different Countries*

Companies located in different countries adopt measures to reduce GHG emissions because of different reasons and in different ways. For example, Alcoa determines its target values of GHG emissions depending on the country where its subdivisions are located. Company managers determine the position on climate change issues of each subdivision depending on national policies in this sphere. Acer also formulates its climate policy considering subdivision location. Moreover, despite of the absence of GHG emissions restrictions in Taiwan (where the company is based), Acer demands disclosure of ecological information, including CO<sub>2</sub> and energy intensity, from all its suppliers. The company's responsible ecological practices are down to the fact that its products are exported to countries with high ecological and climate protection standards.

### 3. What are the Peculiarities of Climate Policy in Sweden and Russia?

#### ***3.1. Government Policy and Business Activity on Climate Change Mitigation in Sweden***

As a member of the EU, Sweden applies strict restrictions on GHG emissions. According to a proposal by the European Commission, GHG emissions should be reduced in Sweden by 17% compared to the 2005 level. Sweden will hold the Presidency of the EU in the last six months of 2009, when decisions on a possible new global climate agreement for the period beyond 2012 will be made. In view of this, Sweden implements a rather active policy on climate change mitigation. The government uses both hard and soft measures. Among the hard measures are carbon dioxide tax and energy tax on diesel.

Moreover, some Swedish companies such as Volvo have agreed to limits on GHG emissions under the EU Emissions Trading Scheme. The Swedish government has also adopted a set of measures to encourage business to become more climate responsible. Such measures include:

- state investments, first of all in research and technologies;
- tax exemptions on electricity for companies improving energy efficiency;
- tax exemptions on green fuels such as ethanol;
- a “green” car rebate of SEK 10 000;
- organizing joint climate projects of state, business and local authorities.

As a result, Swedish companies are actively involved in climate policy. For example, Ericsson has set power reduction goals for new products and H&M set a target to reduce carbon dioxide emissions by a total of 10% between 2005 and 2009 in comparison with the 2004 level.

#### ***3.2. Russian Policies on Climate Change Mitigation***

The Kyoto Protocol imposes only liberal limitations on Russian carbon emissions. According to estimates, Russia will not exceed the Kyoto Protocol restrictions until 2020, even under a “business-as-usual” scenario. The weak restrictions of the Kyoto protocol have allowed Russia to postpone the development of a national climate change strategy (unlike in many developed and in some developing countries). At the same time, Russia is one of the most carbon intensive economies in the world. The level of GHG emissions per GDP unit in Russia is 2,4 times higher than in the US and 3 times higher than in China and the EU. This high carbon intensity creates potential problems for the economic development of Russia through probable carbon taxes, technical standards and post-Kyoto constraints. Moreover, the post-Kyoto period may result in stricter obligations for Russia to reduce carbon emissions. If Russia was to follow the international target of 50% reduction in emissions against the 1990 level, this would entail a reduction by 25% from the current level.

Most Russian companies are not interested in environmental and, particularly, climate change policies and are among the least environmental and social responsible companies in the world according to Goldman Sachs Sustain Report 2007. However, there are some positive examples of Russian companies promoting climate strategies ahead of emerging national policies in this area. Russian multinational companies have recognized the importance of a completely new management approach whereby

environment expenditures are treated as an essential part of total costs. For example, UC RUSAL has undertaken a voluntary commitment to reduce direct emissions by 50% by 2015 and suggested that its long-term aim is carbon neutrality.

#### 4. What are the Mechanisms and Procedures for Aligning Business and Government Interests in Climate Change Mitigation?

Climate change is an issue that can only be solved through joint efforts by government, business and society. Government and society are interested in environmental responsibility — or climate responsibility — of companies and need to find mechanisms to stimulate emissions reduction by business.

An effective public-private partnership requires readiness to cooperation on the part of both business and government. When addressing environmental problems in Russia, it would be important to go beyond the ideology of administrative regulation through standards and penalties for their violation. There is a need for a new complex of incentives for business (not related to fines and penalties) to implement ecologically and particularly climate responsible measures. Such incentives could include tax incentives and interest rate benefits for the purchase of less carbon-intensive equipment, as well as the development of public-private partnerships for expert support and education of managers and employees. Mechanisms of public-private dialogue should also be established, such as:

- a special coordinating body with government and business representatives;
- regular debate and information events (conferences, round-tables, forums etc.);
- direct channels of communication (for example, websites); and
- mass media communication.

Moreover, public-private organizations may be founded to provide expert, technological and educational support through dialogue. An important role in the partnership between business and government may be played by nongovernmental organizations.

#### References

1. Carbon Disclosure Project Report 2007: Germany. CDP, 2007.
2. Carbon Disclosure Project Report 2007: Asia ex-Japan. CDP, 2007.
3. Citigroup, Climatic Consequences: Investment Implications of a Changing Climate, 2007.
4. Goldman Sachs. GS Sustain. The Goldman Sachs Groups, Inc. June 22, 2007.
5. Hoffman Andrew J. Getting Ahead of the Curve: Corporate Strategies That Address Climate Change. Prepared for the Pew Center on Global Climate Change. The University of Michigan, October 2006.
6. Intergovernmental Panel on Climate Change, Climate Change 2007: Synthesis Report, IPCC, UNEP, 2007.
7. Stern N. The Economics of Climate Change. The Stern Review. Cabinet Office — HM Treasury, 2006, UK.

---

*Maria Sinichkina*  
***EU-Russia Relations: Challenges and Opportunities  
for Russian Investors in the EU Market  
and for European Companies Investing in Russia***

### Introduction

For many years the European Union and the Russian Federation have been trying to find a magic formula for stable relations and strategic partnership based on a foundation of mutual respect. They are close neighbors and thus cannot ignore each other. Russia is a large, dynamic economy for EU goods and services that has experienced considerable economic growth. At the same time, the European Union market is by far one of the most important destinations for Russian investors since Russia's goals include moving towards a market economy based on private capital investments and enterprise and integrating rapidly into the world economy.

The *subject* of this paper can be identified as EU-Russia relations, where the issue of investment reciprocity has been determined a top priority by Russian and EU political leaders. It is obvious that both Russia and the European Union will benefit from growth of foreign investments and trade operations. Indeed, there is an increased interest in the European market on the part of Russian investors, as well as an increased interest in the Russian market among European investors. However, there are numerous barriers obstructing the development of contacts and cooperation at all levels. That's why the *topic* of the present research is challenges and opportunities for Russian investments in the European Union, on the one hand, and for European investments in the Russian Federation, on the other hand. Thus, the *thesis* of this analysis can be worded as follows: the European and Russian markets represent enormous opportunities for investors from the other party, but many obstacles need to be eliminated before investors can take full advantage of these opportunities.

As for the significance of this research, it should be mentioned that without mutual interest in the increase of investment flows, the construction of a Russia-EU common economic space (an objective declared in 2003, which ever since has been a major policy imperative of both sides) seems to be impossible to achieve. The study aims to induce investors to take steps towards cooperation, which can be considered to be one of the prerequisites for building a platform for future stability and integration of both sides.

We already know a lot about the immense opportunities that exist for Russian investors in the EU and about the challenges that await them there. Nevertheless, not all aspects of the EU market have been adequately explored. Russian investors could avoid many problems, such as problems connected with antidumping measures and unfair competition, if they were sufficiently informed about relevant EU rules.

European investors face the same problem with respect to lack of information about the Russian market. Unfortunately, there are few studies aimed at clarifying this area and improving opportunities for investment. This reflects the novelty of the present research.

In the light of the above, the general purpose of the paper is to analyze ways of providing valid support for Russian investors in the European market and for European investors in Russia.

## Theoretical Background

Most scholars agree about the importance of foreign direct investments for the European Union. For example, in their book *European Union and the Race for Foreign Direct Investment in Europe*, Lars Oxelheim and Pervez N. Chauri write that most countries believe that inward foreign direct investment is beneficial for local economies. It is considered positive not only for job opportunities but also for tax income, technological development and competitiveness of local firms. Countries thus create different types of incentives for foreign firms, such as direct incentives/subsidies, tax reliefs, soft loans and preferred handling. Foreign direct investments are no less important for the EU than they are for Russia and they have mutual interests in this area. Still, investment opportunities are undermined by various problems facing investors. Both positive and negative aspects of the investment process are described by Nenad Pacek and Daniel Thorniley in their book *Emerging markets: Lessons for business success and the outlook for different markets*. The authors concentrate on companies that would like to be successful in emerging markets but often end up holding relatively mediocre market positions there. Based on two decades of research into key success factors in emerging markets, they discuss how these factors are changing and which strategies and operational approaches will be successful in the future. They are sure that any company that is going to be successful in emerging markets must be able to properly anticipate changes, risks and opportunities. What is more, the authors analyze the Russian market in greater detail, which is very important for our research.

It seems important to mention another scholar, Paul Fisher, and his book *Foreign direct investment in Russia*. He notes that Russia has the market, the abundant natural resources, and the human skills that foreign investors seek. Nevertheless, the country needs policies that enhance and streamline FDI inflows.

We also paid attention to the book *Putin's Russia and the Enlarged Europe* by Roy Allison, Margot Light and Stephen White. This book discusses problems concerning the relations between the EU and Russia, as well as the possibility of policies to enable a kind of Russian “inclusion without membership”. The authors examine recent changes in Russia's relations with the EU and explore the patterns of support for these various orientations among its own elites and public. Moreover, the book examines issues concerning competition in the “common neighborhood” and controversy over the role of values in shaping Russia's future position in Europe.

## Opportunities and Challenges for Investors

On 1 December 1997, the Partnership and Cooperation Agreement (PCA) between the European Communities and their Member States, on the one hand, and



the Russian Federation, on the other hand, came into force. Among other policy areas, business and investment play a very important role for EU-Russia relations as development in this area can help Russia to achieve a new level of cooperation with Europe. The EU market is attractive for Russian investors since the Russian economy is developing and its enterprises seek to achieve the same goals, one of which is maximizing profits.

Both Russia and the EU will benefit from an increase of investments. Private capital cannot be locked within national borders, and money tends to move to those regions where more favorable conditions are provided, including protection of capital investments.

Moreover, the European and Russian markets are fundamentally complementary: both the EU and Russia have strengths that could be shared to mutual benefit. The EU is a knowledge-based economy that needs to lift its long-term growth prospects; while Russia is a high-growth emerging economy that needs a new knowledge-basis in order to exploit its historic strengths in advanced science and technology.

### Russian Investors in the European Union Market

While Russian investors are willing to invest in the European market, there are a lot of barriers on their way.

The Russian presence is mostly welcomed in developing countries, sometimes as a counterweight to the current US dominance. At present, developed countries generally have a low economic dependence on Russia. However, some countries of the EU tend to feel negative about Russian actors obtaining capital stakes in national companies. Russian companies are increasingly worried about this skepticism toward Russian investors and fear that it may lead to discriminatory treatment, which may restrain Russian investments in the EU. The reasons for such resistance toward Russian FDI include the following:

- Memories of Soviet politics in the past. This has been an issue particularly in the Baltic States and in Poland;

- Fear of losing control over industries of strategic importance or over the “commanding heights” of the economy;

- Lack of transparency. Suspicion arises any time a company’s activity is not transparent, investors’ real intentions are unclear, or the acquiring company intends to buy indirectly, through affiliated companies such as example offshore firms;

- Methods supposedly used by Russian firms to acquire selected foreign companies;

- Concerns about whether there are guarantees to validate property rights in Russia and what effects violations of property rights could have on foreign companies;

- Suspensions that Russian investors are accustomed to bribery, corruption and other illegal techniques in the domestic market and may apply these in the host economy as well;

- Fears that Russian investment may reduce productivity and efficiency, perhaps jeopardizing the acquired company in the long term. Here it should be noted that although domestic or foreign investors cannot be expected to operate a factory at a

loss in the long run, investment and employment obligations can be stipulated in privatization agreements.

Certainly, these concerns should not be viewed as reflecting general characteristics of Russian corporate behavior abroad. Still, they do raise some doubt about the reliability of Russian investors.

Russian companies often underestimate the role of mass media in influencing their image in the eyes of the EU public. Russian business is still largely unknown in the EU, which raises fears. In this context, it would also be important that Russian authorities react when Russian businessmen are discredited in EU media.

## European Investors in the Russian Market

As has already been mentioned, Russia is a country of vast opportunities. However, unfortunately, there are still many problems in its economy, politics and other spheres that are of great importance for investors who start business in a new country. Hence, it is vital to analyze both possible opportunities and threats for foreign investors in Russia and to identify factors that may support foreign investment. In order to do so, the so called SWOT analysis will be used.

The SWOT analysis is usually defined as a strategic planning method used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project or in a business venture. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieving that objective<sup>1</sup> (Table 3). This analysis can be applied to a country such as Russia, which attracts and scares foreign investors at the same time, and help reveal competitive advantages, prospects as well as problems.

The SWOT analysis is usually carried out by examining internal factors (strengths and weaknesses) and external factors (opportunities and threats). Let us look at these factors in some more detail.

Internal factors are factors that a country can influence, and *strengths* are internal factors that a country can control and develop and that can be used effectively in order to achieve goals. Such factors include the following:

- A. Reasonable (moderate) political risks. Centralization of economic and political power in the Kremlin can ensure that political risks for foreign investors remain low;
- B. Soft fiscal policy. From the viewpoint of foreign companies that invest in the Russian market, there have been many improvements in Russian taxation in the past few years, such as introduction of a lower personal tax rate (13% compared to the previous progressive rate of up to 35%) and a decrease in corporate tax (to 24% from 35%). Radical changes in the tax penalty system have also been implemented and tax inspectors can no longer harass Western companies;
- C. Favorable legal policy. Western law firms report that they win 90% of their cases in Russia, compared to only 50% in the West. Legal costs in Russia are lower than in the West and the average period for pursuing a commercial case is only 3-5 months. When a Western company loses a case in a remote

---

<sup>1</sup> [http://en.wikipedia.org/wiki/SWOT\\_analysis](http://en.wikipedia.org/wiki/SWOT_analysis)

Russian region, it can often appeal in a regional centre and win, and as the case gets closer to Moscow, its chances of winning increase. Unfortunately, Western media often report an initial ruling which has gone against a Western investor but fail to note the successful appeal several months later. That's why European investors very often have a negative perception of the Russian commercial legal system;

- D. Skilled workers. Managers of foreign companies are satisfied with their Russian staff at all levels. So, Western companies find Russian staff a great resource.

*Weaknesses* are also considered internal factors and refer to drawbacks that hamper business progress. They consist of the following:

- A. Low living standards in the off-districts;
- B. Insufficient modernization of Russian authorities;
- C. An unsatisfactory situation with respect to intellectual property. The Russian legislation on intellectual property looks good on paper, but its implementation leaves much to be desired. Many reforms are needed to improve the situation.
- D. Ineffective corporate management. There is room for improvement in Russian corporate and legislative transparency. Rules on corporate governance are not as developed as in the EU and legislation may be difficult to interpret or implement;
- E. An undeveloped banking sector. The Russian banking sector is immature, inefficient and lacks probity. It will take as many as ten years to bring it into a shape considered acceptable by Western standards;
- F. Insufficient GDP growth; and
- G. Criminal aspects.

*Opportunities* belong to the external factors and cover areas where a country has limited impact, such as:

- A. Developing economy;
- B. Low competition in the market. Competition in the Russian market is not as intense as in the European market and is of a different kind than in the EU market.

Development prospects for regions. The Russian Federation is divided into 89 administrative units or regions. The main ones for investors are Moscow city, St. Petersburg and the Moscow and Leningrad regions. Many other regions are not really interesting for European companies because of their limited population and low quality of life. Nevertheless, the Russian regions offer business immense opportunities for development and enlargement that do not exist to the same extent in Europe.

Finally, *threats* involve all undesirable situations, developments or changes in the environment that have a destructive or threatening impact on competitiveness in the present or in the future. Among such factors are:

- A. Economic aspects: exchange rate and inflation risks. According to European analytics, despite the currency appreciation in Russia, inflation is unlikely to fall rapidly because of high consumer demand, liberalization of housing and utility prices and the growth of money in circulation as a result of the underdeveloped domestic market;

B. Risks of slide in oil prices. If the oil price collapses in the near future, the Russian economy and eventually Western companies will be hit. The Russian economy is still overly dependent on oil, gas and other commodities, and more than 50% of export revenue still comes from energy and oil products.

All the factors mentioned above comprise the SWOT Matrix, which is usually used to develop strategies. In our case, it's important to develop possible strategies for foreign investors.

	STRENGTHS	WEAKNESSES
OPPORTUNITIES	S-O	W-O
THREATS	S-T	W-T

The **S-O square** position is the most favorable, as there is an ideal correlation between the resources of the country and the competitive opportunities of the environment. The strategy should protect internal strengths with the help of preferences.

The **W-O square** position is less favorable, but still quite positive. The common behavior in this position is the search for an optimal compromise between different investment projects aimed at converting weaknesses into strengths.

The **S-T square** position is less positive. The optimal behavior here is to transform external threats into opportunities by reconstructing the competitive position.

The **W-T square** is the worst position. An active strategy is the only solution. What is more, the analysis of "blind zones" (the zones in which we have less information) can also be quite important.

## Evolution Trends in Investment Policy

The Russian state is consolidating its control functions, and political and macroeconomic risk factors have been significantly reduced.

A recent positive development for Russia has been its recognition by the EU and the USA as a market economy. This should serve the country well on several fronts, including improvement of the general investor sentiment toward the country.

Also, significant progress has been observed in the liberalization of certain energy-related sectors, such as the electricity sector, which is now attracting large FDI inflows from EU companies, e.g. the German E ON Ruhrgas AG and the Italian Enel. It should be mentioned that Russia encourages the participation of foreign companies in the oil and gas sectors, not only for the purpose of foreign capital contribution but also because of their advanced technology and experience.

Several other aspects of the Russian investment climate have also been improved. In addition to refined legal and fiscal policies, there have been improvements in areas such as property rights and corruption. Overall, the country does not perform that bad in terms of business regulation when measured according to relevant regional or global benchmarks. According to the World Bank's recent global survey of business regulations and their enforcement (*Doing Business 2008*), Russia is ranked 106<sup>th</sup> out of 178 countries. This is above countries such as Brazil and India but behind China. Russia ranks above the Organisation for Economic Cooperation and

Development (OECD) and the EU on items like registration property (45<sup>th</sup>) and starting business (50<sup>th</sup>).

However, what has been achieved so far is not in itself enough to guarantee improvement of the investment climate. A lot still needs to be done.

## Possible solutions

One of the possible solutions to the problem of negative stereotypes against Russian business in the EU is to strengthen international credibility and establish more economic contacts. This can be done by establishing a so-called EU-Russia “common space” involving a common economic space, a common space of freedom, security and justice, a space of cooperation in the field of external security, and a common space of research and education, including cultural aspects.

A common economic space would be based on transparency, non-discrimination principles and good governance. Its main goal would be to create an open and integrated market between the EU and the Russian Federation and to reduce trade and investment barriers. What is more, such a common space would be intended to strengthen cooperation on regulatory policy, investment issues, competition, financial services, telecommunications, transport etc.

A common space of freedom, security and justice would support border management and judicial reform in Russia. Another goal of this common space would be to develop cooperation between FRONTEX<sup>2</sup> and the Federal Border Security Service of Russia.

A common space of cooperation in the field of external security would cover five priority areas where the EU and Russia need to strengthen their cooperation, namely dialogue and international cooperation, the fight against terrorism, non-proliferation, crisis management and civil protection. Furthermore, the EU and Russia would need to ensure stability in the regions adjacent to their borders.

A common space on research, education and culture would aim at capitalizing on the strength of the EU and Russia research communities and cultural and intellectual heritage and would promote joint research activities in areas of common interest. Another objective would be the development of cooperation between EU institutions, member states and Russia through the TEMPUS programme<sup>3</sup>. Also it would provide a firm basis for cooperation in the cultural field and strengthen and enhance common values.

The idea of building a “common space” at four different levels, in particular at the economic level, is extremely important. However, a full common economic space cannot be established unless a free trade zone exists between EU and Russia as this is a fundamental prerequisite for dynamic economic interaction. This would enable Russia to enhance its economic status on the world arena and show consistency and development of the Russian economy.

As for promoting a positive image of Russia in European mass media, the main difficulty is the lack of people representing Russian companies in the public sphere. Recently the Russian government has begun efforts to improve the country’s

---

<sup>2</sup> European Agency for the management of operational cooperation at the external border of the EU Member States.

<sup>3</sup> Trans-European Mobility Scheme for University Studies.

image on the world arena. While this process is up and running, Russian businesses not only need to deepen mutual trust and establish stable connections but also work more actively and openly with foreign mass media. The reputation of Russian businessmen in the EU is slowly improving, which is connected with the fact that a growing number of Russian companies have become known in the EU and foreign companies have begun to “acclimatize” to favorable news about Russian companies and Russian economy in general.

Furthermore, it appears reasonable for Russia to adopt a more modern approach to foreign direct investment by:

- amending the newly enacted foreign direct investment law so as to ensure non-discriminatory treatment of foreign investors both in terms of establishment and post-establishment operations;
- abolishing conditions (such as local content restrictions) inconsistent with the World Trade Organization agreement on trade-related investment measures (TRIMs) and make investor-state dispute resolution mechanisms more efficient (for example by giving foreign investors the chance to seek neutral binding international arbitration);
- strengthening the enforcement of property rights;
- simplifying registration procedures for foreign investors so as to make them transparent and rules-based; and
- extending guarantee schemes covering basic non-commercial risks.

Finally, it should be mentioned that also in view of new threats and challenges to European security, the EU-Russia relations need to be brought to a higher level of cooperation than the 1997 Partnership and Cooperation Agreement has been able to ensure. A higher level of cooperation could be attained by creating an independent expert team of EU and Russian policymakers, businessmen and experts to analyze ways of creating a free and predictable investment environment in the region. A team could be formed by members of the EU-Russia Industrialists’ Roundtable (IRT), a business platform composed of company leaders from the EU and Russia, and leading policymakers and researchers. The IRT should aim at maintaining dialogue between business communities in the EU and Russia on relevant policy issues and should develop recommendations on how to improve conditions for mutual investment, business cooperation and partnership to support the creation of an EU-Russia common economic space. An EU-Russia common economic area, as described above, could provide a rules-based framework for mutual trade and investment and generate a win-win partnership ensuring fair competition and freedom of cross-border movement for professionals. The IRT should also produce reports on the EU-Russian investment climate, and the main barriers hindering its further development, and participate in relevant public policy debates on the basis of the recommendations it formulates.

The IRT must also do a better job of explaining to Russian enterprises what the rule of law means in Europe and why it matters. Some companies in Russia are not clear about this, confusing the rule of law with the law of the ruler.

The creation of an EU-Russia expert team would provide a solid legal basis for the evolving relations between the EU and Russia. It would:

- contribute to the convergence of the Russian and EU political, economic and legal systems;
- enhance sustainable development of their economies;

- promote further development of democracy in Russia;
- ensure closer cooperation of its parties in all directions, including security measures;
- help identify mutually beneficial projects of cooperation to expand and upgrade infrastructure; and
- attract European investments in capital intensive projects of Russian companies and establish a free, transparent and sustainable regime for mutual investments.

It is obvious that the new team would not resolve all problems in EU-Russia relations, but combined with other measures and programs, it would help bridge the existing gap between the unifying Europe and Russia. The success of the future partnership between Russia and the EU will also depend on the impact that the deepening integration process in Europe will have on the viability and efficiency of the EU.

## Conclusions

To sum up, we have discussed that there is growing suspicion towards the activities of Russian investors in some EU countries. Major factors that explains this mistrust include:

- insufficient modernization of Russian authorities;
- tendency of Russian investors to use bribery, corruption and other illegal techniques, which may threaten the stability of the newly-founded market relations in the European Union;
- lack of transparency; and
- the negative image of Russian investors in the European mass media.

We have also discussed strategies for improving EU-Russia relations, namely:

- building a “common space” at four different levels;
- improving the image of Russian companies through interaction with Western mass media; and
- creating a special team or a group of specialists to help improve the investment climate between EU and Russia and to ensure closer EU-Russia relations.

## References:

1. Allison R., Light M., White S. (2006). Putin's Russia and the Enlarged Europe
2. EU-Russia Common Spaces Progress Report 2008. Retrieved from the website <http://ec.europa.eu/>
3. Fisher P. (2007). Foreign Direct Investments in Russia: A Strategy for Industrial Recovery.
4. Jones A. (2006). Obstacles to Foreign Direct Investment in Russia. *Journal European Business Review*
5. Ollington C., Reuvid J. (2004). A Business Guide to EU Enlargement: Trade and Investment Opportunities in Europe and the Candidate States.
6. Oxelheim L. Chauri P. (2003). European Union and the Race for Foreign Direct Investment in Europe.

7. Pacek N., Thorniley D. (2006). Emerging markets. Lessons for business and the outlook for different markets.
8. Yudaeva K. (2006). Does Foreign Ownership Matter? Russian Experience.
9. World Investment Report 2008. United Nations Conference for Trading and Development. Retrieved from the website [www.unctad.org/](http://www.unctad.org/)



---

*Svetlana Borisova*  
**Taxation of Small Businesses under Conditions  
of Structural Changes Caused by the Economic Crisis**

The financial stability of a small enterprise depends on many factors, including state tax policy. The effectiveness of business is also highly dependent on the system of taxation.<sup>1</sup>

The Russian government has tried to stimulate the economy through a reduction in the tax load. The most often discussed measures in this area are reduction of profit tax and value added tax (VAT). In the current crisis, most entrepreneurial firms earn less profit than usual. Moreover, the profit tax is the domain of regional authorities so by decreasing this tax, the federal government diminishes the fiscal sources of regions. From these points of view, the reduction of profit tax is hardly efficient and a dangerous way to stimulate the activity of entrepreneurial firms.

The situation concerning VAT is different. First of all, the advance payment mechanism of this tax leads to a minimization of the disposable cash flow on the side of private firms. Taking into consideration the fact that the amount of cash flow decreases in times of crisis and it becomes more difficult to obtain bank credit, especially for SME, the burden of VAT becomes an additional source of problems for private firms and may result in insolvency for many of them.

Studies of the World Bank carried out in 2005-2006 showed that basic obstacles for the development of business include barriers of economic nature and a high tax load.

The issue addressed in my paper can be formulated as the unstable position of small business under conditions of crisis. The purpose of my study is to explain what influence the VAT has on the development of small enterprise under conditions of crisis and to explain why it is urgent for small enterprises that changes are introduced to the VAT. On the basis of a survey of the opinions of Russian small businesses owners conducted in 2008, it is possible to draw the conclusion that the tax burden belongs to the key problems faced by them.

### VAT and the Activities of Small Businesses

Business organizations and individual business owners can be divided into those who do not pay VAT and those who do pay VAT.

#### 1) Businesses that do not pay VAT

Let us examine two special tax regimes for small enterprises; the simplified system of taxation (SST) and single tax on imputed income (STII). Under these regimes, taxpayers are free from paying VAT and business organizations and

---

<sup>1</sup> Cagetti Marco. Taxation, Entrepreneurship and Wealth // The Federal Reserve Bank Minneapolis. Available at [http://www.minneapolisfed.org/publications\\_papers/pub\\_display.cfm?id=939](http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=939) >

individual business owners do not add VAT to the price of goods or services. The application of the simplified system of taxation releases organizations from the responsibility to pay tax on profit (with the exception of tax paid on income assessed by the tax rates provided for in points 3 and of 4 of article 284 of the Russian Tax Code), tax on property and united social tax<sup>2</sup>.

Let us examine two situations:

1. An organization (A) that pays VAT sells goods to firm (B) that uses the special tax regime SST or STII. In this situation, firm A adds VAT on its products and sells them to firm B, whereby the sum of overcharged VAT is included into its budget. Thus, firm B buys the products for a price that includes VAT. If this firm uses SST, and the object of taxation is its incomes reduced by the value of expenditures, the amount of VAT to be paid on the products or services it has acquired is calculated on the basis of the expenditures.<sup>3</sup> Hence, no one of two firms bears the expenses for the VAT and it is profitable for them to collaborate.
2. An organization (A) that pays VAT buys goods or services from a firm (B) that uses the special tax regime SST or STII. In this situation, firm B does not add VAT on its products. Consequently, firm A that buys the products cannot deduct any VAT sum in its taxation. However, in the process of firm A using the purchased products, e.g. by using them as raw material in its own production, VAT is added to the price of the end product. This sum has to be paid into the firm's budget. Hence, it is not profitable for firm A to collaborate with firm B.

For a firm that is obliged to pay VAT, it is not profitable to collaborate with small firms or individual owners who use SST or STII because they cannot use VAT for deduction. For commercial partner organizations, it is not profitable to use special tax regimes because of the loss of partners this means. Consequently, organizations face a choice between either losing partners or spending significant resources on paying tax. This is especially troublesome during a crisis, when liquidity problems arise and the risk of losing clients, including potential new ones, is greater than otherwise.

Organizations that use SST or STII do not pay single social tax. Tax on income (income minus expenditures) and single tax substitute it. In this case, the personnel of the organizations and the owners have the right to obtain welfare benefits to cover medical service. It turns out that the single social tax partially replaces those taxes instead of which it is collected. Why is it that firms that conclude purchase or sale agreements with organizations that use SST or STII cannot use at least a certain value of VAT for deduction? If that was possible, organizations would perhaps begin to more actively collaborate with organizations that use SST and STII.

In some cases, companies cannot select use or not user STII. Organizations and individual owners who achieve forms of the owner's activity, transferred by the resolutions of the representative organs of municipalities, urban districts, the cities of Moscow and Saint Petersburg for the payment of single tax, are obliged to register

---

<sup>2</sup> The RF Tax Code, chapter 26.2, article 346.11, p.2.

<sup>3</sup> The RF Tax Code, chapter 26.2., article 246.26, p. 8.

with the relevant tax organs<sup>4</sup>. In conditions of crisis, this becomes an enormous problem for the large number of owners that use STII.

Many companies engaged in transportation began their business either by taking credit or leasing transportation means. In the period leading up to the current crisis, when the volume of freight traffic was significant, they worked and paid percentages or leasing fees and paid single tax on the imputed earning. As a result of the crisis, the volume of freight traffic considerably fell, while leasing payments increased and payment for the transportation of goods was reduced. For organizations buying transportation services, it became more advantageous to do business with companies, with whom agreements enable them to use VAT for deduction. Because of this, many organizations and individual owners using STII were forced were to stop their activities. During one or two quarters some made anyone transport. Independently of this they are obligated to pay single tax on the imputed income. Furthermore, they must pay percentages on credit or leasing payments. Even if organization individual owners would want to pass to another regime, the legislation does not allow this. It turns out that there is only one way out, i.e. to take new credits to pay off old ones, which banks allow only at higher percentages. This may result in that business owners will lose practically all to pay off on their debts and do not earn anything .

As a consequence, the organizations that use SST and STII are in an especially difficult situation.

### Business that do pay VAT

There are a number of standard problems connected with obtaining VAT deductions in this case. We will look at each of them in turn.

#### *a) The “problematic” supplier*

Tax organs can refuse to allow the deduction of “input” VAT because of a “problematical character” of the supplier who provides an accounting invoice. Failure to obtain VAT deduction is possible in the following situations<sup>5</sup>:

- an organization with a given name and taxpayer identification number (TIN) does not exist; is not registered in the single state register of legal persons (SSRLP); or it does not consist on the calculation of the tax organs;
- the supplier is not located at the address indicated on the invoice;
- the accounting invoice is not signed by an authorized person;
- the supplier is an organization that is registered on falsification people by the lost passport, etc;
- the supplier does not have the property or the workers that it should have according to purchase or lease agreements;
- the supplier does not submit its accounts to the tax organs or, if it does, its accounts are empty;
- the supplier did not pay the appropriate VAT sums into the budget.

The lawfulness of a decision by tax authorities to reject VAT deduction because of the “problematical character” of the supplier can only be disputed in

---

<sup>4</sup> The RF Tax Code, chapter 26.3, article 346.28, p.2.

<sup>5</sup> Kputyakova T.L. VAT 2009: deductions and the accounting invoice — Moscow, 2009, pp. 26-27.

judicial order. If the business paying VAT is able to prove that it acted cautiously and carefully selected the contractor, the probability that the court will rule in its favor increases substantially. To avoid unfavorable consequences, it is important that businesses that pay VAT are certain that a contractor, as a minimum, actually exists (i. e. that it is registered in SSRLP) and operates at the indicated location prior to finalizing a transaction.

According to the Ministry of Finance, measures that show that a VAT paying business has exercised caution in the selection of a contractor include:<sup>6</sup>

- obtaining from the contractor a copy of official documentation submitted to tax organs;
- checking that information about the contractor is recorded in SSRLP;
- obtaining a copy of a warrant or other document authorizing one or several individuals to sign documents in the name of the contractor;
- using official information sources that provide information about the activity of the contractor.

Thus, before concluding an agreement, it is important to have thorough information not only about the products of a company, but also about the company itself. The collection of necessary documentation requires time, which means money and missed opportunities for a VAT paying business. However, if tax authorities reject the deduction of “input” VAT because of the “problematical character” of the contractor, a problematic situation will arise, such as in the following example: Organization A purchased material from organization B for a total of RUB 54,000, out of which VAT deduction was requested for RUB 8,237. As a result of tax controls, it turns out that organization B has not paid VAT into the budget. Despite the fact that organization A properly pays all its taxes, the tax inspection denies the VAT deduction, meaning that A has to cover the sum of RUB 8,237. Because of the risk of problems such as these, business organizations prefer to collaborate with well-known companies rather than newly created ones that have been on the market only a short period of time and, as a consequence, are little known. Large business organizations do not have confidence in small firms and do not want to take risk. It follows from this that new and small businesses have difficulties to win tenders and secure large orders.

### ***b) Return VAT***

Another serious problem concerns the return VAT, especially since this form of VAT has not existed long. This is an example: an organization lends money in a bank and buys equipment for the cost of RUB 700,000, including VAT of RUB 106,800. The production was realized within the accounting period and the organization must pay VAT for a sum of RUB 54,000. According to the results of the accounting period, VAT for a sum of RUB 52, 800 should be returned to the organization. However, in practice, this does not occur, although it would be possible to pay percentages in the first months of the new accounting period. In practice, if a tax declaration requests return VAT, the documentation is checked by the tax organs. Even if this check does not reveal any problems, the best a business can count on is that the VAT it is required to pay in the subsequent period will be reduced by the VAT that should be returned to it (i.e. RUB 52, 800 in the example case).

---

<sup>6</sup> Letter of the Ministry of Finance from 10.04.2009 (№03-02-07/1-177).

***c) Advance payments***

There are also problems with advance payments. An organization that buys goods and pays in advance can request VAT deduction only after obtaining the invoice for the delivered goods. However, if these goods have a prolonged production process, the possibility to deduct VAT can be delayed by several quarters (period for produce of goods). In this case, the firm supplying goods also pays VAT in the same quarter. A situation can arise when this organization must pay VAT from obtained advance payments without being able to request a VAT deduction. This can result in cash-flow problems and eventually insolvency.

In a case of an advance payment since 2009 compiling detailed calculation — invoice permitted to assume VAT deduction. But detailed calculation — invoice complicates obtaining the deduction “entering VAT”. A questionable situation may arise with respect to the signing of accounting invoices. According to p. 6 of Article 169 of the Russian Tax Code, an accounting invoice can be signed on the behalf of an organization by persons who are authorized to do so by way of order or warrant. The surname and the initials of the person who signed the accounting invoice must be indicated after signature in the required order<sup>7</sup>. The surnames and initials of the director and chief accountant may also appear together with the surname and the initials of the person who signed the accounting invoice<sup>8</sup>. In the opinion of the Ministry of Finance<sup>9</sup>, the absence of clarifications of signatures in the invoice obtained from the supplier makes it impossible to deduct VAT according to the information contained in the accounting invoice. However, in Article 169 of the Tax Code, clarification of signatures is not mentioned among the requirements for an accounting invoice. Therefore the absence of such clarifications cannot by itself serve as the basis for rejection of VAT deduction. This is confirmed by the relevant arbitration practice.<sup>10</sup>

The situation concerning signatures shows how confusing and complex the administration of VAT is. The Ministry of Justice has found it necessary to prepare a large number of explanatory letters to complement the Tax Code. This is a major problem of Russian legislation: there are no clear laws, whose interpretation would not require explanatory letters. Thus, a firm cannot work without the explanations provided by the Ministry of Justice.

Moreover, there are some special features of the process of obtaining VAT deductions in certain situations (related to expenditures for advertisement). In accordance with p. 7 of Article 171 of the Tax Code, “input” VAT on the basis of expenditures normalized for purposes of taxation of profit assumed to deduction, the size of which is determined according to appropriate standards. In this point, only expenditures for missions or representing expenditures are mentioned. However, in the opinion the Ministry of Finance, the limitation on the deduction of VAT applies to all expenditures that are normalized for purposes of taxation of profit.<sup>11</sup>

For purposes of taxation, expenditures for advertisement that are not mentioned in p. 4 of Article 264 of the Tax Code recognized in the amount not to

---

<sup>7</sup> Letters of the Ministry of Finance from 11.01.2006 (№ 03-04-09/1) and from 16.06.2004 (№03-03-11/97).

<sup>8</sup> Letter of the Ministry of Finance from 28.01.2008 (№ 03-07-09/02).

<sup>9</sup> Letters of the Ministry of Finance from 11.01.2006 (№ 03-04-09/1) and from 05.04.2004 (№ 04-03-11/54).

<sup>10</sup> FAS Volgo-Vyatskogo region from 17.05.2006 (№A43-4969/2005-40-893), FAS Moskovskogo region from 02.02.2009 (№KA-A40/13417-08).

<sup>11</sup> Letter Ministry of Finance from 09.04.2008 (№03-07-11/134).

exceed 1% of sales revenue. Therefore, in accordance with p.7 of Article 171 of the Tax Code, deduction for such expenditures is allowed only within the limits of the norm indicated. For example: an organization paid RUB 118,000 (including RUB 18,000 in VAT) for the distribution of advertising catalogs to unspecified recipients. These expenditures are subject to rate setting: for purposes of taxation of profit, they can not exceed 1% of the revenue. Let us assume that the value of gain without VAT was RUB 1,000,000. Accordingly, the maximum sum of advertisement costs that can be included among the expenditures for the purposes of taxation of profit is RUB 10,000. Within these same limits, the amount of VAT that can be deducted is RUB 1,800. The remaining VAT for the advertisement costs, which amount to RUB 16,200, cannot be included in the expenditures when calculating the income tax and therefore cannot be deducted.

VAT is paid per quarter, while the tax period for profit tax is one year. Consequently, if an organization pays for advertising expenditures (which exceed the norm for costs accepted for inclusion among overall expenditures when calculating profit tax) during the first quarter of a year, part of the VAT included in these expenditures can be deducted for that period, but part of it cannot. Let us assume that the company does not have any more advertising expenditures during the year, but its annual revenues grow. The question then arises: can it in quarters II, III and IV request VAT deduction for the part of the advertising costs that were “above the norm” in the first quarter but ceased to be so in the following quarters? The Ministry of Finance gives a negative answer to this question.<sup>12</sup>

## Analysis of Different Expert Opinions about Alternatives for Changes in VAT Legislation

### ***1. Reduction in the tax rate***

The largest business-unions of Russia — RSPP, OPORA and “Delovaya Rossia” — share the opinion that it is expedient to decrease tax on the gross value addition to 10%. At an extended session of the State Assembly devoted to this topic, then President Putin also spoke about the need for a decrease of VAT but did not mention any specific numbers (although the head of a presidential expert group, Mr. Dvorkovich, previously had spoken about 12%-13%).

### ***2. Improvements in the administration of VAT***

VAT is the most neutral alternative with respect to producers since it is easy to administer and universal in character. It is an indirect tax that supplements the income tax, whose rate is very low in Russia judged by world standards. The major difference between these two taxes is that VAT is not directly paid by households, only by enterprises. However, given the payment mechanism of VAT, the real costs of it are borne by household consumers and it is possible to describe the entire population as its final payers.

Generally speaking, VAT can exert a certain negative influence on producers, even if it completely excludes investment expenditures. The fact is that the way VAT is paid requires the involvement of additional circulating capital. However, this

---

<sup>12</sup> Letter of the Ministry of Finance from 11.11.2004 (№03-04-11/201).

damage is short-term and it does not affect normally working enterprises much. The additional means required are compensated by the income of companies over several weeks to several months. The statements made by some representatives of business that a decrease of VAT is desirable reflect a narrow view of the problem of taxation, which is characteristic for the individual producer. It is not considered that an overall decrease of VAT will not provide essential gain to all producers, but will primarily lead to an increase in the real incomes of households. An increase in the profit of enterprises is also possible and likely to occur, but this will be only a temporary effect, which will soon be leveled out by an overall decrease in the level of prices in the economy (or by one-time reduction in the rate of inflation).

A decrease of VAT will lead to losses for the state since this is currently the most effectively managed tax. It is excluded that there could be a further increase in the collectability of VAT as a result of a decrease of its nominal rate.<sup>13</sup>

### 3. Introduction of alternative tax

In the opinion of some experts, the basic problem that encounters companies that recently have started up in Russia is a heavy fiscal burden. This includes profit taxes, VAT, unified social tax etc.

The leader of the party “Development of enterprise”, Ivan Grachev, has proposed the introduction of an alternative tax to VAT in his version of the Tax Code. According to him, VAT is calculated in an unacceptable way and creates opportunities for numerous abuses (deviations from payment). For example, in the USA, there is no VAT, and the tax system works well. O.G. Dmitrieva considers tax to be harmful if it has value only for those who contribute to the state budget. The same contributions could be ensured with a more flexible and less burdensome taxes.<sup>14</sup>

## Comparison of VAT Rates in Different Countries and Analysis of Differences in VAT Legislation (we will compare the situation in several Western countries)

The reasons for the popularity of VAT in Europe<sup>15</sup> are:

1. it corresponds to a general tendency to increase the state finances through taxes levied on consumption and has a potentially wide base of taxation;
2. it reflects a preference for assessing the expenditures of end users rather than the expenditures of producers for the production of goods and services; and
3. the member states of the European Union have agreed to use it.

VAT differs considerably from the sales tax that was commonly used in the member states of the European Union in the 1960s. In a majority of cases, sales tax is imposed at the very end of the chain of production and realization of production. On the contrary, VAT is imposed at all stages of the production chain — beginning with

---

<sup>13</sup> Trofimov G. On economic nature of VAT// Institute of Financial Studies, 2003. Available at [www.old-opec.hse.ru/library/article.asp?d\\_no=2127&c\\_no=67&c1\\_no=](http://www.old-opec.hse.ru/library/article.asp?d_no=2127&c_no=67&c1_no=)

<sup>14</sup> Dmitrieva O. G. “Tax system without VAT — the most valid version” // 18.02.2008. Available at [http://www.vedi.ru/OpEd/others\\_Dmitrieva\\_023\\_180208.htm](http://www.vedi.ru/OpEd/others_Dmitrieva_023_180208.htm)

<sup>15</sup> Tyutyuryukova N.I. Tax systems of foreign countries — Moscow:Publishing-Trade Corporation Dashko and K", 2009, p.120.

the first stage of production and concluding with the consumption of the finished product.

The use of VAT began comparatively recently. In 1954, French economist M. Lore proposed to introduce a completely new form of tax — VAT — as an alternative to sales tax. It was introduced in practice as an experiment in 1958, and at full-scale in 1968. The use of this tax is at present one of the conditions for entering the European Union.

In Russia, VAT is the largest source of income for the federal budget (more than 38%), while all taxes on consumption (including VAT) exceeds 70% of the federal income. With the transition to market economy, VAT, which is a modified sales tax, was selected as the basic tax. The Russian model for levying VAT coincides with the European model; let us therefore examine the current state of VAT rates and their structure in EU member states and Russia (see table 1.)

**Table 1**  
**VAT rates in EU member states and Russia on February 1, 2008.**

Country	Ultralow rate	Lowered rate	Standard rate	Rate for specific operations
Czech Republic		5	19	
Italy	4	10	20	
Austria		10	20	
France	2,1	5,5	18,6	
Great Britain		5	17,5	
Germany		7	19	
Spain	4	7	16	
Belgium		6	21	12
Ireland	4,4	13,5	21	13,5
Russia		10	18	15,25

From the table, we can see that the VAT standard rate used in Russia (18%) is average. In some European countries, such as Austria, Belgium and Germany, two VAT rates have been established. In this case, the lowered rate is equal to half of the standard rate (Austria, Germany) or even less than half of it (Belgium). Thus, the lowered VAT rate of 10% used in Russia is overstated: for this rate to fulfill its intended social of function, its value should not exceed 9%.

At present, VAT is not so much of a fiscal tool, but rather a regulatory tool used on a macroeconomic scale in the EU countries. This function of VAT is especially well visible in the application of ultralow rates. Tax rates of less than 5% are adapted to the specific operations.

The Czech Republic is one country where the tax system completely corresponds to the fiscal policy principles of a market economy. It should be noted that in the Czech Republic, in contrast to in Russia, the tax system is sufficiently stable and the tax rates are immune to frequent changes. VAT is a basic component of the tax system. The VAT rate depends on the form of activity, whether it is trade or the provision of services. The VAT rate is differentiated: there is a general rate of 22% and a decreased one of 5%.



The flexibility of the tax system of France consists in the fact that the tax rates annually are adjusted in accordance with changes in the political and economic situation. However, the main difference from the Russian tax system is the stability in the tax rates used over a number of years. Only in the last few years there has been a tendency to reduce rates and simultaneously expand the tax basis through the cancellation of privileges. This tendency is characteristic for Russia. VAT makes up 45% of all tax revenues. It is collected through a method of partial payments. There are four VAT rates: 19,6% is the normal rate that applies to all forms of goods and services; 33,33% is the maximum rate that applies to objects of luxury, machines, alcohol and tobacco; 7% is a reduced rate that applies to cultural goods (books); and 5,5% is the lowest rate that applies to basic goods and services (food and beverages, with the exception of alcohol and chocolate, drugs, housing and transportation). All kinds of insurances, lottery and casinos are free from tax.

Another special feature of the tax system of France is that it is possible to choose between VAT and income tax regarding certain forms of activities. These activities include:

- 1) leasing of accommodation for any form of economic activity;
- 2) finances and banking; and
- 3) literary, sport, artistic activity and the municipal economy.

VAT tax on consumption provides for 2/3 of all tax incomes in Sweden, while direct taxes make up approximately 20% of the total incomes. VAT is collected at a rate of 25% (the highest rate in the world), at 21% for food, and at 12% for hotel services. Bank and financial services, insurances, public health services, education and other services are free from VAT.

In Great Britain, VAT plays a notable role. Taxpayers are obliged to register as VAT payers for transactions that exceed GBP 60,000. Three VAT rates are used in the country:

0% — for transactions involving the following goods and services: food products, water supply, books, benefits for the blind and disabled, fuel, the construction of residential buildings, gold, securities, clothing, charity and some others.

5% — for transactions involving fuel and other sources of energy used in households.

17, 5% (15% since 2008) — standard rate for transactions involving a majority of goods and services.

Banking, insurance operations, real estate operations, education and medical services are exempt from VAT. Inspections of companies are conducted at intervals of one to nine years. With respect to large businesses, audits are conducted monthly. All documentation should be retained for six years.

Analysis of Changes in VAT Legislation in Foreign Countries in Times of Crisis

The difficulties caused by the global financial crisis that began in the middle of 2008 is expected to result in measures to reform tax systems. In the final declaration from the summit of the Group of Twenty on financial markets and the world economy held in November 2008, it is stated that there is a need:

- - to use taxation measures for the purpose of ensuring a rapid stimulation of domestic demand, while preserving stability in the tax-budgetary sphere;

- - to expand the practice of exchanging tax information;
- - to adopt tax measures to deal with economic cycles

To overcome the current crisis, most governments have used state subsidies for companies and banks and tax reduction. In Great Britain, it is considered that the most meaningful government action in the sphere of taxation has been a reduction of the VAT rate from 17,5% to 15%. The economic impact of this temporary decrease, which was valid until December 2009, has been evaluated at GBP 12,5 billion. In the USA, 300 billion out of the USD 800 billions allocated for Obama's stimulation plan was used for a decrease of taxes. Approximately half of this sum will benefit private individuals, and the rest in particular business. The plan provides for a reduction of income tax at \$400 per person and year. As the decrease of taxes for business in the USA will amount to approximately \$140 billion, and the reduction in profit tax in Russia will amount to about \$11-12 billion, it can be concluded that the measures of domestic authorities to support business are proportional to the Gross Domestic Product (GDP) in both countries. The GDP of Russia is approximately eight to nine times less than that of the USA.<sup>16</sup>

## Conclusions

The state of a national economy is in many respects determined by tax policy. One of the basic tasks of the Ministry of Finance in the current crisis conditions is to ensure that the tax system stimulates economic development.

The problem for small business in Russia is not the VAT tax itself and the rate of this tax, but the process for determining the amount of VAT that a company should pay.

Another problem facing small business is that the relevant tax legislation is so vague that it is virtually impossible to apply it without the help of explanatory letters issued by the Ministry of Finance. It is, thus, necessary to remove all contradictions and "white spots" from this legislation and make it easier for citizens to understand the requirements and orders concerning the payment of tax. More complex legislation creates the opportunity to find loopholes to avoid paying tax.

It is also necessary that the tax organs clearly operate in accordance with the law. It is now generally considered the easiest way among business owners not to pay taxes and to bribe tax inspectors. In cases when business owners attempt to pay taxes in the correct way, tax inspectors typically find something to criticize because of the existing contradictions in the legislation and then the business owners nevertheless have to give bribes in order to continue their business activities. These kinds of situations and these kinds of opinions among business owners will disappear if the contradictions between the text of law and the explanatory letters of the Ministry of Finance are removed.

Stable tax legislation is important for small business. Small business owners must always determine the risks of investing cash resources into projects and the effectiveness of the realization of projects. This is impossible if there is a constant change in tax legislation.

---

<sup>16</sup> Logvinov M. Tax arrears// "Profile" 2009 № 7 (610). Available at [www.profile.ru/items/?item=28076](http://www.profile.ru/items/?item=28076)

## Sources

This study was based on an analysis of articles from different business periodicals (“Expert”, “Profile”, “Kommersant”, “Vedomosti”, RBK-Daily etc.) and business websites (www.vedi.ru, www.vciom.ru, www.consultant.ru), as well as the results of several studies in areas related to the paper undertaken by the National institute for systematic studies of entrepreneurship (NISSE), information from the Center of Fiscal Policy and Tax Legislation and information from the Federal State Statistics Service and the Ministry of Finance.

---

*Denis Kurakin*

## ***How Decisions of Company Management and Shareholders Influence a Company's Market Price***

### Introduction

The main problem addressed in this paper is how stakeholder decisions influence the market price of a company. We define stakeholders as a group, existing inside or outside of the company that may affect its activities. Stakeholders play an indispensable role in the decision-making process of the company. In the analysis of the problem at hand, we will regard only the most powerful special interest groups, namely a company's board of directors and its shareholder meeting.

The problem under investigation is vital for any company since the question of a company's price is the question of the premiums that investors seek. Any business is a "machine for price cultivation" and any decisions of its management have an essential impact on its market value. We will discuss different types of decisions.

Altogether, we will try to answer two basic questions: 1) What decisions do the board of directors and the general meeting of a company make and how do these decisions influence the price of the company? 2) For what type of investors is a company's market price important?

We will consider different points of view on the situation in order to answer these questions. Firstly, we should take into consideration the inside interests of the company. For this purpose, it is necessary to make a number of assumptions similar to those of Miller and Modigliani about the "ideal" market and to analyze the influence of various decisions of the board of directors in conditions of absent transactional costs and absolute liquidity. This will allow us to understand the situation from the company's point of view. Secondly, it is necessary to consider the influence of the market. How can the market ignore various decisions? Or how can the market completely change decisions made in the company? In order to understand this, we will also make a set of assumptions.

Having answered the questions just outlined, we will be able to investigate the core problem. Who is interested in the decisions made in a company and the cost fluctuations that arise after the announcement of these decisions? What is the interest of minority and majority shareholders?

In the current crisis situation, answers to these questions are especially important for administrative and financial decisions concerning the capital of a company. For example, a decision on non-distribution of dividends can more easily be made before selling part of a company's shares to a "strategic investor" than before carrying out an IPO. Decisions on issues such as these are particularly relevant in Russia, where the capital market is still developing. In conditions of low liquidity of the monetary market, making correct administrative decisions based on the analysis

described hereinafter can help to arrange favorable bargain on selling business at the best price in the market.

As already noted, decisions of the board of directors and the meeting of shareholders of a company can influence company value. For a more detailed analysis of these decisions, we will undertake a structured review and examine each of them in detail. Let us look at three core activities of a company — financial, operational and investment activities:

*Financial decisions influencing a company's value:*

- Dividend policy;
- Change of capital structure (leverage increases, i.e. increase in extra capital share in the structure of liabilities); and
- Change of accounting policy.

*Investment decisions influencing a company's value:*

- Purchase or sale of different assets.

*Operational decisions influencing a company's value:*

- Change of share of fixed costs (operational leverage); and
- Change of development strategy (change of interaction with clients and suppliers).

Next we will more closely investigate the financial decisions that influence a company's value.

## 1. Financial Decisions

### ***1.1. Dividend Policy***

Dividend policy involves decision-making about what part of the company's profit should be paid to shareholders as dividends and what part should be kept for reinvestment in development. The dividend policy of a company depends on different and sometimes controversial factors: on the one hand, an increase in the dividend yield tends to result in share price growth; on the other hand, a reduction in internal investment contributes to decreasing scientific and technical development, which in turn lowers the share price. This trend was noticed and described by Edvin Lafevr in the book *Memoirs of the exchange speculator* from 1904.

### ***1.2. Change of Capital Structure***

The capital structure of a company reflects a correlation of the debt capital and equity involved in financing of the long-term development of the company. Depending on the financing decisions made, this correlation can obtain casual character or can be the result of a certain strategy. However, even an intentionally established proportion of debt and equity could be far from being efficient. An efficient structure is a correlation of debt and equity when the cumulative expenses for long-term development, or the average expenses for capital, are minimal (WACC, weighted average cost of capital). Consequently, the increase in value of WACC contributes to a decrease in profitability and, as a result, to company depreciation.

### ***1.3 Change of Accounting Policy***

Any company is recommended to elaborate its accounting policy, which includes confirmed account methods, amortization etc. Any changes in these methods

can dramatically change the financial indicators of a company. For example, revaluation of assets can essentially both improve and worsen the financial condition of a company. The annual asset revaluation of a company can formally increase the balance sheet value while other financial indicators remain unchanged, as a result of which the company's price decreases.

Although the financial decisions considered above are certainly important for the company, we should pay particular attention to investment and operational decisions since they are often much more important for the majority of companies.

## 2. Investment Decisions

### ***2.1. Purchase and Sale of Assets***

Asset acquisition and sale fall within the investment activities of a company. Successful acquisition can essentially improve the financial indicators of a company and increase its value. On the contrary, very expensive, but loss-making asset can decrease the market price of a company.

## 3. Operational Decisions

### ***3.1. Change in Share of Fixed Costs (Operational Leverage)***

This is an important instrument that, on the one hand, can improve the profitability of an enterprise and, on the other hand, can be quite risky to use. Timely made decisions to increase the share of fixed costs can increase profitability during the start-up and development period of a company, which will favorably affect the company's price.

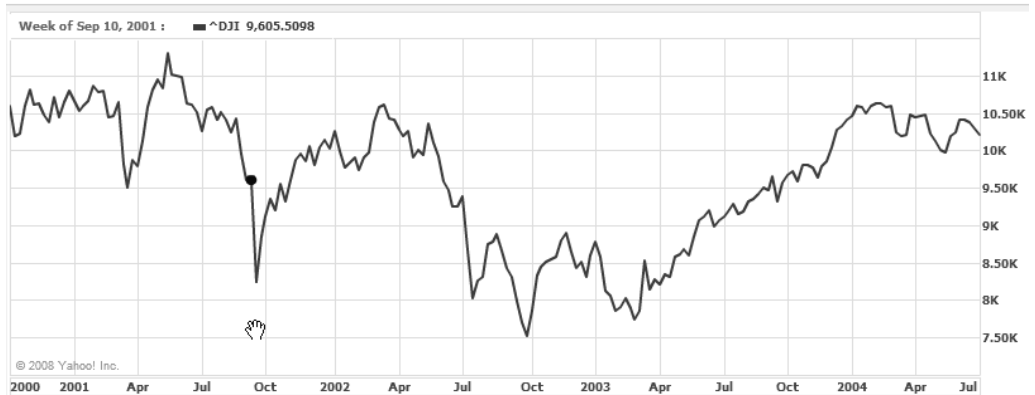
### ***3.2. Change of Development Strategy (Change of Interaction with Clients and Suppliers)***

Development strategy decisions are often problematic with respect to the price of a company. In particular, decisions to change partnership relations for short-term objectives can reduce turnover and increase, for example, accounts receivable. This will in turn decrease the price of shares.

## 4. Market Reactions

Let us look at the situation from the market point of view, as mentioned above. The reaction of the market to events occurring in a company is extremely important since it helps various groups of investors and the owners of the company to correctly estimate the company's value and its position in the market.

Nevertheless for a variety of reasons, the market sometimes ignores the events in a company. One outstanding example is related to the Enron collapse in August 2001. Following this, investors lost interest in the share market for some years and the fall of stocks stopped only eighteen months after the incident. A complete recovery of share rates was observed only in the middle of 2004.



The table above shows the development of Enron shares.

In this case, the share price of other companies was affected by the negative approach of investors to the share market following the Enron collapse although they were “properly” managed.

Another example concerns the share market of Russian companies in the case of the share buyback of Norilsk Nickel in September 2008. At this time, the share rate was RUB 3.000-4.000. On 22 August 2008, the Board of Directors of Norilsk Nickel made a decision to buy back shares (4,2 % of the share capital) at the price of RUB 6.167. This measure was aimed at retaining the share rate and demonstrating the interest of the management in expanding its own capital share. Unfortunately, in October-November 2008, the market rate of Norilsk Nickel fell to RUB 1.600-1.700 per share.



To sum up, a company’s price can be lower than its balance sheet price despite professional and “qualitative” management.

## 5. Investors

The second important question concerning price analysis is for what class of investors a company's market price is important. There are two classes of investors. Minority investors are shareholders possessing a small share of the company, which does not allow them to participate in the management of the company. Besides, they have a limited period of investment. Majority shareholders, on the contrary, possess a share which allows them to take part in the management of the company.

Minority shareholders can include the management of the company, individual persons, private equity funds and venture capital funds. A company's future price is most important for them since they earn profit by selling a company.

Among majority shareholders, we can identify different types. A "strategic investor" is an investor for whom a company share is necessary for making favorable decisions in the company. Very often a company from the same business field or a company that enters into a vertical integrated chain (as supplier or consumer) acts as such an investor. Obtaining controlling interest is as a long term objective for these investors as this allows them to optimize costs and to increase profit. Therefore, for this type of investors, profit maximization is much more important than the company price.

The second type of investor is the "portfolio investor" who also is interested in current profit indicators of business and low share volatility and especially in the Beta index, which reduces the portfolio risk. Therefore, such an investor acquires a share in the company and joins its board of directors in the role of a controller who does not allow the company to make decisions that minimize current profitability, in particular dividend output.

## Conclusions

Summing up, we can answer the questions posed at the beginning of the paper. What decisions of a company's board of directors and shareholder meeting influence a company's price? There are three types of such decisions: operational decisions, which are most important; financial decisions; and investment decisions. Each type of decisions is made by different management actors in the company. The most important principle of decision making is long term price increase.

For what class of investors is a company's price important? As discussed, the market price is primarily important for minority shareholders, whose interests should be taken into account during company decision making.

The paper has also explained that the most important factors influencing administrative decisions concerning a company's price are a combination of shareholder activity, market situation and direct management of the company. Only when these factors interact in a favorable way can the company reach a fair price and be sold.

Finally, we should mention that the company model discussed in this paper has only begun to appear in Russia, while it is developed and very popular in the US. There are plenty of reasons for the small share of joint-stock companies in Russia, one of them being a low free float. An increase in number of this kind of companies in Russia will be a step forward toward better management based on market price changes.



## References

1. Basu S., “The Relationship between Earnings Yield, Market Value, and Returns for NYSE Common Stocks: Further Evidence”, *Journal of Financial Economics*, n. 12, 1983.
2. Banz R., “The relationship between Return and Market Value of Common Stocks”, *Journal of Finance*, n. 9, 1981.
3. Fama E.F. and French K.R., “Business Conditions and the Expected Returns on Bonds and Stocks”, *Journal of Financial Economics*, n. 25, 1989.
4. Теплова, “Эффективный финансовый директор”.
5. Теплова, “7 ступеней анализа инвестиций в реальные активы”.

---

## Chapter Five. Entrepreneurship: framework and practice in Russia and Europe

*Alexander Chepurenko, Miguel Meuleman*

### ***Introduction by the Group's Academic Leaders***

Entrepreneurship belongs to a group of interdisciplinary research fields, which have experienced exponential growth all over the globe in last two decades. Why? Firstly, this is a reaction of the scientific community to an overall change in the prevailing economic model, which formerly focused on large entities but, as of the last quarter of the 20<sup>th</sup> century, started developing towards an “entrepreneurial economy”.

Secondly, the systemic transition that has taken place in Central and Eastern Europe (CEE) and in the former Soviet republics, among them Russia, has brought to the fore the question of the internal dynamic potential of social and economic transformation. Privatization and the development of entrepreneurial firms “from below” have pushed the phenomenon of entrepreneurship into the center of academic and applied research.

Thirdly, the internal evolution of the academic sphere, which has involved the transition from the model of a classical Humboldtian university to that of a “research university” or an “entrepreneurial university”, has attracted the attention of young academicians and especially students to some aspects of entrepreneurial practice and its role in “nurturing” innovations in universities and in their close periphery.

Thus, it is evident why the Entrepreneurship Group was one of the most popular ones in this year's Baltic Practice program and enjoyed audience of young student researchers coming from different faculties and disciplines, including management, economics, informatics and sociology.

The papers presented in this section reflect the results of relatively long-running individual and small group projects undertaken by the group's participants. Some of them are based on desk research of different issues (such as entrepreneurial education and Internet as a tool to gain information for nascent entrepreneurs in different Russian regions), while others use information from the data base of the “Global Entrepreneurship Monitor” to identify specifics of so-called early entrepreneurship in Russia and compare it with entrepreneurship in Belgium (the host country of the 2009 Baltic Practice), or even use the results of the participants' own small scale research on topical issues of SME development (for instance, access to real estate in Moscow city).

It is indeed true that the papers vary with respect to their scientific “maturity” as they are based on different types of research and reflect different levels of research experience by students. However, what is most important is that all the authors made serious progress in exploring actual scientific and/or applied problems and achieved some interesting results, which could be used as the basis for continued efforts to investigate the challenging world of entrepreneurship.

---

*Subbotina Elena*  
***Educating Managers and Entrepreneurs: Common Features and Differences in the Practice of Russian and Foreign Business-schools in developed countries***

### Introduction

Business education, which is aimed at developing the skills of managers and entrepreneurs so that they can do their job in the best way possible, has become one of the most important issues in the 21st century. Today, when the intensive development of economies is based not so much on physical resources but rather on high human capital, much attention is paid to business education as a potential competitive advantage that develops the citizens of a country and creates economic opportunities. Only competent management, working on the basis of a scientific approach, can ensure sustainable growth and development of the economy.

In our paper, we will analyze different approaches to entrepreneurial and managerial (MBA) education in countries such as the USA, the UK and Belgium. We will thereafter describe the Russian business-education system, using the same points of analysis. Finally, we will make a comparative analysis of different approaches to business education. The analysis will cover both MBA programs and entrepreneurship education initiatives in the mentioned countries. In this way, we will be able to identify differences between the two types of business education and formulate recommendations to the developers of both MBA and entrepreneurial education programs.

The paper will be based on a secondary analysis of recent foreign and Russian research projects dealing with business education, its structure and objectives, as well as the concept of an “entrepreneurial university” and its role in providing additional skills to students. Different ratings will also be used in the research, including mass media ratings and scientific ratings of educational programs. Finally, the research will include a study of scientific literature on the psychological aspects of the implementation of business education in different countries and cultures.

The paper will enable us to:

- identify differences in the approaches to and the development of the two main types of business education, i.e. MBA programs and entrepreneurial education;
- compare contemporary business-education facilities in developed countries and in Russia;
- outline key trends in business-education development in crisis times;
- determine how business programs meet the objective of preparing effective managers and entrepreneurs;

- assess the current state of affairs in Russia with respect to business education and make some recommendations on ways to improve the situation, especially in times of crisis.

#### Business Education: Similarities and Differences between MBA and Entrepreneurial Education

The two types of business education have a number of common features. As regards the educational process, there is no question that both types involve the transmission of many concrete ideas that are useful in practice. Actually, the emphasis of business education is on practice and business teachers need to have practical experience to be able to answer all the questions of students and to provide real-life examples.

Both managerial and entrepreneurial types of education are aimed at developing students' creativity and imagination in decision-making. Both provide students with opportunities to use the skills they have gained in practice. The skills gained through business education are mostly universal and used almost everywhere in the world (although some may say that MBA courses focus more on problems and peculiarities of a particular country or area). Business education enable students to develop a systematic understanding of how business is done, improve their ability to make high-quality and quick decisions and improve their interpersonal, communicative and leadership skills. Encouraging students to reconsider previous experience is also part of both types of education. Students also establish new important connections and make new friends.

While managerial and entrepreneurial education have similarities, they also have basic differences.

Here it is best to start with the question whether entrepreneurship can really be taught. There are no facts speaking against the utility of managerial education. This kind of education covers a set of applicable disciplines and teaches different approaches to addressing problems. It provides a student with a wide range of economic, psychological and mathematic skills that are necessary for every manager. This education can be formalized and taught and the fact that there are both good and bad managers doesn't mean that these skills cannot be taught.

There is discussion about entrepreneurial education. Many people believe that you need talent for entrepreneurship and that such talent cannot be taught by any kind of education. In this study, we will not answer the question about talent and, no matter what our personal opinion is, statistics show that business increases and more companies that are started up survive tough competition as a result of the increase in the number and availability of entrepreneurship education. By giving students confidence and showing them different ways of dealing with problems, entrepreneurial education influences the quality of businesses that are started up, even if not so much their number. In different countries, the effects of entrepreneurial courses may also differ. Thus, we will start with the thesis that both types of business education are relevant and important.

MBA education and education for entrepreneurs have a significant and very important basic difference; their intended audience. Existing educational programs and requirements for students show that MBA-education is mostly the choice of people with significant academic and business background and experience, who are looking for additional practice and instruction on how to deal with everyday problems or who understand the need to upgrade and update their knowledge.

Entrepreneurial education is intended to provide people who want or need to start their own business with vital information on economical, law, business and other issues that they usually do not have. This kind of education is also intended to raise awareness of different opportunities available to people who want to start their own business. Later we'll see how this important difference influences the nature of educational programs, the choices made by program developers, and the functioning of the MBA and the entrepreneurial education systems as a whole.

There are also many differences in the educational approach of the two types of education. For example, it is important to note that entrepreneurial education is more oriented toward lifelong learning than managerial education. In entrepreneurship education, many tasks and courses are aimed at developing responsibility, confidence and belief in your personal success, eliminating fear of taking risks, managing results, and learning from outcomes.

Entrepreneurial education is more about developing “the right personality” than managerial education and that is why it should be started earlier. In Europe and in the USA, it is a common practice to have entrepreneurial lessons at school and to include the basics of entrepreneurship into university curriculums of different kinds. In Russia, there is no such government policy and entrepreneurial education before professional schools is mainly obtained through personal life experience.

Other differences and peculiarities of the two types of business education will be discussed later.

## Business Education Infrastructure in Russia, Europe and the USA (Main Forms, Institutes, Programs etc.)

### *General*

There are more than 10,000 business schools providing MBA education in the world. The most popular programs are in the USA and Europe (especially the UK and France)<sup>1</sup>. One of the most popular trends in business education today is the introduction of MBA programs in developing countries and emerging economies such as China, India and Russia.

When we are talking about MBA education, we are talking about completely different approaches to studying almost the same things. The programs vary not only between universities and organizations. They also vary in themselves. MBA programs offered throughout the globe may be classified in different ways:

- one-year programs/Two-year Programs,
- work-study Programs/Programs for students without work experience,
- MBA Bridge Programs (for three-year graduates)/EMBA programs (for experienced executives)/Standard MBA (for students with 3-5 years of working experience),
- other MBA Programs (on-line — distance learning, CD, books).
- All these types vary in different universities and schools and the demand for each type is different. For example, as a result of the current crisis, shorter programs have suddenly become very successful. Another trend is that programs of average cost are not so popular anymore, especially in Russia.

---

<sup>1</sup> [www.begin.ru](http://www.begin.ru)

The demand is high for “top-players” that have significant experience and status and for low-cost programs that help to save money.<sup>2</sup>

If we compare average requirements for students in each country, we get the following picture:

	The UK	The USA	Belgium	Russia
Average age of applicants	28-30	25-30	28-30	22-30
GMAT (or any other passing test)	3-year graduation accepted + interview and essay	Minimum 4 years of education after graduating school (12 years) + interview and essay	Depends on the school	No any formal practice — each school offers its own
Work experience	3-5 years (essential)	3-4 years (recommended)	Depends on the school	3 years mainly (recommended, in higher ranked schools — required)

*Age:* Young graduates may be able to pass exams perfectly, but do not satisfy schools with their experience and do not bring value to the class. So it is a common practice to invite experienced students. Almost everywhere in Europe (especially in the UK), the average age of students is higher than in the USA and in developing countries. In the USA, this trend may be explained by high speed promotion within American companies. As for developing countries, it is usually connected with a trend to promote the younger generation faster without regarding their experience. The average age has not changed significantly throughout the years, but some experts predict age-barriers to lower a bit.

*Nationality:* As for national diversity, students at European business schools are highly international. A total of 90-95% of all students are the foreigners, which makes European programs international and diverse.<sup>3</sup>

*The use of cases in education:* The traditional case method is also used differently in different schools. The cases used in Europe are more multinational and concern European, American and Asian experience. The cases used in the US are more “national” and analyze American experience more. The cases used in Russia cover both national and global experience. Sometimes cases from other countries are used as such to provide a global approach, sometimes such cases are adapted to our national context.

*The period of learning:* It is usually longer in the USA than in the UK and Belgium. This gives American graduates a competitive advantage — they do not only solve more cases, but usually also have group and individual practice during the learning process. On the other hand, European business schools provide the opportunity to spend less time away from work. A classic American course lasts 2 years, while European business schools usually offer 10-12 months’ MBA education.

---

<sup>2</sup> [www.mbatoday.ru](http://www.mbatoday.ru)

<sup>3</sup> <http://www.infozee.com/channels/mba/articles>

Russian business schools use different practices, but part-time and distant education is most common because it enables students to combine studying and working.

*Future careers:* Graduates in the USA are usually wanted by many companies from the Fortune-500 rating. As for the UK and Belgium, graduates have more opportunities to get a job in different fields and of different scales.<sup>4</sup> In Russia, the situation is changing. Today employers are ready to pay for experience, an innovative approach and loyalty of workers and it is not considered so important to have an MBA degree, especially in the current crisis, because employees with such diplomas are believed to be arrogant, self-confident and impolite and to demand high salaries and bonuses.<sup>5</sup>

*Teachers:* MBA teachers also differ from region to region and from school to school. Teachers in the USA have a more theoretical approach to the learning process and MBA programs there are part of the higher education system. At the same time, the USA is a country with many economic and managerial education programs, which are a very important part of the educational system. Also here the approach is more academic.<sup>6</sup> In European schools, practice is emphasized more and there are fewer professors and more businessmen and consultants. Still, we can not say that there is little practice within the American business education system. In Russia, there is a serious lack of qualified professors and tutors.<sup>7</sup> It is still very difficult to persuade businessmen to participate in the educational process. However, the situation is getting better with better development of educational programs. When it is clear what needs to be taught, it will also be clearer what people are needed.

*Priorities of the teaching process:* It is important to mention that American MBA programs are more oriented toward teaching “hard skills” such as management theory, corporate governance and finance, economics etc. As for the European courses, they are more focused on teaching “soft skills” such as interrelationships, team building, leadership and communication. Ethical questions and social responsibility issues are much more developed in European courses.

*Fundraising of students:* It is easier to get financial support in the USA than in Europe. This is explained, firstly, by the greater availability of institutions providing support in the USA and, secondly, by the simplicity of the procedure for obtaining support in the USA. Both in the US and the two European countries examined, it is easy to get loans to finance education. In Russia, it is rather easy to get a loan, but there are almost no social funds with programs for supporting students. Usually education is financed by the schools or the students themselves, which has had a great impact on the number of applicants during the crisis.

## Entrepreneurship Education

This is a very young educational practice. It has only about 30 years of scientific experience. In the early 1970's, a dynamic development process started, which continues today. In the 1980s, entrepreneurship education spread from the US to northern Europe, and in the mid-1990s, further to Central and Southern Europe. Later it spread to the rest of the world. There has been an increase in entrepreneurship

---

<sup>4</sup> <http://www.infozee.com/channels/mba/articles>

<sup>5</sup> [www.mbaconsult.ru](http://www.mbaconsult.ru)

<sup>6</sup> <http://www.infozee.com/channels/mba/articles>

<sup>7</sup> [www.begin.ru](http://www.begin.ru)

teaching in university education, which has created and inspired research on entrepreneurship teaching in higher education.

What does a standard entrepreneurial program cover? The following components may be included:

- encouraging and developing an “entrepreneurial mindset” (ability to think “out of the box”, creativity, self-confidence etc.);
- problem-solving practices;
- business and financial skills — “business literacy”;
- opportunity identification skills;
- negotiation and communication skills; and
- skills on building social capital.

The methods used to teach the skills mentioned above may include those common for MBA education (case studies, group and team work and lectures by professionals) and others that are unique to entrepreneurial education (interviews with entrepreneurs, business entrepreneurship games, project work, foundation of student enterprises etc.). This variety of methods gives the students an opportunity to experience real business conditions and to try to create their own ventures. However, there is no universal approach to teaching entrepreneurship because it is always strongly connected with the surrounding environment.

Considering the age, previous education and experience of the students, entrepreneurship education may be divided into three types<sup>8</sup>:

Youth entrepreneurship educational programs;

Higher education programs (with a focus on growth/opportunity entrepreneurship); and

Social inclusion programs (means allowing more people to engage actively in economic activities)

Those participating in youth programs are, for example, those who have finished basic education, including the first years of postsecondary education.

All three types of programs exist almost everywhere in the world, but to different extents. Some are more dominant in certain regions than others. For example, in Russia, the level of development of entrepreneurial education is generally poor, and there are few programs to support young entrepreneurs and none at all for disabled people or women.

All entrepreneurship education programs also face a serious obstacle in the form of negative views on entrepreneurship. Attitudes towards entrepreneurship are significantly worse in Russia than in the USA, the UK or Belgium. It is often associated with criminality, bribes, unfaithfulness and the desire for money. Older generations still view entrepreneurship more skeptically than younger ones, sometimes even with hostility. Such attitudes need to be changed to ensure that people are more supportive of entrepreneurial activities.

In order to reduce social barriers and start the process of including entrepreneurship in school and university curriculums, a multi-stakeholder partnership is crucial. This means a partnership of government, business, NGOs, media etc. Without

---

<sup>8</sup> The division is taken from Report of the Global Education Initiative “Educating the Next Wave of Entrepreneurs. Unlocking entrepreneurial capabilities to meet the global challenges of the 21st Century”, World Economic Forum, Switzerland, April 2009



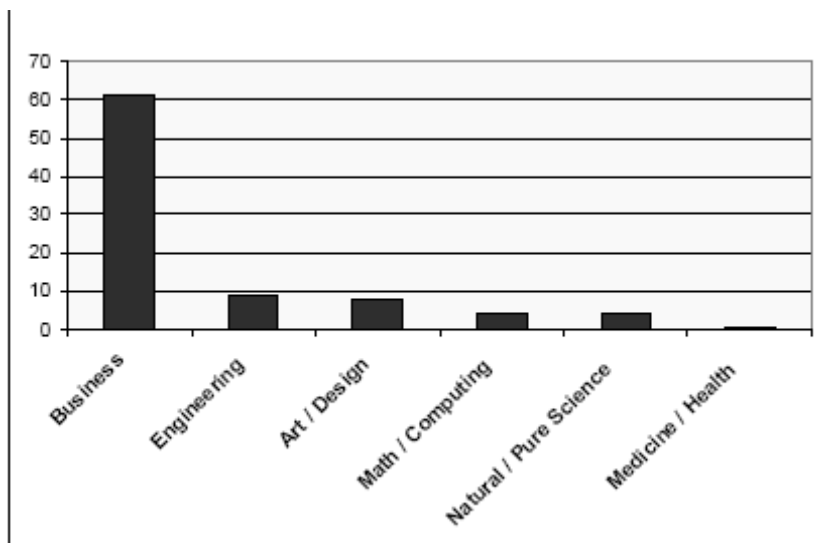
adequate external conditions, even potential entrepreneurs who want to start companies will not do so — a supportive environment is necessary for entrepreneurship to thrive. For example, in the USA, people who have the idea and will to start a new enterprise are aided by a well-functioning business infrastructure, clear and transparent legislation and strong government support. Finally, the fear of failure is not as strong as it usually is in Europe and Russia. Making a second attempt is not a big deal; it is much more important that people do not give up and go on with their entrepreneurial efforts. In other words, conditions are pretty good for entrepreneurship to thrive in the country.

The participation of major corporations in the development of entrepreneurship education is also a current trend, mainly in the USs. Such companies as Goldman Sachs, Nike, Microsoft, Cisco, Intel and HP offer their own contests and courses dedicated to developing an entrepreneurial and broader way of thinking among their future employees. In Europe, Nokia is a leader in this field with its “Innovation Camps”, but on the whole entrepreneurship remains mainly a governmental rather than a private sector issue. In Russia, the situation is similar to in Europe, with the exception that the government pays much less attention to problems of entrepreneurship education development.

Let us now look at the peculiarities of entrepreneurial education in each of the studied countries.

In Europe, entrepreneurship is about leading an active life and about social participation. Entrepreneurship education is currently being revised and developed in the context of the idea of a lifelong learning process.<sup>9</sup> The most common problem in all European countries is the lack of entrepreneurial courses in the curriculum of non-business students. The situation in the UK, which is described in the table below, is typical. The average situation in all the countries of the European Union is even worse.

**Entrepreneurship in Higher Education in the UK**  
**Curricular provision of entrepreneurship teaching in the UK, by field of study (in %)**



<sup>9</sup> See reference 5 at end of paper.

*Source: National Council for Graduate Entrepreneurship, 2007. Report on Enterprise and Entrepreneurship in Higher Education [7, Survey of entrepreneurship in Higher education in Europe. Appendix A. Table report. NIRAS Consultants, FORA, ECON Pöyry. October 2008].*

Thus, most students have no possibility to participate in entrepreneurship courses and programs. This also applies to those who would need entrepreneurial skills in their future work. However, still the situation differs between the UK and Belgium.

### ***Entrepreneurship Education in the UK***

The British government is traditionally very concerned about the development of entrepreneurship as it is associated with new workplaces, which helps to solve the difficult problem of unemployment in the country.

In order to foster the entrepreneurial activity, a special program called “Enterprise in Higher Education (EHE)” was designed.<sup>10</sup> As a result of this program, different organizations and several other programs were developed. Among others, The National Council for Graduate Entrepreneurship was created in 2004 with the aim to promote a culture of entrepreneurship within higher-education institutions through research, education and facilitation.

The “Flying Start” program, which works to change the minds of people about starting up a new business and to assist in business start-ups, and the regional University Enterprise Networks (UENs), whose aim is to transform the nation’s educational system into an entrepreneurial system that uses interdisciplinary approach, work together to encourage entrepreneurship in the UK. They develop and implement different strategies of bringing real business and educational programs together to encourage experience sharing and better cooperation between them.

Today entrepreneurship is part of the learning process in all secondary education in England. A 2007 survey of Enterprise and Entrepreneurship in Higher Education in England shows that in-curricula provision accounts for 36% of entrepreneurship activity, while the remaining 64% takes place as extra-curricular provision.<sup>11</sup>

Hence, policies at government level are clear: the UK government cares a lot about entrepreneurial development and wants the private sector to be interested in this, too. Existing policies are about the whole educational system (because entrepreneurial education is considered lifelong learning), the environment for implementing entrepreneurship projects (if the objectives of entrepreneurship education are achieved and result in an increase in the number of entrepreneurs, it is important that the rest of the entrepreneurship eco-system is ready to support this increase) and making access to entrepreneurship programs easy and simple.

### ***Entrepreneurship Education in Belgium***

Entrepreneurship is still taught mostly in business and economic education in Belgium, which is common for European countries. There are some entrepreneurship

---

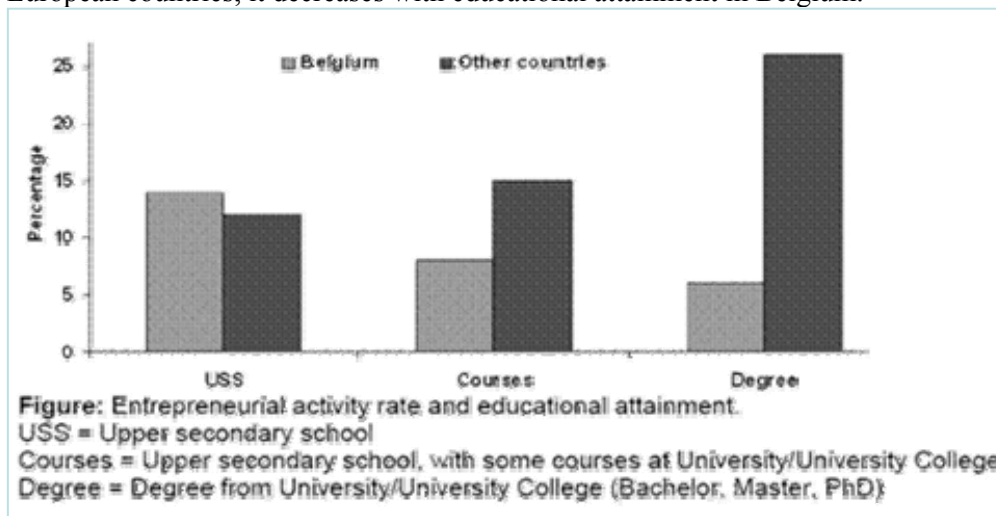
<sup>10</sup> Best procedure project: “Entrepreneurship in higher education, especially in non-business studies”. Final report of the expert group. European commission, Enterprise and industry directorate-general. March 2008.

<sup>11</sup> Survey of entrepreneurship in Higher education in Europe. Appendix B. Good practice examples. NIRAS Consultants, FORA, ECON Pöyry. October 2008.

programs for engineering students. A few years ago, a new government initiative was introduced in the form of an introductory course on entrepreneurship, which is organized by all universities and aims to raise awareness of entrepreneurship and self-employment. However, the idea was not well received by all and the deans of many “hard-science” faculties have not included this course in their programs.<sup>12</sup>

On the whole, while entrepreneurship is not an obligatory part of the curriculums, aspects of entrepreneurship are included in school programs. Entrepreneurship days or weeks are organized every year.

While entrepreneurial activity increases with educational attainment in other European countries, it decreases with educational attainment in Belgium.



Source: [6] *ENTREPRENEURSHIP. Action in Belgium? Action in Europe?* Philippe Lambrecht, Administrator Secretary General FEB. IAG — 16 November 2007.

This shows that it is crucial to encourage different institutions to work on developing entrepreneurial activity in universities.

A special organization in charge of entrepreneurial policy in Belgium, the FREE Foundation, organizes special training sessions or seminars. For example, it organizes two-day seminars for entrepreneurs to train them to use case studies, to speak in front of students and to teach some section of a course. Instead of paying a fee, the participants commit to spend (for free) at least 30 hours teaching over a period of three years. These entrepreneurs are now an important resource for education. Interesting practices such as this one make it easier to establish connections between real business and the educational system.

The FREE Foundation and the non-profit organization *Les Jeunes Entreprises* have also started 11 clubs for “student entrepreneurs” in higher education institutions. The aims of this program are to “raise awareness about entrepreneurship among other students in all fields of study; inform them about support services available to start a

<sup>12</sup> Assessment of compliance with the entrepreneurship education objective in the context of the 2006. Spring Council conclusions. European commission, Enterprise and industry directorate-general. Brussels, 27 November 2007.

company; run enterprise projects; [and] create business networks”.<sup>13</sup> It makes the process of including entrepreneurship into ordinary education easier.

### ***Entrepreneurship Education in the USA***

Americans focus on the employment and individual results of including entrepreneurship into all parts of the educational system. It means an opportunity for students to gain experience, to develop leadership and interpersonal skills and to develop planning, financial literacy and money management skills.

The National Foundation for Teaching Entrepreneurship (NFTE) made some interesting observations when it evaluated the results of entrepreneurial programs and courses carried out in schools<sup>14</sup>. Among students who participated in entrepreneurial programs:

- interest in attending college increased by 32%;
- occupational aspirations increased by 44%;
- independent reading increased by 4%;
- leadership behavior increased by 8,5%; and
- belief that attaining one's goals is within one's control (locus of control) also increased

Not only colleges offer programs on entrepreneurship; so do do other institutions. For example, the Coleman Foundation offers programs focusing on “the creation of entrepreneurs and the development of entrepreneurship as an academic discipline with a strong emphasis on programs that encourage independence and self-development for individuals with developmental disabilities”<sup>15</sup>. Standards for education (about 15 standards so far) are developed by the Consortium for Entrepreneurship Education, which consists of representatives of schools and colleges. The Ewing Marion Kauffman Foundation is involved in efforts to engage sponsors and teachers and to link the private sector with educational institutions. Overall there are plenty of private and governmental organizations that help entrepreneurship to spread within society.<sup>16</sup>

A major characteristic of American entrepreneurship education is that it is included almost in every educational program, especially in technical universities. MIT, Stanford University and many other famous universities throughout the USA offer such courses mainly to non-business students who possess the knowledge to invent something new but do not know how to develop their own business. This is a great way to create a link between innovation and business, which is one of the main objectives of entrepreneurial education.

### ***Entrepreneurship Education in Russia***

Entrepreneurship courses are not included in the school curriculums in Russia. There are elective courses in some schools in big cities of the country's regions, but no obligatory ones. This means that little attention is given to entrepreneurship and that little is done to to change existing views of entrepreneurship.

---

<sup>13</sup> See refernce 5 at the end of paper.

<sup>14</sup> [www.dol.gov/odep/pubs/fact/entrepreneurship.htm](http://www.dol.gov/odep/pubs/fact/entrepreneurship.htm)

<sup>15</sup> [www.colemanfoundation.org/entrepreneurship.html](http://www.colemanfoundation.org/entrepreneurship.html)

<sup>16</sup> [www.dol.gov/odep/pubs/fact/entrepreneurship.htm](http://www.dol.gov/odep/pubs/fact/entrepreneurship.htm)

As for universities, entrepreneurial courses are also mainly elective. Such courses are included in the management and economic curriculums of state universities but are not effectively promoted. There are also plenty of elective seminars and courses. For example, in SU-HSE, entrepreneurial courses are organized by the HSE Business Incubator. They are very popular and useful, but this is a unique example. Business incubators are unfortunately not yet a common practice among other universities.

### Impact of the Current Crisis on Business Education

The need for leaders who can grow their businesses without undermining the overall health of the industry or economy has never been greater Harvard Business Review, March 2009

It would be a good decision to start studying in the current period of recession. Studying makes it easier to overcome the stress caused by the crisis in the global economy and allows an individual hit by the crisis to devote free time to improving his or her skills. This explains the recent rise in applications for business courses almost everywhere in the world. In our study, we will analyze changes in business education brought about by the economic crisis.

#### ***Demand and Supply: Impact on MBA Applications and Programs***

Business schools may be divided into four categories:

University business programs — education here is academic and theoretical. Sometimes universities concentrate on research programs and pay less attention to general programs. The programs may be conservative and pay excessive attention to common standards.

Private business-schools — these schools are more dynamic but otherwise similar in structure to university business schools.

Corporate business-schools — these schools are very dynamic and adapted to specific types of business. They offer programs oriented toward concrete goals and are strongly connected with consulting.

Corporate universities — these are designed to meet the needs of a specific company.

These are supplemented by different training courses and seminars held elsewhere. In times of crisis, people tend to choose cheaper programs or programs that help to save time, although the demand for serious, respectable MBAs has also never been greater than now.

As regards foreign business programs, there has been an obvious decrease in the number of applications to full-time programs and a considerable rise in applications to part-time programs [www.mbatoday.ru]. The Association of MBAs (AMBA) notes that many people in the USA invest their severance package in education. “By the end of this year [2009] MIT Sloan School of management expects its MBA applications to have risen by 10 percent. Babson and Boston College are predicting an increase of 15% and 30%”.<sup>17</sup>

---

<sup>17</sup> See reference 22 at the end of paper.

In Russian business schools, the situation is different. Young schools that have little experience have faced a decrease in the number of applications, and some schools have even been forced to cancel some of their programs. This may be explained by the fact that, when people decide what school to choose in recession time, they give more attention to the experience and the age of the school and want to spend their money on a reliable and authoritative school. The decline in demand for business education in Russia is also explained by the decline of the wage level, which has made it impossible for many to afford such expensive education.

The number of corporate applications has also fallen. In the “Skolkovo” business school, it is expected that this sector will lose half of its students.<sup>18</sup> In Russia as a whole, this sector has 20-25% of all students of business schools.

Another recent trend is that Russian schools have not changed their tuition fees since the first signs of the crisis. As a result, prices may in reality have decreased if we take inflation into account. This means that the situation is even worse than it first appears; demand has decreased in spite of lower costs.

A recession time may lead to transformation of people’s attitudes with respect to the necessity of business education. It may cause disappointment in the whole idea of business education. In these conditions, it is vital to promote the creation of independent rating agencies in Russia, which can adequately assess the programs on the market as is common practice in Europe and especially in the USA.

Most experts also agree that the content of business programs will be revised due to the recession. For example, in the USA, leading business schools have introduced case studies from the current credit crisis into their accounting and corporate governance courses. The most popular issues are currently issues related to common and strategic management, finance and the IT sector. This is a worldwide trend, which can simultaneously be seen in Russia, the USA, the UK and Belgium.

Russian statistics show that 70% of business students pay for themselves, while about 20% use corporate funds. Others take loans (which is still not a widespread practice in our country) or share the costs with their company. These are all pre-crisis numbers. Today almost every Russian company has revised its spending on development and education. Especially small businesses are no longer ready to pay tuition fees. Big companies still continue to fund education because their budgets were planned before the crisis began.

The most attractive programs for Russian businessmen are joint programs between foreign and Russian business-schools. A total of 45% of survey respondents prefer them. The second most attractive type is now foreign business education (33,9%). The demand for Russian programs has fallen (17,7%) because, as noted above, in crisis times people prefer to invest money into education offered by high-status and highly rated business-schools.

In short, the influence of the crisis in the studied countries can be seen in that:

- younger students with less experience apply to business programs (there are even pre-MBA programs, in Russia for example, that accept students with only 1 year of experience) and schools with lower demands accept them;
- the demand for shorter programs has grown;
- part-time programs and module programs have become more popular;

---

<sup>18</sup> www.mbatoday.ru

- specialized programs for business functions are likely to be successful and useful; and
- internationalization and interaction between programs and their suppliers and participants make the case-studies used more relevant to real life conditions.

### Influence on the Content of Entrepreneurial Programs

There are no studies of how the crisis has influenced entrepreneurial programs because they are usually under governmental control.

We may predict, however, that the demand for such education will remain at the same level or even fall as a result of the crisis. This may be explained by the fact that government and private funding of such programs usually decreases in times of crisis. On the other hand, people better realize the need to know how to organize and develop your own business and are likely to want to start studying when the crisis ends. These factors balance each other and make the demand stable. The demand may also decrease because of people's fear to start their own business at recession time. Nevertheless, there is no question about the need of such courses in school and university curriculums, especially in this period of crisis.

### Recommendations for How to Improve Business Teaching in Russia in the Current Crisis

Business education teaches students to make more effective decisions and to adopt a more intellectual approach to the decision-making process. It furthers a country's development and inspires innovations. The overall recommendation to the Russian government is to make more efforts to include entrepreneurship into school and university curriculums, thereby promoting private sector-government interaction and improving the current state of affairs with respect to entrepreneurship and quality of management in the country.

The Russian government has never paid too much attention to business education development. Some may say that this has had a positive influence on the development of business programs in Russia, which has been fast. On the whole, for the last 20 years, there have only been two significant state influences on the development of business education; the adoption of a governmental program on management development in Russia and the suggestion of Vladimir Putin to found two business schools meeting world standards in Moscow and Saint-Petersburg. Today, in the current crisis, the government pays even less attention to this educational sector.

“The five ways in which government can have the most positive effect are by making capital more accessible, facilitating business education, promoting entrepreneurship, reducing regulatory burdens, and protecting intellectual property”.<sup>19</sup>

New business schools and programs should be adapted to Russian mentality and the Russian way of doing business and they should be flexible. The state policy in this area should not be interruptive, but corrective — the government should pay attention to the infrastructure and motivate schools to invest more into development. This may be done, for example, by introducing a separate tax system or easier

---

<sup>19</sup> See <http://www.america.gov/st/econ-english/2008/July/20080814221735XJyrreP0.4618189.html>

accounting for business schools. The legislation in the sphere of business education should be reexamined and improved. In order to foster entrepreneurship development, the government may also establish business incubators; promote the spread of the Internet throughout the country; and hire experts and “evangelists” to promote an entrepreneurial way of life.

The experiences made in business education in developed economies should be studied and compared in detail before developing the system of business education in Russia. New approaches applicable only in our country must be developed because currently many schools do not use examples from our country in their programs. At the same time, the government needs to revise its attitude towards business education and support and invest more into this sector. Regular school education needs to be supplemented with special classes on entrepreneurship and business to inform and involve students in the current state economy. What is more, access to business education needs to be made easier. Different private sponsorship initiatives should be encouraged and government support should be increased. There is a need for a kind of entrepreneurship “propaganda” through such courses at schools and universities.

More qualified professors should also be hired. Professors should have three main features: be educated and qualified; be experienced in the sphere of business or management; and be “full-scale” professors (usually, this also means having a pedagogical degree). In order to increase the level of education, Russian business schools need to find people who possess all these skills or at least two of them — the first two ones are the most important. What is more, modern business schools should establish strong connections to their graduates. This will help schools to attain information about cases to use in their teaching, improve their status and image and get loyal supporters.

## Sources

### ***Russian business schools sites:***

- LINK at [www.link.msk.ru](http://www.link.msk.ru)
- Higher School of finance and management — The Academy of National Economy under the Government of the Russian Federation (ВШФМ АНХ), at [www.finmanager.ru](http://www.finmanager.ru)
- Moscow school of management “Skolkovo” (Московская школа управления “Сколково”), at [www.skolkovo.ru](http://www.skolkovo.ru)
- Moscow business school MIRBIS (Московская международная высшая школа бизнеса МИРБИС), at [www.mirbis.ru](http://www.mirbis.ru)
- Higher School of management — SU HSE (Высшая школа менеджмента ГУВШЭ), at [www.mbahse.ru](http://www.mbahse.ru)
- Institute of economics and finance “Sinergbia” (Институт экономики и финансов “Синергия”), at [www.sinergbia.ru](http://www.sinergbia.ru)
- Institute of business and business administration — The Academy of National Economy under the Government of the Russian Federation (Институт бизнеса и делового администрирования ИБДА АНХ), at [www.ibs-m.ru](http://www.ibs-m.ru)



***Foreign business schools sites:***

- Harvard Business School, at [www.hbs.edu](http://www.hbs.edu)
- MIT Sloan School of Management, at [www.mitsloan.mit.edu](http://www.mitsloan.mit.edu)
- Berkeley University of California Haas School of Business, at [www.haas.berkeley.edu](http://www.haas.berkeley.edu)
- Wharton, University of Pennsylvania, at [www.wharton.upenn.edu](http://www.wharton.upenn.edu)
- Stanford Graduate School of Business, at [www.gsb.stanford.edu](http://www.gsb.stanford.edu)
- Northwestern University: Kellogg School of Management, at [www.kellogg.northwestern.edu](http://www.kellogg.northwestern.edu)
- Oxford Said Business School, at [www.sbs.ox.ac.uk](http://www.sbs.ox.ac.uk)
- Babson College, at [www3.babson.edu](http://www3.babson.edu)
- HEC-ULG entrepreneurs programme, LIÈGE UNIVERSITY SCHOOL OF MANAGEMENT (HEC-ULG), Belgium, at [www.hec.ulg.ac.be](http://www.hec.ulg.ac.be)
- University of Salford, Greater Manchester, the UK, at [www.salford.ac.uk](http://www.salford.ac.uk)
- University of Cambridge, the UK, at [www.cam.ac.uk](http://www.cam.ac.uk)
- London Business School [www.london.edu](http://www.london.edu)
- Lancaster University Management School, at [www.lums.lancs.ac.uk](http://www.lums.lancs.ac.uk)
- Cranfield School of Management, at [www.som.cranfield.ac.uk](http://www.som.cranfield.ac.uk)
- Warwick Business School, at [www.wbs.ac.uk](http://www.wbs.ac.uk)
- Imperial College Business School, at [www3.imperial.ac.uk/business-school](http://www3.imperial.ac.uk/business-school)

***Ratings:***

- Financial Times: Global MBA Rankings 2009
- USNews: Executive MBA'09
- USNews: America's Top Business-Schools'09
- Financial Times: European Masters in Management Rankings' 2008
- BusinessWeek: Non-US Schools Specialty Rankings 2008
- BusinessWeek: US Schools Specialty Rankings 2008
- The Economist: Top B-Schools'08
- Wall Street Journal: EMBA 2008
- Russian association of business education (Российская ассоциация бизнес-образования), at [www.rabe.ru](http://www.rabe.ru)
- European Commission — Enterprise and Industry, at [http://ec.europa.eu/enterprise/entrepreneurship/index\\_en.htm](http://ec.europa.eu/enterprise/entrepreneurship/index_en.htm)

***Presentations:***

- Effects of entrepreneurship education in Norway and Europe. Jarle Tømmerbakke CEO — JA YE Norway.
- *ENTREPRENEURSHIP: Action in Belgium? Action in Europe?* Philippe Lambrecht, Administrator Secretary General FEB. IAG — 16 November 2007.
- Research projects studied:
- Best procedure project: “Entrepreneurship in higher education, especially in non-business studies”. Final report of the expert group. European Commission, Enterprise and Industry Directorate-general. March 2008.

- “Assessment of compliance with the entrepreneurship education objective in the context of the 2006”. Spring Council conclusions. European Commission, Enterprise and Industry Directorate-general. Brussels, 27 November 2007.
- Survey of entrepreneurship in Higher education in Europe. Appendix A. Table report. NIRAS Consultants, FORA, ECON Pöyry. October 2008.
- Survey of entrepreneurship in Higher education in Europe. Appendix B. Good practice examples. NIRAS Consultants, FORA, ECON Pöyry. October 2008.
- Papers presented at the conference “Entrepreneurship education in Europe: fostering entrepreneurial mindsets through education and learning” Oslo, 26-27 October 2006.
- Search engines on MBA topic: mbaconsult.ru, mbatoday.ru
- Different articles on entrepreneurship and MBA topics from the web.
- DECA, Inc., at [www.deca.org/](http://www.deca.org/)
- Ewing Marion Kauffman Foundation, at [www.kauffman.org/](http://www.kauffman.org/)
- Junior Achievement, at [www.ja.org/](http://www.ja.org/)
- Mind Youth Own Business, at [www.mindyournbiz.org/default.shtml](http://www.mindyournbiz.org/default.shtml)
- National Federation of Independent Business (NFIB) Young Entrepreneur Foundation, at [www.nfib.com/YoungEntrepreneurFoundation](http://www.nfib.com/YoungEntrepreneurFoundation)
- National Foundation for Teaching Entrepreneurship (NFTE), at <http://www.nfte.com/whatwedo/programs/>
- Partners for Youth with Disabilities- Young Entrepreneurs Program (YEP), at [www.pyd.org/mentoring\\_programs/young\\_entrepreneurs.htm](http://www.pyd.org/mentoring_programs/young_entrepreneurs.htm)
- Self-Employment Technical Assistance, Resources, & Training (START-UP/USA), at <http://www.start-up-usa.org>
- Small Business and Self-Employment Service (SBSES), at [www.jan.wvu.edu/SBSES](http://www.jan.wvu.edu/SBSES)
- Service Corps of Retired Executives (SCORE), at [www.score.org/resources\\_young.html](http://www.score.org/resources_young.html)
- Social Security Administration (SSA), at [www.socialsecurity.gov](http://www.socialsecurity.gov)
- Young Entrepreneur Online Guide to Business, at [www.sba.gov/teens/](http://www.sba.gov/teens/)
- Harvard Business Review, March 2009.

---

*Churilova Elena and Shuklin Vladimir*  
***Enterprise Potential in Russia and Belgium: a  
Comparative Analysis of the Environment for Early  
Entrepreneurship Activities***

### Importance and Novelty of Our Research

Especially the globalization process renders important the still existing disparities in entrepreneurship conditions (including conditions for SME) between Western Europe and emerging market economies such as Russia. Perceived conditions for business start-up are one of the factors that have the largest influence on the decision to start up a venture. In this paper, we intend to carry out a comparative analysis of perceived entrepreneurship conditions in Russia and Belgium based on Global Entrepreneurship Monitor (GEM) APS data. The novelty of the proposed research is defined by the absence of similar comparative studies between Belgium and Russia.

### Research Object and Subject

The object of our research is the population of Belgium and Russia. Our research subjects are both an evaluation of conditions for starting up and developing a business by the population and factors influencing this evaluation.

### Aim and Tasks of the Project

The aim of the project is to identify similarities in conditions for starting up and developing a business in Belgium and Russia and to define the factors that influence popular evaluations of such conditions.

In particular, the tasks of our research are:

To define and compare assessments of conditions for starting up and continuing a business in Russia and Belgium.

- To explore socio-demographic characteristics influencing the perception of conditions for starting up and continuing a business in Russia and Belgium.
- To explore economic country characteristics influencing the perception of conditions for starting up and continuing a business in Russia and Belgium.
- To define and differentiate the level of fear of starting up a new venture in Russia and Belgium.
- To determine how experience of enterprise activity influences the level of fear of starting up a new business in Russia and Belgium.

## Research Model

The Global Entrepreneurship Monitor started in 1999. Now this worldwide project involves researchers from all over the world. For the 2003 study, 31 countries were included in the analyses. In terms of its scale and scope, GEM represents the largest global research project in entrepreneurship currently being undertaken anywhere in the world.

GEM is a major research project aimed at describing and analyzing entrepreneurial processes within a wide range of countries. In particular, GEM focuses on three main objectives:

- To measure differences in the level of entrepreneurial activity between countries;
- To uncover factors determining the levels of entrepreneurial activity;
- To identify policies that may enhance the level of entrepreneurial activity<sup>1</sup>.

Entrepreneurship is a complex phenomenon that spans a variety of contexts. The varied definitions of the concept used in entrepreneurship literature reflect this complexity. In line with its objectives, GEM takes a broad view of entrepreneurship and focuses on the role played by individuals in the entrepreneurial process. Unlike most entrepreneurship data sets, which cover newer and smaller firms, GEM studies the behavior of individuals with respect to starting up and managing a business. This differentiates GEM from other data sets, most of which record firm-level data on (new) firm registrations. New firms are, most often, started by individuals, and individuals typically determine the entrepreneurial attitude of established businesses regardless of their size.

Another important aspect is that, from the start of the project in 1999, GEM views entrepreneurship as a process and considers people in different phases of entrepreneurial activity — from the very early phase when businesses are in gestation to the established phase and possibly the discontinuation of the business. An individual entrepreneur who has succeeded in maintaining a business has gone through a process and an examination of the characteristics of his or her actions is a useful way to study entrepreneurial behavior. The entrepreneurial process starts before a firm is operational. A person who is just starting a venture and is trying to make it in a very competitive market is an entrepreneur despite not having high-growth aspirations. On the other hand, an established business owner may have been in business for quite a number of years and still be innovative, competitive, and growth-minded; this person is also an entrepreneur. GEM provides an umbrella under which a wide variety of entrepreneurial characteristics, such as motivations, innovativeness, competitiveness, and high-growth aspirations, can be systematically and rigorously studied.

## Research Hypotheses

We expected that the conditions for beginning and developing a new business are not the same in Russia and Belgium. We assumed that there are a number of

---

<sup>1</sup> Global Entrepreneurship Monitor / Quill, M., N. Bosma, and M. Minniti (2006), “Global entrepreneurship monitor: 2006 data assessment“ / URL: <http://www.gemconsortium.org/>

factors that influence popular perceptions of these conditions, such as age, the economic situation in each country and experience of enterprise activity<sup>2</sup>.

These are the main hypotheses of our research:

- Despite much higher economic growth in Russia than in Belgium in 2006-2008, the Russian population has more negative attitudes than the Belgium one concerning possibilities to start up a private business because of a weak entrepreneurship support infrastructure.
- Both in Russia and in Belgium, the younger generation (up to 24 years) evaluates conditions for business start-up and development as more perspective than older people because young people are less informed than other cohorts of the population.
- Due to the fact that fear of failure is more common among Russians than Belgians, fear of failure is a stronger “de-motivator” to start up business in Russia.
- Both in Russia and in Belgium, there is a correlation between experience of entrepreneurial activity and level of fear of failure so that people with previous experience have a low level of fear, while those without such experience have a high level of fear.
- The level of self-confidence in entrepreneurial skills is lower in Russia than in Belgium because the level of entrepreneurship culture is lower than in Belgium. (Market economy was established in Russia only in 1990s, whereas it has developed in Belgium over the last two centuries).
- In Russia, social respect for entrepreneurship is much more modest than in Belgium because of the weak role of media in establishing a positive picture of entrepreneurship.

## Sources of Information

The sources of information used in our research are GEM data for 2006-2008 and official statistics from Russia and Belgium.

The GEM data covers the life-cycle of the entrepreneurial process and looks at individuals at the point when they commit resources to start a business they expect to own themselves (nascent entrepreneurs); when they currently own and manage a new business that has paid salaries for more than three months but less than 42 months (new business owners); and when they own and manage an established business that has been in operation for more than 42 months (established business owners)<sup>3</sup>.

*GEM Adult Population Survey — Russia:* This data was compiled by the Levada center. The target population was persons aged 16 years and over who are members of a private household in Russia. The survey method used was face-to-face interviews and the Russian Census 2002. Respondents were selected according to the criteria of next birthday<sup>4</sup>.

---

<sup>2</sup> Чепуренко А.Ю. Раннее предпринимательство в России: промежуточные результаты GEM//*Мир России*. 2008. № 2. С. 22-40

<sup>3</sup> Global Entrepreneurship Monitor / Quill, M., N. Bosma, and M. Minniti (2006), “Global entrepreneurship monitor: 2006 data assessment“ / URL: <http://www.gemconsortium.org/>

<sup>4</sup> Чепуренко А.Ю. Социология предпринимательства. М.: Изд. дом ГУ ВШЭ, 2007.

**Table 1: Principles of sampling in Russia**

Sample stage	Description	Selected units
Stage 1	Selection of Primary Sampling Units (PSU): cities. (limitation of 15 interviews per PSU)	108 PSUs
Stage 2	Selection of Secondary Sampling Units (SSU): electoral districts	217 SSUs
Stage 3	Selection of households	Random walk
Stage 4	Selection of individuals	Next birthday

*GEM Adult Population Survey — Belgium (2006)*: This data was compiled by TNS Dimarso. The target population was persons aged 18 — 64 who are members of a private household in Belgium. Data was collected using mobile phone and fixed-line telephone sampling. The fixed-line telephone component of the survey: random digital dialing (85%). The mobile telephone component of the survey: random dialing on the basis of a list (15%). Respondents were selected on the basis of the following criteria: ;last birthday.

Three age groups were defined in accordance with their proportions of the population:

Age group	Proportion of population, %
18 — 34	31
35 — 54	48
55 — 64	21
Total	100

The gender of respondents was determined in accordance with the following proportions:

Gender	Proportion of population, %
Male	48
Female	52
Total	100

## National Statistics

We use GDP per capita, measured in international comparable prices by expenditure, with data organized by country and by year. The source of the national statistics used is the UNECE Statistical Division Database, which is compiled from official national and international sources (CIS, EUROSTAT, IMF and OECD sources).

## Data Analysis

The GEM data allows for analyzing current attitudes towards entrepreneurship. The perception of the business environment is a decisive element in the decision to launch an entrepreneurial activity. A recent study shows that there is a positive correlation between variables of perception and the level of creation of firms

in a country. Among the factors that are beneficial for the entrepreneurship environment we can include the following:

- People’s perception of entrepreneurship activity measured by the image of entrepreneurs in mass-media (mass-media forms public opinion) (*In your country, do you often see stories in public media about successful new businesses?*)
- The value of entrepreneurship for career development (*In your country, do most people consider starting a new business a desirable career choice?*)
- Assessment of the external environment for starting up and developing a business (*Do you think that there will be good opportunities for starting up a business in the area where you live in the next six months?*)
- Prestige of entrepreneurship activity (*In your country, do those who are successful in starting new businesses have a high level of status and respect?*)
- Value of higher standards of living (*In your country, would most people prefer that everyone had a similar standard of living?*)
- Fear of failure to start a new business (*Would fear of failure prevent you from starting a business?*)

First of all, we will consider the economic situation in Belgium and Russia. As regards economic development, we first examine the Gross Domestic Product per Capita (see Table 2), which reflects the market value of all final goods and services produced within the borders of a nation in a year.

**Table 2: GDP per Capita, in International Comparable Prices, US\$, at prices and PPPs of current year**

	2005	2006	2007
<b>Belgium</b>	6 673	7 427	7 986
<b>Russian Federation</b>	2 380	2 824	3 579

Source: UNECE

The GDP per capita in Belgium is 2.5 times higher than in Russia. GDP is a good indicator of the efficiency and the common state of economy in a country. Belgians have a higher standard of living, greater income and more financial possibilities to start their own businesses than Russians. At the same time, we can observe a high growth of the economy in both countries in 2005-2007.

If we explore the relation between GDP per Capita and Total early-stage entrepreneurial activity (TEA rate), we can say that a correlation exists in Belgium, but not in Russia (see Table 3).

**Table 3: GDP per Capita (US\$) and TEA rate (%)**

Year		Belgium	Russia
<b>2006</b>	<b>GDP</b>	7 427	2 824
	<b>TEA</b>	2,5	4,6
<b>2007</b>	<b>GDP</b>	7 986	3 579
	<b>TEA</b>	3,15	2,686

Next we move to an analysis of the GEM-data. First we consider the general situation with respect to perceptions of conditions for starting up business and thereafter turn to perceptions according to gender and age.

As can be seen in Table 4, more people consider starting a new business as a good career choice in Belgium than in Russia (44.5% of the 18-64 age population in Belgium against 29.5% of Russians). However, as table 5 shows, less than 10% of the adult population in both countries expects to start up a new business in the next three years (7.3% of the population in Belgium, 5% in Russia). Willingness to start up a business can be related to the availability of human capital and the necessary skills or financial possibilities.

**Table 4: “Starting new business is a good career choice”, % of 18-64-year-olds**

	2006	2007
<b>Belgium</b>	46,8	44,5
<b>Russian Federation</b>	46,9	29,5

**Table 5: “Expect to start up business in the next 3 years”, % of 18-64-year-olds**

	2006	2007
<b>Belgium</b>	6,3	7,3
<b>Russian Federation</b>	7,5	5,0

The creation of firm requires discovering, pursuing and realizing a business opportunity. The assessment of opportunities is a major factor influencing a decision to start up a new business. It is important that the (new) businessman is aware of valuable information about opportunities and places confidence in the potential of these opportunities. Table 6 shows the percentage of respondents that answered positively to the question of whether they think there are good opportunities for starting up a business in the following six months. If we recall the dependence between GDP and TEA-rate, we can say that Belgians assess economic growth as an improvement of the conditions and opportunities for starting up a new business.

**Table 6: “There will be a lot of good opportunities to start up a new business in the next 6 months”, % of respondents**

	2006	2007
<b>Belgium</b>	14,0	16,3
<b>Russian Federation</b>	13,2	10,6

In Russia, 32 % of the respondents in 2007 considered that those who have successfully organized a new business have high status and are held in respect in society. When we compare this data with Belgium, we can see that this figure is lower than in Belgium (where 51% of the respondents in 2007 said that the successful establishment of a new business leads to status improvement).



**Table 8: “The establishment of a successful new business leads to status improvement.”**

	2006	2007
Belgium	49,4	51,3
Russian Federation	49,6	31,5

It is obvious that Russian mass media gives insufficient attention to the activities of businessmen and descriptions of possibilities for the development of business as only 19% of the adult population have learned about successful new companies from mass-media (see Table 9).

**Table 9: “There is a lot of media coverage of new businesses.”**

	2006	2007
Belgium	34,8	37,3
Russian Federation	35,2	19,2

Table 10 shows what Belgians and Russians think about equality. Equality signifies that people think that all have similar possibilities and opportunities to do business. More people in Belgium than in Russia (62% compared to 23% in 2007) suppose that most people prefer an equal standard of living for all. It should be noted that the share of so respondents asking this question affirmatively increased in Belgium and decreased in Russia from 2006 to 2007.

**Table 10: “Most people prefer an equal standard of living for all.”**

	2006	2007
Belgium	59,5	62,0
Russian Federation	32,2	23,2

The failure of rising firms is a reality, which is explained by the high level of risk that these firms experience during the first stages of their development. Indeed, during the first months following creation, a firm must prove its legitimacy in the eyes of bankers, purchasers, suppliers and future employees. A failure in this respect threatens the entrepreneurial activity. Facing risks, individuals adopt different strategies according to their attitudes toward risk and the social and cultural understanding of failure in their communities. Some individuals refrain from getting involved in entrepreneurial activities because of fear of the risks that such activities entail or because of a previous failure of efforts to establish a firm. Thus, the fear of failure becomes a factor inhibiting the establishment of firms and negatively influencing the level of entrepreneurial activity within a country.

**Table 11: Fear of failure to start a new business (in %)**

	2006	2007
Belgium	26,5	24,2
Russian Federation	35,6	28,4

The results from Belgium show that fear of failure is not a major factor preventing the creation of firms. Indeed, failure was a factor inhibiting entrepreneurial activity for only 26,5% of the adult population in 2006. In Russia, 35,6% of the respondents expressed fear of starting up a new business the same year. In 2007, the situation had improved from 2006 in both countries, especially in Russia, where 28,4% of the adult population now expressed fear.

Considering the gender aspect of attitudes to business, we can conclude that there are no essential distinctions between men and women concerning the assessment of a majority of the described factors (see Table 12). There is a significant difference between men and women in both countries only on the question of expectations to start up a new business in the next three years. In addition, an important gender difference is observed in Russia on the variable fear of failure. Women are more afraid of failure than men. The data for 2007 does not allow for analyzing gender differences in attitudes.

**Table 12: Assessment of conditions to start up a new business by sex (% of respondents)**

	Belgium				Russia			
	2006, male	2006, female	2007, male	2007, female	2006, male	2006, female	2007, male	2007, female
“I expect to start up a business in the next three years.”	9,3	3,5			12,0	4,7		
“There will be good start-up opportunities where I live in the next six months.”	17,7	10,3	8,9	13,5	15,7	11,4	12,4	8,9
“Most people consider that starting a business is a good career choice.”	48,1	45,4			42,1	57,9		
“Those who are successful in starting a business have a high level of status and respect in society.”	51,1	47,5			41,4	58,6		
“You will often see stories about people starting successful new businesses in the media.”	36,2	33,4			34,2	35,9		
“Fear of failure would prevent me from starting a business.”	24,6	28,5	22,9	25,6	28,2	40,8	25,6	30,9
“People prefer an equal standard of living for all.”	56,8	62,4			30,4	33,4		

## Self-confidence in Entrepreneurial Skills

What is the situation with respect to the level of self-confidence in entrepreneurial skills in Belgium and Russia? We can conclude that market economy has been established and developed over the last two centuries in Belgium, as a result of which there are more people than in Russia with special knowledge or skills to start a business.

**Table 13: Perceived knowledge and skills to start up a new business (in %)**

	2006	2007
<b>Belgium</b>	37,1	37,8
<b>Russian Federation</b>	21,5	8,7

Table 13 shows that in 2006 more than one fifth of the respondents in Russia (21,5%) believed that they had the necessary knowledge and skills to start up a new business, while in 2007 two times fewer (8,7%) agreed with this statement. In Belgium, more than one third of the respondents believe that they have the necessary knowledge and skills to start up a new business, with the rate of agreement stable over the two years (37,1% in 2006 and 37,8% in 2007).

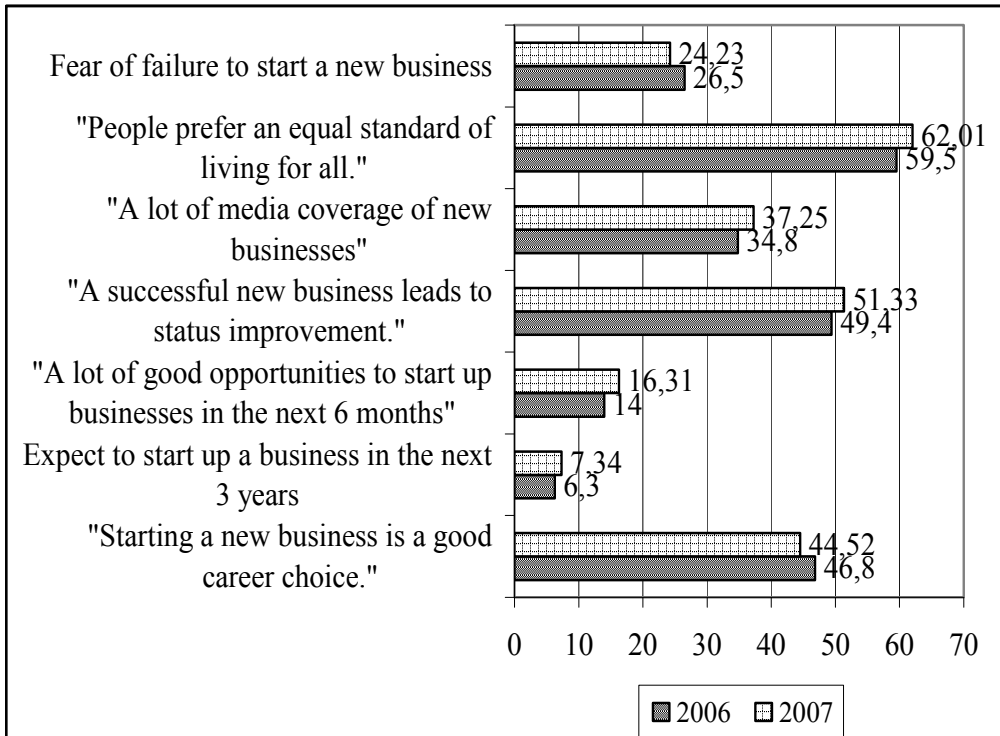
What is the difference between men's and women's estimations of their knowledge and skills? Table 14 shows a great difference between men's and women's perceptions in both Belgium and Russia. About half of the men surveyed in Belgium believed that they have the skills needed to start up a business in both 2006 and 2007, while approximately one third of the surveyed Russian men (28,6%) agreed with this statement in 2006, and 11,4% in 2007.

**Table 14: Perceived knowledge and skills to start up a business, by sex (in %)**

	2006		2007	
	Male	Female	Male	Female
<b>Belgium</b>	48,5	25,8	48,0	26,8
<b>Russian Federation</b>	28,6	16,6	11,4	6,2

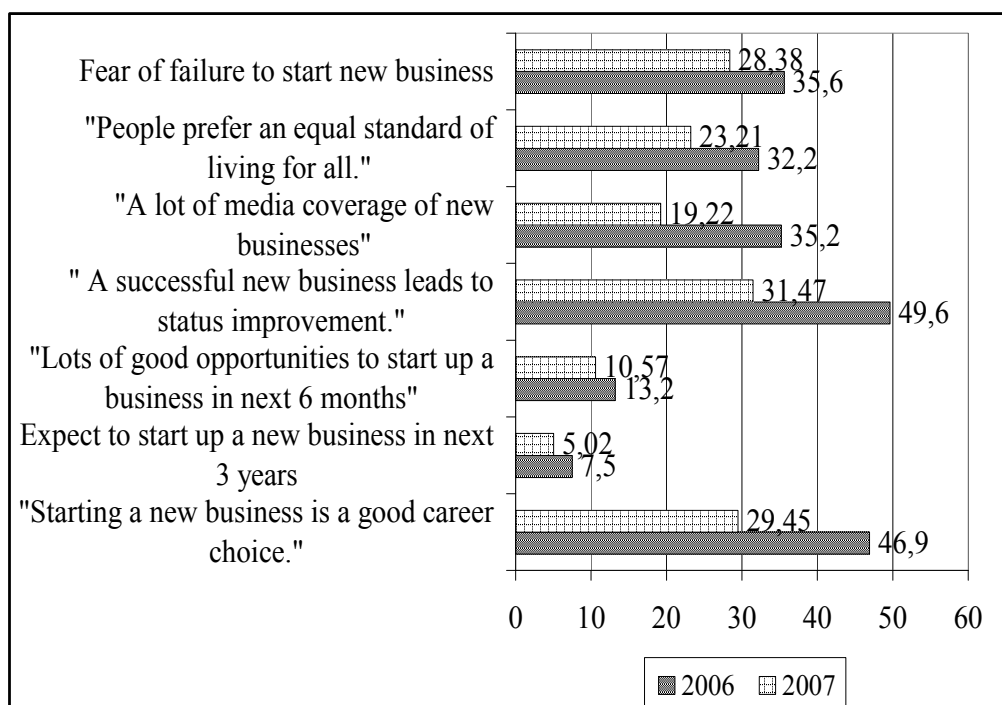
Appendix

**Figure 3: Dynamics of attitudes regarding business conditions in Belgium, % of 18-64-old respondents**



**Differences in attitudes regarding conditions for starting up a business between age-groups, % who answered "yes" Belgium, 2006**

	18-24	25-34	35-44	45-54	55-64	Total
"Starting a new business is a good career choice."	16,5	20	22,4	21,8	19,3	100
"I expect to start up a business in the next 3 years."	31,7	21,4	23	18,3	5,6	100
"There will be a lot of good opportunities to start up a business in my area in the next 6 months."	10,9	24,2	24,8	23,6	16,4	100
"A successful new business leads to status improvement."	15	18,6	25,9	22,4	18,1	100
"There is a lot of media coverage of new businesses"	9,6	18,2	24,9	24,1	23,2	100
"People prefer an equal standard of living for all."	12,7	18	25,7	24,8	18,8	100
"Fear of failure would prevent me from starting up a new business."	15,3	20,8	22,7	26,8	14,4	100

**Figure 4: Dynamics of attitudes regarding business conditions in Russia, % of 18-64-old respondents**

**Differences in attitudes regarding conditions for starting up a business between age-groups, % who answered "yes" Russia, 2006**

	18-24	25-34	35-44	45-54	55-64	Total
"Starting up a new business is a good career choice."	21,5	24,5	20,7	21,1	12,1	100
"I expect to start up a new business in the next 3 years."	33,8	31	21,1	11,3	2,8	100
"There will be a lot of good opportunities to start up a business in my area in the next 6 months."	27,5	25	20,6	15	11,9	100
"A successful new business leads to status improvement."	20,7	25,9	21,4	19,2	12,8	100
"There is a lot of media coverage of new businesses."	21,1	24,7	21,4	20,8	12	100
"People prefer an equal standard of living for all."	19,9	22,2	22,8	21,1	14	100
"Fear of failure would prevent me from starting up a new business."	20,6	20,1	24	21,7	13,6	100

## References

1. Global Entrepreneurship Monitor / Quill, M., N. Bosma, and M. Minniti (2006), "Global entrepreneurship monitor: 2006 data assessment" / URL: <<http://www.gemconsortium.org/>>
2. UNECE Statistical Division / URL: <http://www.unece.org/stats/>
3. Малое предпринимательство в России: прошлое, настоящее и будущее / Ясин Е.Г., Чепуренко А.Ю., Буев В.В., Шестоперов О.М.- М.: Новое изд-во, 2004. — 268 с
4. Предпринимательский потенциал общества: GEM Россия: Препринт WP1/2007/05. — М.: Издательский дом ГУ ВШЭ, 2007.
5. Чепуренко А.Ю. Малое предпринимательство в России // *Мир России*. 2001. Т. 10. № 4. С. 130-161
6. Чепуренко А.Ю. Раннее предпринимательство в России: промежуточные результаты GEM // *Мир России*. 2008. № 2. С. 22-40.
7. Чепуренко А.Ю. Социология предпринимательства. М.: Изд. дом ГУ ВШЭ, 2007.

---

*Maxim Markin and Elena Nazarbaeva*  
**What Is More Important for Early Stage Entrepreneurs  
in Russia and Belgium: Human Capital vs. Social Capital**

Introduction: Types of Entrepreneurs and Forms of Capital

Who is an entrepreneur according to our common sense? We suppose that it is somebody who owns and manages business. However, when studying entrepreneurship, one should remember that entrepreneurs are not only people who already have their businesses, but also anybody who has just started his or her business or who is just planning to start one (the entrepreneurial potential of society<sup>1</sup>).

Thus, entrepreneurship is too general term. Our research focuses on *early stage entrepreneurs* who are *nascent entrepreneurs* (they are looking for sources of financing, business-partners, equipment, etc. and still do not have a stable income from the venture they are starting up) and *new business owners* (they are earning income from the venture but the perspective of the further development of their businesses is unpredictable)<sup>2</sup>.

The term *capital* can be described as stored economic resources which are used in the processes of value reproduction and growth in different forms<sup>3</sup>. The classical forms of capital are economic capital, human capital, social capital and cultural capital.

*Economic capital* is financial assets (money capital), means of production (production capital) and products (goods capital)<sup>4</sup>. It is institutionalized in property rights<sup>5</sup>.

*Human capital* is stored knowledge and skills obtained by education, which can subsequently bring return in the form of wage, interest or profit. It is institutionalized in credentials (certificates of degree, patents and licenses)<sup>6</sup>.

*Social capital* is social liability (ties)<sup>7</sup>, which exists only in human interactions<sup>8</sup>. It is institutionalized in titles<sup>9</sup> or in membership of social groups<sup>10</sup>.

---

<sup>1</sup> See, for example: Чепуренко А.Ю. 2007. Социология предпринимательства. М.: Изд. дом ГУ ВШЭ. С. 134-142.

<sup>2</sup> Там же. С. 138-139.

<sup>3</sup> Радаев В.В. 2002. Понятие капитала, формы капиталов и их конвертация, Экономическая социология. Т. 3. № 4. С. 21.

<sup>4</sup> Там же. С. 23.

<sup>5</sup> Бурдые П. 2004. Формы капитала. В сб.: Радаев В.В. (науч. ред.). Западная экономическая социология: хрестоматия современной классики. М.: РОССПЭН. С. 521.

<sup>6</sup> Радаев В.В., 2002. Понятие капитала, формы капиталов и их конвертация. Экономическая социология. Т. 3. № 4. С. 25.

<sup>7</sup> Бурдые П. 2004. Формы капитала. В сб.: Радаев В.В. (науч. ред.). Западная экономическая социология: хрестоматия современной классики. М.: РОССПЭН. С. 528.

<sup>8</sup> Coleman J. 1988. Social capital in the creation of human capital. The American Journal of Sociology. Vol. 94 Supplement: Organizations and Institutions: Sociological and Economic Approaches to the Analysis of Social Structure. P. S98.

*Cultural capital* is the knowledge that gives people an opportunity to understand other people's behavior. It is institutionalized in status groups<sup>11</sup>.

Our study is based on the assumption that all forms of capital are important for entrepreneurs.

We focus on two forms (human capital and social capital) as they are commonly considered to be very important forms<sup>12</sup> together with economic capital, which is traditionally the object of economic analysis.

## Methodology: the Aim of the Study and Main Hypotheses

The *aim* of our research is to compare the importance of two special forms of capital (human capital and social capital) for early stage entrepreneurs in such different countries as Russia and Belgium. In other words, we want to analyze what forms of capital are more frequently used by early stage entrepreneurs.

So the *object* of the study is early stage entrepreneurs in Russia and Belgium. The *subject* is the forms of capital they use.

As we have defined the aim, the object and the subject of the study and described the main terms important for our research, our *tasks* can now be described:

1. to compare how frequently human capital and social capital are used by early stage entrepreneurs in Russia and Belgium;

2. to analyze the influence of social-demographic characteristics of early stage entrepreneurs on the capital they use; and

3. to compare the typical means used for starting business in Russia and Belgium.

The *hypotheses* of the study are:

H1. the share of entrepreneurs using social capital is higher in Russia than in Belgium as in Russia it is sometimes the only accessible source of financial support<sup>13</sup> (for task 1);

H2: human capital is used by more entrepreneurs in Belgium than in Russia as the return on human capital is lower in Russia than in European countries<sup>14</sup> (for task 1);

H3: both in Belgium and Russia, older entrepreneurs are more likely to use social capital than younger entrepreneurs as they have gained many contacts during their lives (for task 2);

---

<sup>9</sup> Бурдые П. 2004. Формы капитала. В сб.: Радаев В.В. (науч. ред.). Западная экономическая социология: хрестоматия современной классики. М.: РОССПЭН. С. 528.

<sup>10</sup> Радаев В.В. 2002. Понятие капитала, формы капиталов и их конвертация, Экономическая социология. Т. 3. № 4. С. 26-27.

<sup>11</sup> Там же. С. 25.

<sup>12</sup> See, for example, the following research that deals with nascent entrepreneurs: Davidsson P, Honig B. 2003. The role of social and human capital among nascent entrepreneurs. Journal of Business Venturing. Vol. 18. PP. 301-331.

<sup>13</sup> Чепуренко А.Ю. 2007. Социология предпринимательства. М.: Изд. дом ГУ ВШЭ. С. 171-174.

<sup>14</sup> Мальцева И.О. 2007. Трудовая мобильность и стабильность: насколько высока отдача от специфического человеческого капитала в России? Препринт. М.: Изд. дом ГУ ВШЭ. С. 5.



H4: both in Belgium and Russia, women are more likely to use their social capital than men as women have closer social ties than men (for task 2);

H5: getting money from institutional investors is more important to start up a business in Belgium than in Russia as in Belgium there are a lot of opportunities to receive financial support and entrepreneurs can choose the most effective one (for task 3);

H6: entrepreneurs more often use only their own savings to start business in Russia than in Belgium as it is quite difficult to find investors in conditions of financial uncertainty<sup>15</sup>, while there is a stable financial sector and well-embedded start-up support programs in Belgium, which makes it possible to find external financing (for task 3).

### Data Analysis: Description of the Empirical Basis

To test the hypotheses of our research, we will use data collected for the international study “The Global Entrepreneurship Monitor” in 2006. The sample represents the population of the two target countries by gender and age. A total of 1894 people were questioned in Russia, and 2003 people were questioned in Belgium.

Next we will describe the general situation of entrepreneurship in Russia and Belgium. Our aim is not to analyze different aspects of the business environment or to identify connections between them. We are just aiming at describing the most common features of each country and creating a kind of framework for further analysis. We assume that there are three factors that can influence the form of capital involved in business:

- the level of development of entrepreneurship in the country because this shows future perspectives of a new business and the capital involved in it;
- motivation to start business because people with motivation are more likely to have their own resources to start business; and
- the existence of social ties with other entrepreneurs and “business angels”, which makes it easier to use different types of capital.

Let us look at the share of the population who own and manage businesses in the countries under consideration. We can see that the share of such people is significantly (sig. < .01) higher in Belgium (8%) than in Russia (4,5%). One should also take into account that the average share of business owners and managers in all the countries covered by the Global Entrepreneurship Monitor<sup>16</sup> is 12% and that the share of those who refused to answer a question on this issue is less than 1%. It is also important to note that the share of people who refused to say whether they have their own business was significantly higher in Russia (2,3%).

The share of people who have autonomously started up a business in Russia (6,2%) does not differ from that in other countries. There are no differences in the frequency of refusals to answer this question. Will the situation change in the near

---

<sup>15</sup> *Kuzina O.* Grounds for a general theory of consumption and savings. Manuscript available at: <http://ecsocman.edu.ru/images/pubs/2008/02/21/0000321200/Strategies.doc>

<sup>16</sup> Global Entrepreneurship Monitor research was conducted in the following countries: the United Arab Emirates, Argentina, Australia, Belgium, Brazil, Canada, Chile, China, Columbia, Czech Republic, Germany, Denmark, Spain, Finland, France, Greece, Croatia, Hungary, Indonesia, Ireland, India, Iceland, Italy, Jamaica, Japan, Latvia, Mexico, Malaysia, Netherlands, Norway, Peru, Philippines, Russia, Sweden, Singapore, Slovenia, Thailand, Turkey, the United Kingdom, the United States of America, Uruguay, South Africa.

future? This depends on the plans of people to start up businesses. It is interesting that the share of people who plan to start up a business in Russia is about the same as the share of those who already have done so (about 7%) and is lower than in other countries (11%). The quantity of people who do not know whether they will start up a business is higher in Russia (7,8%) than in Belgium (1,6%), while the share of such answers is 2,5% among people from all countries. We suppose that the results for Russia are conditioned by the high level of uncertainty that is typical for Russia in the sphere of financial behavior<sup>17</sup>. The same assumption can be made regarding another question, i.e. whether people see good opportunities for starting up a business in the next six months. The share of people who answered “I do not know” was 50,7% in Russia, but only 19,4% in Belgium. The share of “don’t know”-answers was even lower for all countries — 18,4%.

We have just described the situation with respect to autonomous business start-ups, but start-up can also be part of business. In this respect, there are no significant differences between Russia and Belgium. The share of business jobs involving start-ups is about 2% in both countries.

Speaking about conditions for business, we should also pay attention to the number of businesses that are shut down. Interestingly, there is also no difference between Russia and in Belgium in this regard. The share of people who have closed down a business in the last 12 months is about 1% in both countries. The average share of people who have done so in all countries is 2,6%.

Next we will look at motivation to start business. According to the approach used in the GEM, motivation is classified into three types: *opportunity motivation*, which means that an entrepreneur wants to achieve something new, get higher income, get higher social status etc.; *necessity motivation*, which means that people have to do business because they do not have any other ways of getting money; and *other motivation*, which covers motives that cannot be included in either of the the first two types. First of all, we should note that there is a significant difference between Russia and Belgium regarding motives for starting business. While opportunity motivation is the leading one in both Russia (69%) and Belgium (86,3%), the share of people with necessity motivation is much higher in Russia (29,9%).

Let us then discuss the last but not the least factor, i.e. the presence of social ties, and compare the share of people who have personally known an entrepreneur in the past two years. As we recall, the number of entrepreneurs is higher in Belgium than in Russia. However, in terms of knowing entrepreneurs, the situation is the opposite. In Russia, 37,6% of respondents have personally known an entrepreneur in the past two years, while almost 12% do not know if they have known one.

Finally, we will analyze another important factor that also can influence what types of capital entrepreneurs use, “business angels”. “Business angels” are private investors who invest their money in unusual business start-ups on condition that they get a share of the profit and capital. The share of such people is very low both in Russia (1,3%) and in Belgium (2,4%).

Thus, we have studied a number of aspects of the conditions for entrepreneurial activities in Russia and Belgium, and can conclude that there are both

---

<sup>17</sup> Kuzina O. Grounds for a general theory of consumption and savings. Manuscript available at: <http://ecsocman.edu.ru/images/pubs/2008/02/21/0000321200/Strategies.doc>

common characteristics and differences between the two countries. In Russia, the level of uncertainty is higher and necessity motives are more wide-spread. However, the rate of business start-ups is also higher. With regard to Belgium, we can say that the situation is more stable and that people are more confident about their future, with opportunity motives dominating among motives for starting up business. In both countries, there are few “business-angels”, few people who would be able to start up a business who actually plan to do so, and a rather large share of people who do not start-up business because of their fears of failure.

In the following, we will look at some characteristics of Russia and Belgium and move on to the main part of the paper, i.e. the analysis of how different forms of capital are used in these countries.

### Data Analysis: Testing Hypotheses

We will include only early-stage entrepreneurs in our analysis. A total of 61 nascent entrepreneurs and 26 new business owners were questioned in Russia, and 34 nascent entrepreneurs and 17 new business owners in Belgium. As these two groups are not very large, we will not separate them in our further analysis but will speak only about early-stage entrepreneurs in general. Let us move on to testing our hypotheses.

First, we supposed that the share of entrepreneurs using social capital is higher in Russia than in Belgium as in Russia it is sometimes the only accessible source of financial support. To test this hypothesis, we will use the survey question about the way people get money to start up business. If a person gets money from his or her family, relatives, colleagues, friends or neighbors, we suppose that he or she uses social capital. We will describe the frequency by which different ways of getting money are used in Russia and Belgium and try to determine connections between country and the use of social capital.

**Table 1**  
**Getting money for starting business, %**

Way of getting money	Russia	Belgium
Close family members	10	8
Other relatives	3	6
Work colleague	2	2
Friends or neighbors	7	2
Total (people questioned)	87	51

As we can see from the table above, the share of people using their social ties to get money is rather low in both countries. To be able to test our hypothesis, we will divide all the answers about getting money into two groups: those who “used social capital”, which includes all who used at least one of the methods listed above, and those who “didn’t use social capital”, which includes people who used other ways of getting money. Using chi-square criteria (sig. < .05), we can say that there are no differences between Belgium and in Russia with respect to using different types of capital. From the point of view of entrepreneurs, conditions for starting business do perhaps not differ much between Russia and Belgium, and therefore their behavior also does not differ. What seems even more interesting is that, in both countries, the

share of entrepreneurs who did not use any ways for getting money to start up business is very high — more than 70%.

To test our second hypothesis, which is that human capital is used by more entrepreneurs in Belgium than in Russia as the return on human capital is lower in Russia than in European countries, we will look at people’s self-estimation of their skills.

As we predicted, the share of people with special skills and knowledge for starting business is significantly (sig.< .05) higher in Belgium than in Russia. We should also mention the high share of people who can not estimate their knowledge in Russia. We suppose that this may be due to lack of information of what knowledge can be called necessary for starting business or by a high level of uncertainty, meaning that people do not trust themselves and their skills.

**Table 2**  
**Having skills for starting business in Russia and Belgium, %**

Skills for starting business	Russia	Belgium
No	14	11
Yes	70	87
Don’t know	16	2
Total (people questioned)	87	47

Now let us move on to our hypotheses connected with social-demographic characteristics, i.e. that older entrepreneurs are more likely to use social capital than younger entrepreneurs in both Belgium and Russia since they have gained many contacts during their lives; and that women are more likely to use their social capital than men in both Belgium and Russia as women have closer social ties than men (for task 2).

First, we will test differences connected with gender in using social capital by using the variable created before (“used social capital”/“didn’t use social capital”). We can conclude that our assumption was incorrect; gender does not influence the type of capital used. We also suppose that there are no differences between Russia and Belgium with respect the influence of social-demographic characteristics of entrepreneurs on the prevailing forms of capital they use as there are no reasons to expect such differences. However, we are unable to test this hypothesis because of the value of our sample.

To test the hypothesis connected with the age of entrepreneurs, we will recode the age of entrepreneurs into two variables: “34 and younger” and “35 and older”. These intervals were chosen according to the median age of early stage entrepreneurs (34,5) to ensure an equal distribution into age groups. After testing our hypothesis, we can conclude that our statement was false: the age of entrepreneurs does not influence the type of capital they use.

Our next hypothesis was already tested above: the assumption that “getting money from institutional investors is more important to start up a business in Belgium than in Russia as there are a lot of opportunities to receive financial support in Belgium and entrepreneurs can choose the most effective one” can not be proved. When we spoke about non-social ways of getting money we meant banks, financial institutions, “business-angels” and government programs. Each of these can be called

an institutional investor. As we said above, there are no differences between Belgium and Russia in using social and non-social ways of getting money, which means that there are also no differences in using institutional investors.

Now we will test our last hypothesis, i.e. that entrepreneurs more often use only their own savings to start business in Russia than in Belgium as it is quite difficult to find investors in conditions of financial uncertainty<sup>18</sup>, while there is a stable financial sector and well-embedded start-up support programs in Belgium, which makes it possible to find external financing. To test this hypothesis, we will compare the share of people who invested only their own money when starting up a business. The results show that a difference between the two countries does exist; however, it is opposite to our assumption. The share of people using only their own money is significantly higher in Belgium than in Russia.

**Table 3**  
**People using their own money to start business, %**

Using own money	Russia	Belgium
No	78	47
Yes	23	53
Total (people questioned)	40	30

We suppose that this difference is due to the financial instability in Russia, as a result of which people are not able to save enough money to start business and prefer to spend money on consumption rather than saving for any purpose as they are afraid of losing everything.

## Conclusions

Entrepreneurship is a very important part of the economy of every country and its development depends on early-stage entrepreneurs. On the basis of our analysis described above, we can say that neither human nor social capital is the only important factor in the start-up of businesses in Russia and Belgium. In both countries, people use both types of capital. Early-stage entrepreneurs, as well as scientists who study entrepreneurship should be aware of each type of capital discussed above and take into account their influence on the development of business.

## References:

1. Бурдые П. 2004. Формы капитала. В сб.: Радаев В.В. (науч. ред.). Западная экономическая социология: хрестоматия современной классики. М.: РОССПЭН. С. 519-536.
2. Coleman J. 1988. Social capital in the creation of human capital. *The American Journal of Sociology*. Vol. 94. Supplement: Organizations and Institutions: Sociological and Economic Approaches to the Analysis of Social Structure. PP. S95-S120.
3. Davidsson P., Honig B. 2003. The role of social and human capital among nascent entrepreneurs. *Journal of Business Venturing*. Vol. 18. PP. 301-331.

<sup>18</sup> Kuzina O. Grounds for a general theory of consumption and savings. Manuscript available at: <http://ecsocman.edu.ru/images/pubs/2008/02/21/0000321200/Strategies.doc>

4. *Kuzina O.* Grounds for a general theory of consumption and savings. Manuscript. URL: <http://ecsocman.edu.ru/images/pubs/2008/02/21/0000321200/Strategies.doc>
5. *Мальцева И.О.* 2007. Трудовая мобильность и стабильность: насколько высока отдача от специфического человеческого капитала в России? Препринт. М.: Изд. дом ГУ ВШЭ.
6. *Радаев В.В.* 2002. Понятие капитала, формы капиталов и их конвертация. Экономическая социология. Т. 3. № 4. С. 20-32.
7. *Чепуренко А.Ю.* 2007. Социология предпринимательства. М.: Изд. дом ГУ ВШЭ.

---

*Ekaterina Yarygina and Maria Karpasova*  
***Lack of Access to Real Estate as a Factor Restricting  
the Development of Small Entrepreneurship in Russia***

### Introduction

This paper is devoted to one of the most important issues of small entrepreneurship development. It is well-known that the progress of small entrepreneurship in Russia is limited by restrictions and burdens of both macroeconomic (insufficient development of the financial infrastructure etc.) and social and political nature (administrative barriers, corruption, weak legal protection etc.). However, we will focus on issues concerning the possession and use of commercial real estate.

In the period of successive growth of the Russian economy (which started in 2000), one of the most important problems of the real estate market was the lack of premises. In the autumn of 2008, this problem reached its peak. Within the Garden Ring (Sadovoe Kol'co) in Moscow, commercial property was let at extremely high prices. A similar situation was observed with respect to prices on commercial real estate for sale. High prices were a result of the fact that demand consistently increased more than supply. The high level of prices on real estate became a barrier for small entrepreneurs, which were unable not only to buy but also to rent premises, especially in the city center. Small businesses had to accept cheaper offers for office space, which was closer to the city periphery, and incur costs because of the commercial real estate lack.

The situation on the real estate market has recently changed. The main reason for this is the economic crisis. Rent supply has increased inside and outside of the city center and rents have decreased. However, small businesses have suffered from the crisis, too. Therefore, special government measures to support small entrepreneurship on this issue are needed, especially with respect to the phase of start-up activities.

In our study, we use the case of Moscow city as an example since this is the most evident case of overlapping of several related problems. The aim of the study is to find out what real estate related problems small entrepreneurs face and how they overcome these difficulties. We will discuss the following issues:

- the main problems of small entrepreneurs connected with real estate;
- the present market situation with respect to commercial real estate for entrepreneurs in comparison with the one of the pre-depression period (on the basis of a set of semi-structured interviews with entrepreneurs);
- advantages and disadvantages of property purchase and rent;
- the efficiency of the measures taken by the government of Moscow to support small business;

- measures undertaken by small entrepreneurships for overcoming emergent problems connected with real estate; and
- the most convenient type of real estate for small entrepreneurs.

## Research Methodology

Firstly, this study is based on research on the strategies of small entrepreneurships for searching commercial real estate, which was undertaken in the course on “Practical Training in Economic Sociology”. The purpose of this research was to investigate entrepreneur’s opinions about current issues and ways of solving them. Ten entrepreneurs were questioned by way of semi-formalized and semi-structured interviews of moderate duration (about 10-25 minutes). The “snowball” method was used to select respondents: those interviewed were asked to recommend others they know who are concerned about real estate problems of small entrepreneurship and these became new potential respondents. However, in the course of conducting interviews, it turned out that this method is not very effective because respondents did not recommend their contacts and therefore eight entry points were created to shortlist entrepreneurs.

Secondly, we also held interviews with some experts in order to identify special features of interaction between real estate owners and buyers or tenants. Thus, we interviewed three experts who were representatives of small businesses that deal with different aspects of real estate. They did not only describe the problems facing their own enterprises, but mainly discussed common problems that are widespread in Russia and especially in Moscow. This helped us to get a more objective view of the situation.

Finally, we analyzed statistical information that describe the situation on the real estate market, including statistics on the evolution of prices and rent levels during the last two years, supply-demand trends, and dynamics of buying and selling processes.

Indeed, our working assumptions are not strictly scientific hypotheses, but rather assumptions based on our view of the present situation on the market and on our discussions with representatives of small business. Thus this research is a pioneering, qualitative reconnaissance study aimed at elucidating the real situation on the market and determining whether the assumed problems really exist.

## Main Results (In the following, we will describe the main results of our research). Domination of Large Companies on the Market

Our assumption was that large companies still dominate on the market and have better access to premises in the city centre.

The situation was really hard for small entrepreneurships in pre-depression period, particularly in the summer of 2008. High prices and rental rates on real estate were the most obvious reasons. Another reason was that the construction of additional commercial estate was oriented towards meeting the needs of major companies. Real estate owners also gave preferential treatment to large businesses for two reasons. Firstly, a famous firm can function as an “anchor”, meaning that it can attract the attention of potential consumers and help popularize a business-center. Secondly,



large and strong businesses are more reliable in paying rent because their results do not depend on the economic situation to the same degree as that of small entrepreneurs. As a result, the best objects were bought up before new business centers started to operate and small entrepreneurs had no chance to get hold of these premises. However, the situation on the real estate market was soon affected by the first pressure of the crisis.

With the crisis, an increase of supply and a decrease of rent rates made the competition less intense and became easier for small entrepreneurship to get hold of premises. The supply of real estate for sale fell, but as prices also fell, competition decreased. The reason for this trend is that sellers of real estate do not want to sell at the new lower prices, while the buyers are waiting for even lower prices. Thus, competitiveness decreased as a result of the crisis, but the problem of high prices is still topical. We can say that our hypothesis was correct for the situation in the summer of 2008, but incorrect during the crisis..

### Realtors' Behavior

Our assumption was that opportunistic behavior of real estate agents (realtors) prevents a decrease in prices.

There are certain market mechanisms that help entrepreneurs to find premises. Realtors are one of those mechanisms. They have information about available real estate and its characteristics and entrepreneurs can come to their offices and use their services. However, we found that entrepreneurs prefer avoiding realtor services since they believe that realtors make no real effort to find suitable premises, but just offer something. In the pre-depression period, realtors understood that given the lack of commercial real estate, entrepreneurs will accept nearly everything as long as they can afford it. Realtors deceived their clients, giving false information about real estate characteristics, and made the prices higher than they were in reality. As a result of the crisis, realtors had to change their way of conducting business and become more attentive to client desires. They give full information about available real estate because the amount of clients is decreasing and every client becomes important. We should mention, however, that entrepreneurs use realtors no more often now than in the pre-depression period. Entrepreneurs are still afraid of using realtor services because they remember the unpleasant experiences of past such collaboration. We can say that a kind of stereotype against realtors has developed among small business owners.

### Is It Easier to Find the Necessary Space Today?

Our hypothesis was that, in the current crisis period, it is easier for entrepreneurs to find the necessary space because many offices are empty due to the closure or bankruptcy of businesses.

Lack of information was typical during the period when there was lack of supply on the real estate market. At that period, the best premises could be found mainly with the help of social networks. What do we see now? Now there is a great amount of available premises. Of course, it is still difficult to get the best available ones, but you can choose.

In pre-depression period, lessors did not take into account the interests of tenants. A lessor could insist on his conditions because, given the lack of supply of real estate for rent, he knew that he could find somebody who would agree to these conditions. In this case, entrepreneurs were almost without any rights, and that was a great obstacle. During the crisis, lessors have understood that they need their tenants and have become more patient toward them. The rental rate has stopped growing; in some cases it even fell. However, it is the prices in dollars for buying and renting property that have decreased and, at the same time, the ruble has weakened against the dollar.

## Rent or Purchase?

Our assumption was that it is more convenient for small businesses to rent than to purchase office premises because the principal worries about premises are with the property owner.

In the opinion of entrepreneurs and experts, the most desirable way of disposing property is to own it. The main reason is that property is a form of capital. The fact that an entrepreneur possesses such capital means that he has enough money and will have better opportunities to solve problems than an entrepreneur without property. This is very important if an entrepreneur wants to get a credit.

However, small entrepreneurships must be guided by their opportunities rather than their desires. That is why the most popular way of disposing property among them is property rental. In this context, we should mention that there are two types of rent: long-term and short-term rent. Long-term rent is for more than 11 months and short-term rent for less than 11 months. So in order to get the best possible picture of the situation, we will compare three types of property disposal.

A decision to rent property is firstly determined by the price factor. It is easier for an entrepreneur to compile a smaller amount of money every month than to raise a great amount in a short period of time. It is also important that there is a broader choice of premises available for rent than for purchasing.

Buying property involves much more problems than renting premises. First of all, there are problems with documents: bureaucracy makes the process very long and expensive. The owner have to complete formalities at the city land department, electricity department and water channel department, carry out a sanitary inspection and comply with other local government regulations.

All these problems can of course be solved, especially in view of the main advantage of owning property. Owning property is also impacts the status of a firm. An owner can lease his property and get profit, which is especially important in times of crisis. In other words, if a firm is in a difficult situation, the owner can lease premises that he does not use in his business and, in this way, deal with the difficulties.

What about long- and short-term rent? They differ in terms of the necessary documentation. Short-term rent does not have to be registered so money and time can be saved. Long-term rent, on the contrary, must be registered, but the advantage is that it improves the status of the entrepreneurship (similar to owning property) and shows that it is a stable, not short-lived company.

Nevertheless, only owning property offers guarantees for entrepreneurs in case of business problems. This is probably why owning property is the most desirable way of disposing property.

## Government Measures

Our assumption was that the measures taken by the Moscow City government to support small entrepreneurs in the real estate area have not been effective because of lack of information.

On 30 December 2008, the Moscow City government adopted resolution №1218-GR "About additional measures of state support organizational and enterprise rental of uninhabited fund owned by Moscow during the stabilization period of the financial system". One of the major points of this program is to provide government support to small businesses and organizations in Moscow by fixing rents at the level of 1000 rubles per square meter per year in rental contracts that are active and concluded for a new term, as well as in re-negotiated leases for non-residential premises in the estate treasury of Moscow. At first view, it seems that this measure helps small entrepreneurs to get necessary property at reasonable prices. However, the situation is not so easy. A lot of entrepreneurs do not know about this resolution, and those who know, can not use it. The main barrier is subtenants, who know about this act but still set rents much higher to make more profit.

Those entrepreneurs who have benefited from this resolution have been able to make use of it thanks to their social networks. This increases corruption in relations between entrepreneurs and government officials.

In the period 2009-2011, property support for small and medium business will be the highest priority among various forms of support.

A city program to provide small and medium businesses with non-residential premises for 2009-2011 is the next stage of the Moscow government's efforts to offer material support to small and medium businesses.

Current legislation provides for:

Creation of technology parks, multi-business centers, business incubators, industrial and technological areas to accommodate small and medium-sized businesses in the allocation and reorganization of territories;

Creation of new non-residential premises at district level, including the ground floors of new buildings;

Creation of new non-residential premises and facilities at the local level, ensuring walking accessibility through the placing of "corner shops", multi-service and other facilities that provide comprehensive services corresponding to the daily demand of the population;

Allocation of new non-residential premises for small and medium-sized businesses, the creation of which is realized through municipal programs and investment projects in the city of Moscow at the present time, both through budgeted and extra-budgetary funds.

## Informal vs. Formal Ways of Overcoming Difficulties

We suggested that informal ways of overcoming difficulties related to the acquisition of municipal property are preferred because government measures (auctions) do not work.

According to the research we carried out, nearly all entrepreneurs evaluate social networks as the most effective way of acquiring business premises. However,

there are also such ways as giving bribes — sometimes this is a more effective, easier and prompter strategy than others.

Relations between lessors and tenants are the best example of the efficiency of informal networks. In times of crisis, the lessor is interested in the tenant and tries to ensure good relations because he can lose the tenant and remain without a new one. As a result, rental rates can be decreased or offered at discount rates. Owners even find different ways of keeping tenants without decreasing rent, e.g. through a system of bonuses (free office cleaning, for example). Relations between lessors and tenants define conditions for small entrepreneurs. In the pre-depression period, owners were in a dominant position and made tenants accept unfavorable conditions. Owners did not agree to rebate on rent for entrepreneurs because they knew that they could easily find new tenants if current ones decided to move. As a result, small entrepreneurs had to accept the conditions offered or find other premises.

In this situation, only business was interested in finding a good lessor, while lessors could choose tenants. Obviously a situation of competition between potential tenants could appear.

One of our respondents told us an example about the auctions system. The auction system is a new measure for regulating business competition in the municipal real estate market. It works according to the principle the more you pay, the better chances you have to acquire property. Still, this measure is imperfect. From the one hand, the best premises are not put up for auction but are sold at high prices without any competition. From the other hand, sometimes one and the same firm bargains using different names. In such a situation, it is very difficult for small businesses to secure deals without violating law principles.

### Municipal Estate vs. Private Premises

Our initial suggestion was that, in the view of small business owners, municipal and government real estate is more attractive than private premises because it is cheaper.

In the search of premises, an entrepreneur must decide from whom to rent premises. He must choose between acquiring municipal, governmental or private estate. Let us look at the differences between these three kinds of property.

Municipal real estate is owned by the city government, which manages such premises. Governmental real estate again belongs to the federal government, which manages such premises. The main advantage of municipal and governmental real estate is their price — it is lower than the price of private real estate. The reason is that private commercial estate is built with the aim of profit. The price is as high as possible because the owner wants to get as big a profit as possible. Of course, we do not say that prices are extremely high for everybody, but they are high for most small entrepreneurs. Private owners follow market fluctuations. Municipal and governmental real estate is not built with the aim of profit. These premises can easily stay without tenant, and nobody will have to pay the costs, while if private property is without tenant, the owner must incur costs, which can be rather high.

We can conclude that private premises are a more flexible option than governmental and municipal premises. Today tenants and lessors are interested in each

other in the private market, while only the tenant is interested in finding a lessor in the municipal and government market.

In spite of the rather low prices on municipal premises in Moscow, most entrepreneurs rent private property. The main reason is that the choice of private property is bigger than that of municipal property. Another reason is that most municipal premises are located on the first floor of apartments, which is not always a good location for business. The last reason is that it is hard to acquire municipal property because of the great competition for such premises. The government has initiated a special measure for regulating this competition, the auction system. However, as already noted, it does not work properly. This means that our hypothesis is correct.

## Conclusions

This is a short summary of the main conclusions of our study:

The increase of supply of real estate and the fall of rent rates during the current crisis has made competition less intense. The real estate related problems facing entrepreneurs have changed;

In the pre-depression period, realtors acted unfairly and made prices higher than they really were. During the current crisis, realtors have started changing their way of conducting business, but entrepreneurs are still afraid of using realtor services because of memories of past unpleasant experiences of such collaboration. We can say that a kind of stereotype against realtors has developed among small business owners;

Despite a decrease in prices, the price level of real estate is still too high for small businesses;

It is still difficult for small businesses to get hold of the best available premises, but in the current situation, they are better able to choose and to bargain with lessors and sellers about the conditions of transaction;

Purchasing real estate is more desirable for small businesses, but renting space is more common because less money is needed at once and is more convenient and more easy to organize;

Measures to support small business do not work properly because of limited awareness of such measures, insurmountable bureaucratic obstacles and lack of legal information;

Relations between entrepreneurs and agents of the commercial real estate market were unstable in the pre-depression period and are so now in the current crisis period. However, as a result of the crisis, lessors became more interested in tenants. They offer better conditions and make compromises with tenants. Their behavior has changed because in times of crisis lessors can lose their tenants and remain without new ones;

Almost all small business entrepreneurs evaluate social networks as the most effective way of finding business premises. However, such methods as giving bribes are also used, sometimes this is more effective, easy and prompt than other methods.

---

*Denis Boldin, Andrey Kuzminov and Konstantin  
Rozantsev*

***SME and Information Resources in Russia  
(a Cross-regional Comparison)***

The Russian government considers effective support of small and medium enterprises (“SME”) one of its key priorities.

However, an entrepreneur needs more than just government support, start-up capital and a vague business plan; he/she also seeks information about how to start up and run business. In particular, an entrepreneur is interested in the questions such as how to manage the procedure of registering an entity; what tax limitations and options there are; from which institutions help could be sought to deal with specific matters; what relevant initiatives by government and municipal bodies there are etc.

Today the main source of information is the Internet. It is clear that the availability of information, the content and the opportunity to receive feedback on web sites targeted at entrepreneurs are key indicators showing whether these electronic networks support beginning entrepreneurs to solve the problem of informational asymmetry that they face. This asymmetry may result either in rejection at start-up or significant failure at the early business stages.

Taking into consideration the vast territory of Russia, as well as the country’s weak transport infrastructure that prevents mobility and enhances intra-regional distinctions, the Internet is the key source of information for entrepreneurs who are starting up a business.

Based on the results of our investigation of this matter, we will formulate recommendations on how to improve informational support for beginning entrepreneurs in Russia.

## **1. Federal Resources**

Local and municipal information resources are equally important to federal ones. Such resources provide information about applicable local and municipal regulatory acts, actual legal addresses, municipal contracts, premises for lease, and other information that is important for a beginning entrepreneur.

We will, however, start by looking at federal information sites, paying attention to specialized forums. We believe that the most important criterion for a typical entrepreneur is the availability of such resources so we will thoroughly examine those sites that are among the leading search results when searching for SME on common search engines, using keywords such as “small business”, “small entrepreneurship” etc. In order to decrease the risk of errors resulting from the use of different search engines, we will use information provided only by the principal ones,

i.e. Google, Yandex and Rambler. On the basis of the data we retrieve, we will create a special availability rating<sup>1</sup> of resources, which can be formulated as follows:

Search result position<sup>1</sup> \* coefficient of search engine

### ***1.1. Analysis of Specialized Forums***

As they say, “the truth is born in dialog.” The Internet has a lot of specialized forums that deal with specific issues. These are probably the best place to look for specialized information, such as information on SME support, with the exception of strictly regional problems.

Thus, we explored forums specialized on problems of SME in Russia in order to determine whether their rating results correspond to the amount of useful information they provide.

**Table 1: Analysis of forums<sup>2</sup>**

Site	Law aspects	Tax & Accounts	Business plans	Business ideas	Management
homeidea.ru	0	0	0	2	0
bizhelp.ru	2	2	2	2	2
obiznese.ru	0	0	2	2	0
forum.aup.ru	2	2	2	0	2
forum.vdcr.ru	2	0	0	0	0
forumes.ru	0	0	0	0	0

**Below follows an analysis of each of the investigated forums.**

#### ***Homeidea.ru***

Availability rate: 12,78

The basis of every company is an idea. This forum is targeted to discussing ideas for small businesses. It is rather democratic: all ideas, including those with little commercial prospects, are being taken into consideration. The ideas discussed may be new and outstanding or already known and recognized.

One good feature of this forum is that information is divided by topic. For instance, information is divided according the amount of money invested into the development of a business. Another good feature is the activity of the forum. None of the proposed ideas can be rejected without discussion; furthermore some of them do attract investors and partners. There are also sections with successful (<http://homeidea.ru/index.php?board=21.0>) and failed (<http://homeidea.ru/index.php?board=6.0>) business ideas.

---

<sup>1</sup> See Appendix

<sup>2</sup> The information available on the different themes is determined according to the following scheme: 0 — poor, sufficient, 2- comprehensive.

This is probably the best forum on this subject in Russia.

***Forumes.ru***

Availability rate: 2,55

At first sight, this forum is as good as the previous one and it covers a larger array of topics (i.e. issues related to jurisprudence). However, upon a closer view, it turns out to be rather passive. Conversations are held between a limited number of people and the majority of messages are left uncommented.

This forum is probably not popular, which is also indicated by the availability rate we constructed.

***Forum.vdcr.ru***

Availability rate: 11,49

This forum has a really good section on “judicial consultation”, which is managed by specialists from the lawyers’ community Право (“Law”). They give qualified answers to questions posed by entrepreneurs and help them with judicial aspects of running a business. It is probably the best place to get professional consultation on the topic of small entrepreneurship (409 articles and 69 topics). There is also a section called “advice to beginning entrepreneurs”. which is the most popular on the forum (452 messages).

We assume that this site is rather useful for those looking for information on judicial aspects of SME.

***Forum.aup.ru***

Availability rate: 13,72

This resource has a rich content, with information on all aspects of entrepreneurial activity, i.e. management, accounting, law, etc.

In the section on “management, running a company”, topics related to company management are discussed. These topics are: information technologies, records management and work flow, jurisprudence and administration.

The section called “business-incubator: consultations on the topic of starting a business” is probably interesting for inexperienced entrepreneurs as they can get free advice on different subjects.

The author of the section “A business-plan for free” offers his services for free with respect to developing business plans because he wants to get additional experience in this field. In our view, such cooperation is useful both for beginning entrepreneurs and specialists.

The section on “sales management” is dedicated to “sales”, i.e. is a major element of entrepreneurship activity. Topics such as “general problems of sales”, “theory and practice of negotiations” and “sales studies” are really interesting and informative.

In the section on “marketing department”, the following key themes are very popular: “marketing”, “advertising”, “PR and communication management” and “marketing research”.



The “personnel department” section is dedicated to management and supervision of the performance of staff, as well as to discussing problems related to different jobs. In addition, there is a possibility to publish one’s resume or to look for an employee.

The section “finance department, accounting” discusses problems of accounting, with the leading topic being “finance management”.

The “economics, management and life” section contains the most popular topic of the entire site, namely “economics, economic policy and economic science” (more than 6000 messages). There is also an electronic library on economics and a collection of ready-to-use marketing studies.

In total, it is a very informative and useful forum for those who want to be proficient in their job.

### ***Obiznese.ru***

Availability rate: 15,78

This site has fairly good forum sections on the topics “business-ideas” and “business-plans”, which contain quite a lot of useful information.

The section “Internet business” covers some topics related to work opportunities in the Internet (i.e. “ways to earn in the internet for novices”). This forum is the most popular on the site (601 messages).

The “buying and selling business” section can make life easier for those who have enough money for business operations but are not willing to start a business from scratch. A lot offers are displayed here.

There is also a forum on “general problems”, which covers topics such as “how to start your own business”.

Evaluation of the forum: it is not very active, but it includes quite valuable information on different aspects of entrepreneurial activity.

### ***Bizhelp.ru***

Availability rate: 24,15

The forum is aimed at helping beginning entrepreneurs. This is reflected by the popularity of the section on “how to start a business”. This section includes 1123 topics and 5527 messages.

The second important section is “how to run a business”, the header of which is self-explanatory.

The characteristic feature of this section is its well-ordered structure of headings that enable an entrepreneur to obtain step-by-step information on how to run his business.

Finally, there is a rather unique and valuable section called “expert advice”<sup>3</sup>, where it is possible to get free and highly qualified help.

Overall, this site is very useful and convenient for a beginning entrepreneur. This fact explains this site’s high availability rate.

### ***Conclusions***

When we look at the information available on different forums and the availability rates, we can see that there is a direct relationship between them. A resource is more “available” if it is often visited and, therefore, has a good content. A well-organized resource with rich content holds a high position in the availability rating, and vice-versa: sites at the top of the rating are top-class in terms of content.

## **2. Regional Resources**

From the point of view of a beginning entrepreneur, there are several key questions, including “how do I”:

- choose business?
- start?
- get money?
- keep myself out of trouble?
- hire staff?
- deal with taxes?
- do the accounting?

Next we will look at regional information resources and see whether an entrepreneur may find the answers he needs there. We will look at sites from major regions.

### ***2.1. Analysis of Regional Resources***

**Table 2: Analysis of regional resources**

Region	Resource	Law aspects	Tax & Accounts	Business plans	Business ideas	Management
Moscow	Mbm.ru	2	2	0	2	1
	Mbmo.ru	1	1	0	0	0
Tatarstan	g2b.tatar.ru	1	2	1	1	1
	Kzn.ru	2	2	0	0	2
Irkutsk	Irbp.ru	2	2	2	1	1
Tomsk	mb.tomsk.ru	2	2	1	0	1
Chukotka	chukotka.org	0	0	0	0	0

---

<sup>3</sup> See [http://www.bishelp.ru/forum/index.php?PAGE\\_NAME=read&FID=11&TID=8615&MID=s](http://www.bishelp.ru/forum/index.php?PAGE_NAME=read&FID=11&TID=8615&MID=s)

### **Small entrepreneurship in Moscow (*mbm.ru*)**

Availability rate: 29, 7

The official site of SME support in Moscow has plenty of information on different topics. An entrepreneur, and especially a beginning one, can find nearly all information needed for running his business.

There is a section on “business ideas”, which provides a great number of interesting ideas for your business. The section on “accounting, taxes and privileges” includes information about judicial aspects of running a business.

On the other hand, there is very little information related to developing a business plan or running a company.

In sum, this site is devoted to supporting SME in Moscow. The amount and quality of information it offers explains its high availability rate.

### SME development committee in the Moscow Region (*mbmo.ru*)

This site can be used as a reference book containing contact information of relevant offices and people. Other areas are more poorly developed. There is a section on “professional consulting services”, which provides paid, but highly qualified accounting services. The “judicial support” section offers good consulting services in the sphere of jurisprudence.

In short, this site is very useful as a guide for an entrepreneur.

### State — business (the Republic of Tatarstan) (*g2b.tatar.ru*)

This site is conveniently designed. It has useful sections such as “how to start your own business”, “licensing and certification”, “where to get money?” and “where to settle?”, which contain a large amount of information on common entrepreneurship problems.

The section “help while being checked” is rich in information about legal assistance of entrepreneurs. The sections “an entrepreneur’s guide” and “tax navigator” are also rather useful.

In conclusion, this site offers a great deal of useful and well-organized information.

### Official site of city-hall of Kazan (*kzn.ru/business*)

This is quite an interesting site, where you can find a lot of recommendations and advice for starting and running a business. There is also a link to judicial support centers that offer free services. However, there is nothing about business-ideas or business plans. This is a considerable drawback of the site.

### Site of the Irkutsk Region (*irbp.ru*)

This site has two sections: a central and a regional one. The latter contains information about each subject of this region.

This site contains relevant information on all major topics mentioned earlier, only losing to the “Small entrepreneurship in Moscow” site in the sphere of business-ideas.

In sum, along with the site “State to business (the Republic of Tatarstan)”, this site stands out with a wide array of valuable and well-organized information.

#### SME of the Tomsk Region (*mb.tomsk.ru*)

The site proves to be a good source of information. The section “The school of a starting-up entrepreneur” is a rather informative compilation of information needed when starting up a business.

The site features a film called “Five steps to success”, the production of which was commissioned by the SME development department and the real economy sector of Tomsk Region. The film is about how to register a company or how to register as individual business owner, where to study the basics of entrepreneurship, how to take part in business project competitions and, finally, how to get a loan in a credit union.

In addition, there is a section called “business development”, which provides information about licensing, accounting and marketing strategies. The issue of judicial support for entrepreneurs is also mentioned on the site. The only minus of the site is the lack of information on business-ideas for entrepreneurs.

#### SME of Chukotka (*chukotka.org/ru/economics/branch/bisnes/*)

Confirming one of our assumptions, this region with a low level of SME development does provide much useful information for entrepreneurs. There is just an article with some statistical characteristics of SME development on the official government site. Nothing that relates to the problems of SME can be found on this site.

### ***Conclusions***

The analysis outlined above makes it possible to verify the following assumptions:

**Assumption 1:** In regions with more favorable conditions for SME development, available information resources contain more relevant, applicable and demanded information, have more useful interface arrangements and provide better opportunities to receive feedback from the responsible authorities.

The fact that the information resources available in regions with a high level of SME development are very good proves this assumption.

**Assumption 2:** In regions with less favorable conditions for SME, good availability and quality of information resources do not guarantee improvements in the business activities of citizens.

For example, the site of the Irkutsk region is of a very good quality, but the level of the region's SME development is very low. Irkutsk is in the 7<sup>th</sup> of 8 groups in

the regional classification of SME level.<sup>4</sup> This shows that the existence of a good information resource and active discussion about entrepreneurship do not mean everything. It is only one factor influencing SME development.

## Final Conclusions

Our research provided us with the information needed to give a number of recommendations on what a good SME information resource should look like.

- Thus, such a source should provide:
- Comprehensive information in the following fields of special interest:
- Law aspects
- Taxes and Accounting
- Business plans: templates and methods
- Management: advice and consultation (for example on hiring staff)
- Lists of documents + templates required for business (balance sheets etc.)
- Successful business stories: ideas and advice
- Theory of entrepreneurship (including links to literature and business schools)
- Job market: trends, employment centers, schools

Well-working mechanisms for feedback. The best option is to have a team of lawyers that can quickly give professional advice.

- Useful links and addresses to e.g.:
  - Supporting funds
  - “Business-angels”<sup>5</sup>
  - Business-incubators
  - Micro-financing centers
  - Insurance companies
  - Registration offices
  - Inspection agents
- An intuitive and convenient interface (for easier access)

Finally, assessing the findings of our research as a whole, we have to conclude that the situation regarding informational support of SME is not as good as it should be in Russia. There are several resources of high quality, but this is not enough for providing every entrepreneur in every place of Russia with all the information he needs. In view of the priority it gives to SME development, the government should work on improving informational support of entrepreneurs because they are the driving power of the state.

---

<sup>4</sup> Visit [http://www.nisse.ru/business/article/article\\_189.html?effort=](http://www.nisse.ru/business/article/article_189.html?effort=) for a classification of the entrepreneurship level of Russian regions.

<sup>5</sup> See [http://en.wikipedia.org/wiki/Business\\_angel](http://en.wikipedia.org/wiki/Business_angel)

## Appendix

Table 1. The availability rating

Сайт	Основное содержание	Рейтинг в:						Общий рейтинг
		Yandex	Рейтинг	Google	Рейтинг	Rambler	Рейтинг	
<a href="http://www.mbm.ru">http://www.mbm.ru</a>	Малый бизнес Москвы : официальный портал системы поддержки малого предпринимательства	1	21,3	1	7,2	7	1,2	<b>29,7</b>
<a href="http://www.dist-cons.ru">http://www.dist-cons.ru</a>	Портал дистанционного консультирования малого предпринимательства	2	20,6	24	1,7	13	0,9	<b>23,2</b>
<a href="http://www.rcsme.ru">http://www.rcsme.ru</a>	Ресурсный центр малого предпринимательства России	3	19,9	3	6,7	11	1	<b>27,6</b>
<a href="http://www.dmpmos.ru">http://www.dmpmos.ru</a>	Официальный сайт департамента поддержки мало-го предпринимательства (г.Москвы)	4	19,2	22	2,2	12	0,95	<b>22,3</b>
<a href="http://www.fondzao.ru">http://www.fondzao.ru</a>	Муниципальный Фонд поддержки малого предпринимательства: различ-ые программы поддержки малого бизнеса	5	18,5	23	1,9	24	0,35	<b>20,7</b>
<a href="http://www.vdcr.ru">http://www.vdcr.ru</a>	Общественное объединение предпринимателей	6	17,8	7	5,8	5	1,3	<b>24,8</b>
<a href="http://www.bishelp.ru">http://www.bishelp.ru</a>	Помощь малому бизнесу — как начать свое дело, готовые бизнес планы...	7	17	2	7	28	0,15	<b>24,2</b>
<a href="http://www.koshelyok.ru">http://www.koshelyok.ru</a>	Идеи малого бизнеса	8	16,3	14	4,1	6	1,25	<b>21,7</b>
<a href="http://www.worldad.biz">http://www.worldad.biz</a>	Бизнес-форум, бизнес планы, идеи создания малого бизнеса	9	15,6	6	6	1	1,5	<b>23,1</b>
<a href="http://www.kreditbusiness.ru">http://www.kreditbusiness.ru</a>	Кредитный портал малого бизнеса	10	14,9	5	6,2	4	1,35	<b>22,5</b>
<a href="http://www.irbp.ru">http://www.irbp.ru</a>	Информационный портал малого и среднего бизнеса иркутской области	11	14,2	20	2,6	9	1,1	<b>17,9</b>

Сайт	Основное содержание	Рейтинг в:						Общий рейтинг
		Yandex	Рейтинг	Google	Рейтинг	Rambler	Рейтинг	
<a href="http://www.mybiz.ru">http://www.mybiz.ru</a>	Журнал "Свой бизнес" — новости бизнеса, бизнес план, маркетинг, менеджмент, готовые бизнес идеи для малого и среднего бизнеса.	12	13,5	12	4,6	25	0,3	<b>18,4</b>
<a href="http://homeidea.ru">http://homeidea.ru</a>	"Идеи малого бизнеса"- форум малых предпринимателей	13	12,8	3	6,7	10	1,05	<b>20,6</b>
<a href="http://club.1-info.ru">http://club.1-info.ru</a>	Новые идеи для бизнеса, как открыть своё дело	14	12,1	11	4,8	17	0,7	<b>17,6</b>
<a href="http://bfrf.ru">http://bfrf.ru</a>	Бизнес — Форум Российской Федерации	15	11,4	13	4,3	16	0,75	<b>16,4</b>
<a href="http://forum.vdcr.ru">http://forum.vdcr.ru</a>	Малый бизнес: проблемы и решения. Форум для предпринимателей	16	10,7	30	0,2	19	0,6	<b>11,5</b>
<a href="http://www.obiznese.ru">http://www.obiznese.ru</a>	Форум + статьи на тему создания собственного бизнеса	17	9,94	10	5	15	0,8	<b>15,8</b>
<a href="http://forum.aup.ru">http://forum.aup.ru</a>	Изучение малого бизнеса	18	9,23	15	3,8	18	0,65	<b>13,7</b>
<a href="http://www.cfin.ru">http://www.cfin.ru</a>	Корпоративный менеджмент. Мастерская бизнес-планирования	19	8,52	29	0,5	29	0,1	<b>9,1</b>
<a href="http://mb.kubangov.ru">http://mb.kubangov.ru</a>	Официальный интернет-портал малого и среднего предпринимательства Краснодарского края	20	7,81	21	2,4	14	0,85	<b>11,1</b>
<a href="http://www.businesspravo.ru">http://www.businesspravo.ru</a>	Предпринимательское право	21	7,1	28	0,7	27	0,2	<b>8,02</b>
<a href="http://smallbiznes.net">http://smallbiznes.net</a>	Малый бизнес в России и за рубежом: статьи	22	6,39	18	3,1	3	1,4	<b>10,9</b>

Сайт	Основное содержание	Рейтинг в:						Общий рейтинг
		Yandex	Рейтинг	Google	Рейтинг	Rambler	Рейтинг	
<a href="http://www.psbank.ru">http://www.psbank.ru</a>	Промсвязьбанк: кредитование малого бизнеса	23	5,68	19	2,9	8	1,15	<b>9,71</b>
<a href="http://tvoydohod.ru">http://tvoydohod.ru</a>	Идеи бизнеса, статьи, законодательство, бизнес-право, кредитование малого бизнеса, формы страхования	24	4,97	27	1	2	1,45	<b>7,38</b>
<a href="http://www.siora.ru">http://www.siora.ru</a>	Консалтинг. Российское агенство поддаржки малого и среднего бизнеса	25	4,26	16	3,6	21	0,5	<b>8,36</b>
<a href="http://www.allprobiz.net">http://www.allprobiz.net</a>	Портал о бизнесе и идеях малого бизнеса	26	3,55	17	3,4	20	0,55	<b>7,46</b>
<a href="http://www.biznesvcredit.ru">http://www.biznesvcredit.ru</a>	Кредит и бизнес, кредитование малого бизнеса	27	2,84	26	1,2	30	0,05	<b>4,09</b>
<a href="http://business.damotvet.ru">http://business.damotvet.ru</a>	Статьи на тему: бизнес и финансы	28	2,13	8	5,5	26	0,25	<b>7,9</b>
<a href="http://www.smb-support.org">http://www.smb-support.org</a>	Информационный сервер по поддержке предпринимательства	29	1,42	9	5,3	22	0,45	<b>7,15</b>
<a href="http://forumes.ru">http://forumes.ru</a>	Бизнес Форум	30	0,71	25	1,4	23	0,4	<b>2,55</b>



---

## Appendices to the monograph

### ***HSE Russian — European Centre for Multidisciplinary Research “Baltic Practice”***

The main focus of “Baltic Practice” is problem-solving, so that the researchers do not simply offer new theoretical interpretations, but rather define specific problems, examine them in multidisciplinary groups, and offer solutions.

Baltic Practice is an international research project of the State University Higher School of Economics started in 2001. Each year more than 50 students and experts from Russia, Poland, Germany, Austria, Belgium, Sweden, Latvia, Lithuania, Slovakia, and others participate in its Summer Seminars.

The Editorial Board of “Baltic Practice” comprises academicians and experts from University of Bologna (Italy), Higher School of Economics (Russia), St.Petersburg State University (Russia), Kantian Russian State University, Institute for Conflict Research (UK), Vytautas Magnus University (Lithuania), Frankfurt School of Business and Management (Germany), Uppsala University (Sweden), University of Strasbourg (France), George Mason University (USA), and the Council of Europe.

#### Research Topics of “Baltic Practice” Summer Sessions (1-8 August)

- 2001: Cooperation between society and government — Svetlogorsk
- 2002: Citizens expertise of Kaliningrad-Baltic region development — Kurshskaya Kosa
- 2003: Russia and Europe cooperation through contact point — Kaliningrad
- 2004: Russian routes to Europe: educational, cultural and economic cooperation- Peterhof
- 2005: Russia and “new Europe”: Baltic States — ways for cooperation — Jurmala, Latvia
- 2006: North-West Pipe-line: North corridor of resources exchange- Vyborg+Helsinki, Finland
- 2007: Russia and EU cooperation: case-study of Germany — Witten-Herdecke, Germany
- 2008: Russia-Europe dialogue: democratic values vs oil and gas prices — Sweden
- 2009: Uneasy relations of Russia and the EU : a look from Belgium

#### Research groups 2010 in Oslo, Norway.

- Russia and the Council of Europe: in search of a common agenda
- Dialogue on Human Rights: mechanisms and institutions
- Language of Public Policy
- Local Governance and Local Participation
- Corporate Social Responsibility and the transformation of global economy
- University as Res Publica
- Democracy Evaluation Models
- Social Trust, Responsibility and Economic Development

Research Results:

- After each Summer Session we publish a Book of Academic Papers.
- Participants submit their research articles, which are reviewed by the Editorial Council.
- Experts' articles and chapter introduction offer a deeper framework to the book.

Books Published:

- Baltic Practice 2007 — Russia and Germany: Cooperation in the EU context. A Case Study in Five Fields
- Baltic Practice 2008 — Russia-Europe Relations: a Look from Sweden
- Baltic Practice 2009 — Uneasy Relations of Russia and the EU: a Look from Belgium

How to join Baltic Practice (for students in B.A., M.A., and Ph.D)

Submit a proposal (3-4 pp., min. 3 references) that introduces the research problem, your previous knowledge of the topic and what new aspects you want to find out **by April, 25**. The proposal should be sent to [summerbaltika@gmail.com](mailto:summerbaltika@gmail.com)

Submit a draft paper (10 pp.) **by late May-early June**. All the draft research papers will be evaluated by the Academic Council of Baltic Practice. The draft should be sent to [summerbaltika@gmail.com](mailto:summerbaltika@gmail.com)

What to gain from participating in Baltic Practice?

You are part of a business, research center, university or a government agency — why should you be interested in “Baltic Practice” research?

- to find a team of young and creative researchers and assistants;
- to test new ideas and projects on a demanding and responsive audience;
- to recruit talented and energetic people for your own projects.

Don't miss your chance!

You can contact us at [summerbaltika@gmail.com](mailto:summerbaltika@gmail.com), and learn more about “Baltic Practice” at the website: <http://balticpractice.hse.ru>



<http://balticpractice.hse.ru>  
[summerbaltika@gmail.com](mailto:summerbaltika@gmail.com) ;  
125319, Kochnovskiy proezd, 3. Moscow, Russia

---

## ***University — Higher School of Economics***

The Higher School of Economics was founded on November 27th, 1992, by an Ordinance of the RF Government.

In October 2009 the Higher School of Economics received the status of a National Research University.

Over 17 000 undergraduate, 1922 Master's students and 576 doctoral students are studying at the HSE as per October 2009).

The HSE has 3 regional branches: St. Petersburg, Nizhny Novgorod and Perm.

The HSE faculty includes 1500 professors and researchers, among them almost 700 specialists invited as part-timers from the areas of business, research institutes, and state bodies. 345 Doctors of Science and 909 Candidates of Science work at the HSE. Over 1800 administrative workers are employed at the HSE.

### **Education**

The system of education at the HSE ensures the competitiveness of Russian education in its most urgently needed and, at the same time, weakest sphere — economics and social sciences. The School was the first in Russia to adopt the commonly accepted world-wide "4+2" practice: four years of undergraduate study and two years for Master's courses.

There are 20 faculties and schools at the HSE:

Faculty of Economics

School of Statistics, Data Analysis and Demography

Faculty of World Economy and International Affairs

Faculty of Business Informatics

School of Software Engineering

School of Applied Mathematics and Informatics

Faculty of Management

School of Logistics

Faculty of Public Administration

Faculty of Applied Political Science (including specialization in Advertising)

School of Business and Political Journalism

Faculty of Law

Faculty of Sociology

Faculty of Psychology

Faculty of Philosophy

School of Cultural Studies

School of Oriental Studies (the first enrolment of students will be for academic year 2010/2011)

Faculty of Mathematics

Faculty of History (the first enrolment of students will be for academic year 2010/2011)

International College of Economics and Finance

In 2009 the HSE admitted 2410 new students, of whom 1240 were for state financed places, and 1170 were fee paying students.

In 1997 the HSE introduced written examinations, dramatically reducing the risk of corruption. Since 2001 the HSE accepted students by the results of the Unified State Examination and Federal Contests in subjects. The regional profile of students: Moscow — 45%, Moscow Oblast — 14%, RF regions & CIS Countries — 41%.

15217 students are annually enrolled in over 200 programmes for graduate training, re-training and continuing professional education, including MBA, DBA and EMBA programmes.

The HSE was one of the first educational establishments in Russia to introduce a system of academic credits. Each successful year of study in a faculty represents 60 credits, which is in line with the international Education Credit Transfer System (ECTS).

The university employs a system of modules (an academic year is split into 5 modules which makes it possible to optimize student workload). Several components are used to assess a student's progress. The HSE publishes annual rankings of students and professors.

The HSE has introduced an efficient system of support and incentives for students. Students studying on a contractual fee basis may get up to a 70% discount on their tuition fee depending on their academic results; students can receive 2 scholarships at the same time — social and academic — which, added together, provide enough for a student to live on in Moscow.

All non-resident students are provided with a place in our hostel.

The HSE curricula are recognized by numerous leading foreign universities, which makes it possible to carry out double-degree programmes. Student exchange programmes have also been introduced. In 2008 dual diploma programmes comprised of 626 students. HSE's partners in double-degree programmes include:

London school of economics and political sciences, GB

Manchester university, GB

University Paris-I Pantheon — Sorbonne, France

University Paris-X Nanter, France

University Paris-XII Val-de-Marne, France

University "Erasmus", Holland

European school of management ESAP-EAP, France

University INHOLLAND, Holland

Humboldt University, Germany

Leeds University, GB

### **Graduates**

More than 60% of graduates already have a job by the time they receive their degree and officially graduate. Six months after graduation 80% of graduates are employed, while the other 20% are continuing their education at post graduate level.

The average monthly wage in the first year after graduation from HSE is US \$ 1000 (and much higher in traditionally better paid sectors).

20% of graduates work in the power industry, the oil industry or in research, 16% in consulting and audit and 13% in the financial sector.

### **Research**

HSE has 26 research institutes and centres along with 35 research and educational laboratories.

We promote a program of bringing back the best Russian researchers who have received Ph.D. degrees at Western universities.

A key scientific event is the International Academic Conference on Economic and Social Development which has been held by the HSE every April since 2000. Since 2005 this conference has become a major event in the scientific life of Russia, attracting more than 800 participants, including more than 100 foreign experts.

The HSE is the founder of 20 scientific magazines. The HSE research centers publish 16 series of preprints.

**[www.hse.ru](http://www.hse.ru)**

---

## **About the authors**

*Aleksić Milan*, 2<sup>nd</sup> year of M.A. in Interdisciplinary East European Research and Studies (MIREES), University of Bologna, Italy

*Anchin Konstantin*, Ph.D. student at the Public Policy Department, State University -Higher School of Economics, Russia

*Balobaeva Ekaterina*, the 3<sup>rd</sup> year student of the Faculty of Political Science, State University — Higher School of Economics, Russia

*Belyaeva Nina*, Prof., Dr., Chair of Public Policy Department, Head of Master Program in Public Policy and Political Analysis, State University — Higher School of Economics (Moscow), Academic Director of the HSE Russian — European Centre for Multidisciplinary Research “Baltic Practice”, Russia

*Boldin Denis*, the 2<sup>nd</sup> year student of the Faculty of Sociology, State University — Higher School of Economics, Russia

*Borisova Svetlana*, the 4<sup>th</sup> year student of the Faculty of Economics, Management and IT, Moscow State Industrial University, Russia

*Chepureenko Alexander*, Prof., Dr., Dean of the Faculty of Sociology, State University — Higher School of Economics, Russia

*Churilova Elena*, the 4<sup>th</sup> year student of the Faculty of Sociology, State University — Higher School of Economics, Russia

*Churkina Natalia*, Ph.D. student, State University — Higher School of Economics, Russia

*Ejoshvili Natia*, M.A. in Interdisciplinary East European Research and Studies (MIREES), University of Bologna, Italy

*Hirt Chuck*, expert on Human Rights issues INGO with the Council of Europe, Slovak Republic

*Karpasova Maria*, the 4<sup>th</sup> year student of the Faculty of Sociology, State University — Higher School of Economics, Russia Mathematics, State University — Higher School of Economics, Russia

*Kurakin Denis*, Ph.D. student, Faculty of Economics, State University — Higher School of Economics, Russia

*Kuzminov Andrei*, the 3<sup>rd</sup> year student of the Department of Applied Mathematics, State University — Higher School of Economics, Russia

*Ledyayev Valeriy*, Ph.D. in Political Science and Philosophy, Professor at the Faculty of Sociology, State University — Higher School of Economics, Russia

*Marin Milena*, M.A. in Interdisciplinary East European Research and Studies (MIREES), University of Bologna, Italy

*Markin Maxim*, the 4<sup>th</sup> year student of the Faculty of Sociology, State University — Higher School of Economics, Russia

*Melitonyan Olga*, Ph.D., Lecturer in Public Policy Department, State University Higher School of Economics, Russia

*Merkulova Maria*, M.A. student, Public Policy Department, State University Higher School of Economics, Russia

*Meuleman Miguel*, Ph.D. in Applied Economics, Assistant Professor at Vlerick Leuven Gent Management School, Belgium

*Milacheva Tatiana*, the 4th year student of the Political and Business Journalism Department, State University — Higher School of Economics, Russia

*Mols Benjamin*, M.A. student in European Regional Master in Democracy and Human Rights in South East Europe (ERMA), University of Bologna and University of Sarajevo

*Nazarbaeva Elena*, the 4th year student of the Faculty of Sociology, State University — Higher School of Economics, Russia

*Nikitin Alexander*, prof., Director of the Center for Euro-Atlantic Security of the MGIMO University, President Emeritus of the Russian political Science Association

*Novik Peter*, Ph.D. student, Faculty of Economics, State University — Higher School of Economics, Russia

*Romashkin Nikita*, the 4th year student of the Department of Applied Mathematics, State University — Higher School of Economics, Russia

*Rozantsev Konstantin*, the 3<sup>rd</sup> year student of the Department of Applied Mathematics, State University — Higher School of Economics, Russia

*Shabanova Maria*, M.A. student, Public Policy Department, State University — Higher School of Economics, Russia

*Shkuratova Anna*, the 3<sup>rd</sup> year student of the Faculty of Political Science, State University — Higher School of Economics, Russia

*Shuklin Vladimir*, the 4<sup>th</sup> year student of the Faculty of Sociology, State University — Higher School of Economics, Russia

*Sinichkina Maria*, the 4<sup>th</sup> year student of the Faculty World Economy and World Politics State University — Higher School of Economics, Russia

*Soboleva Anita*, LL.M., Ph.D., Associate Professor of the Public Policy Department, State University — Higher School of Economics; Chief Legal Counsel in “Lawyers for Constitutional Rights and Freedoms — JURIX”, member of the bar

*Sonina Yulia*, the 4<sup>th</sup> year student of the Faculty of Economics, State University — Higher School of Economics, Russia

*Sorokina Elena*, M.A. student, Public Policy Department, State University — Higher School of Economics, Russia

*Subbotina Elena*, the 3<sup>rd</sup> year student of the Faculty of Management, State University — Higher School of Economics, Russia

*Tarasova Ekaterina*, M.A. student, Public Policy Department, State University — Higher School of Economics, Russia

*Tkachenko Stanislav*, Ph.D. in History and Economics, Director of the M.A. program in Diplomacy of Russia and Foreign Countries at St.Petersburg State University, Russia

*Van Bruchem Ramon*, student at Radboud University (The Netherlands), and at the State University — Higher School of Economics, School of Russian Studies, Russia

*Yarygina Ekaterina*, the 4<sup>th</sup> year student of the Faculty of Sociology, State University — Higher School of Economics, Russia

*Zaytsev Dmitriy*, Lecturer in Public Policy Department, State University — Higher School of Economics, Russia

*Zuev Vladimir* — Prof., Dr., Chair of the Department of International Economic Organizations and European Integration

---

Russia and the EU: Uneasy Relations  
A Look From Belgium

Edited by Nina Belyaeva  
Academic Director of the “Baltic Practice” Center

Academic Papers  
of the 9<sup>th</sup> International Session  
of the HSE Russian – European Center  
for Multidisciplinary Research  
Brugge, 2 - 9 August, 2009

ISBN 978-9955-12-579-2

Circulation: 500 copies

Vytautas Magnus University Press  
Kaunas, Lithuania  
2010