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New developments in Russia, Belarus and Ukraine

REPORT

submitted on behalf of the Political Committee
by Mr Hancock, Rapporteur

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¹ Adopted unanimously by the Committee on 6 November 2001.

² *Members of the Committee:* Mr Marshall (Chairman); MM Behrendt, Blaauw (Vice-Chairmen); MM Baumel, Mrs Bolognesi (Alternate: *Manzella*), Sir Sydney Chapman (Alternate: *Hancock*), MM Clerfayt, Dias, Mrs Durrieu, MM Ehrmann, Eyskens, Fayot, Floros, *Guardans I Cambó*, Haack, Hordies, Hornhues, Lord Kirkhill, MM Kotsonis, Lacão, Lemoine, *Liapis*, van der Linden, Martínez Casañ, Mrs Paoletti Tangheroni, *Piscitello*, Lord Ponsonby (Alternate: *Vis*), MM Provera, *de Puig, Puche Rodríguez, Roseta*, Schmitz, Sterzing, Timmermans, *Wray, Zacchera* (Alternate: *Malgieri*), N ...

Associate members: MM Adamczyk, Akçali, Ms Akgönenc, MM Bielecki, Eörsi, Mrs Fossli, Ms Gülek, MM Gundersen, Irtemcelik, Jaluvka, Kasal, Lobkowicz, Pálsson, Pastusiak, Pokol, Zielinski, N ...

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AMENDMENTS

RECOMMENDATION 697¹***on new developments in Russia, Ukraine and Belarus***

The Assembly,

- (i) Noting that under President Putin, the Russian government has actively embarked upon a vast programme of bringing a whole series of laws and practices into line with international standards and that international financial institutions and other organisations see this as a positive step, but at the same time recognising that despite this undeniable progress much remains to be done;
- (ii) Considering that following the tragic events of 11 September 2001, Russia has taken a number of foreign policy initiatives which offer the Euro-Atlantic community a historic chance to base its relations with that country on a completely new footing;
- (iii) Noting that Russia, while still considering the 1972 Anti-Ballistic Missile (ABM) Treaty to be an important factor for stability in the world, has shown its readiness to adapt the Treaty in order to allow the United States to implement a test programme deemed essential for developing a Missile Defence (MD);
- (iv) Aware that Russia is endeavouring to obtain agreement on major mutual reductions in US and Russian arsenals that would bring the number of nuclear warheads down to fewer than the 3 500 stipulated in the START 2 Agreement, which has not yet entered into force, while the United States also appears ready to make substantial reductions in its nuclear arsenal;
- (v) Aware that Russia is keen to gain recognition for its position as a bulwark against the spread of extremist Islamic movements into Europe;
- (vi) Welcoming Russia's recent decision to abandon the Lourdes signals intelligence base in Cuba and to give up its lease of the Cam Ranh Bay naval base in Vietnam as important signs of its determination to put the cold war behind it once and for all and build a new relationship with the United States;
- (vii) Considering that the energy partnership envisaged between the EU and Russia could make an important contribution to the EU's policy of diversifying its energy supplies while providing Russia with opportunities to improve the exploitation of its energy resources;
- (viii) Aware of Russia's objective of having a more visible role in European security arrangements which may go beyond NATO's geographic and treaty-based responsibilities;
- (ix) Considering that Europe and the United States will need to put forward imaginative proposals in response to Russia's bold new approach to international relations;
- (x) Considering that both the West and Russia will together have to make determined cooperative efforts to establish reliable and reassuring security arrangements for the Caucasus and Central Asia;
- (xi) Confirming the key role of a stable and independent Ukraine as a European partner for maintaining stability and security in the eastern part of Europe and of its importance for the peace and security of Europe as a whole;
- (xii) Noting, however, that the task NATO and the EU face of forging closer relations with Ukraine is being seriously hampered by the lack of progress in Ukraine on embracing essential values such as pluralist democracy, respect for the rule of law, free and open markets and press and political freedom;
- (xiii) Considering that it is a major task for the EU, together with the Council of Europe and the OSCE, to provide advice and training for Ukraine in order to help it develop a civil society, adopt effective laws and apply them properly;
- (xiv) Aware that Ukraine, despite its geographic location, with easy access to the Black Sea and borders with a number of Central European countries, remains very dependent on Russian markets for

¹ Adopted unanimously by the Assembly on 4 December 2001 (ninth sitting) on the basis of the amended draft recommendation.

its economic development and that, at present, over 80% of its energy needs are met by Russia, inevitably making it prone to Russian political influence;

(xv) Aware that a unified Russian-Belarusian state may never become a reality, but that for a number of practical reasons the 1999 Treaty on Creating the Union is likely to result in close cooperation between the two countries, in particular in the fields of finance and the economy, industry, defence and foreign policy;

(xvi) Observing that the policy in recent years of isolating Belarus has not proved effective;

(xvii) Considering that the September 2001 presidential elections, although fundamentally flawed, provided an opportunity for the emergence of political and social forces genuinely attached to democratic values and principles;

(xviii) Considering that Belarus is bound to become a border state of the EU in the near future and that from Russia's point of view it is also the most important transit country to western Europe, these being compelling reasons for the EU to intensify its relations with Belarus;

(xix) Noting that both Belarus and Ukraine, due to their economic and energy dependency, may inevitably need, for a time, to draw closer to Russia before eventually, with the help of the present more imaginative and courageous Russian leadership, finding their rightful place in the larger framework of Euro-Atlantic organisations;

(xx) Considering that in view of Russia's stated objectives of strengthening its dialogue and cooperation with the EU on political and security issues, further developing the Russia-EU energy partnership and establishing a Common European Economic Space, both Belarus and Ukraine will have no choice other than to adopt a similar policy;

(xxi) Welcoming the renewed and intensified cooperation in the NATO-Russia Permanent Joint Council in which both partners are committed to building a more solid partnership in the interests of security and stability in the Euro-Atlantic area;

(xxii) Firmly in favour of the resolve being shown by both NATO and Russia to change the climate of their relationship and further extend their cooperation following the terrorist attacks of 11 September 2001 in New York and Washington;

(xxiii) Dissatisfied with the Council's frivolous reply to paragraph 2 of Recommendation 677 and of the opinion that, in the light of foreign policy initiatives taken by President Putin after 11 September 2001, there is every reason to develop a serious dialogue with Russia to discuss policy and armaments cooperation which are issues of particular common interest and mutual value,

RECOMMENDS THAT THE COUNCIL

1. Together with the national armaments directors and WEAG, examine the scope for comparing Western European and Russian requirements for the next generation of defence equipment and opportunities for technological and industrial cooperation between Western Europe and Russia in development and production of new defence equipment, bearing in mind that the state of relations between Western Europe and Russia at the present juncture offers unprecedented chances for intensifying mutual dialogue and cooperation;

2. Request the EU to further intensify dialogue and cooperation with Russia on political and security issues and in particular on:

- developments in Belarus, Moldova and Ukraine where both have a common interest in security, stability and economic development;
- the situation in the Balkans where both may be required to share peacekeeping and other responsibilities if the United States, as a result of other security commitments, withdraws or reduces its troops deployed in Kosovo and Bosnia and Herzegovina;
- the situation in the Caucasus where a number of unresolved conflicts within and beyond the borders of Russia may further destabilise the region;

3. Ask that Russia be more proactive in insisting on autonomous solutions for the separatist situations in Moldova, Georgia and Azerbaijan.

EXPLANATORY MEMORANDUM

submitted by Mr Hancock, Rapporteur

I. Introduction

1. In spite of the far-reaching changes that have taken place over the last ten years, and although it has lost part of its former status, Russia is still an important power, if only for its nuclear arsenal, its size and its geostrategic position and it remains an essential partner in any efforts to build a European security architecture. The follow-up to the 11 September terrorist attacks and the activities surrounding the establishment of a coalition against international terrorism have confirmed Russia's role in any arrangement for security and stability in the world and more specifically in the Eurasian continent. Through swift and courageous political action, President Putin has been able to give Russia's foreign policy new momentum and political weight and importance. Now that the EU is planning to enlarge towards the east, there drawing closer to Russia's borders, it is logically taking an ever-greater interest in closer relations and cooperation with a stable, democratic and economically prosperous Russia.

2. Previously, this interest has already been clearly expressed through the 1994 partnership and cooperation agreement between Russia and the EU, Russia's accession to the Council of Europe in 1995 and the signing of the Founding Act on Mutual Relations, Cooperation and Security between NATO and the Russian Federation in 1997.

3. Although, at ministerial level, WEU's relations with Russia have never been institutionalised, there have been regular high-level meetings between the two since 1995. Since 1996, the Assembly has regular contacts and exchanges of view with representatives of the Russian Duma and the Council of the Federation. Following up an earlier Assembly Order², the purpose of the present report is to present an update on developments in Russia. At the same time, it examines recent developments in Belarus and Ukraine, whose internal political developments have given cause for concern in western European democracies while at the same time they appear to have drawn closer to Russia for a number of obvious reasons.

II. Russia

1. Relations with the European Union

4. The report on relations with Russia which was adopted by the Committee in May 2000 set out the then state of affairs in EU-Russian relations. Both partners have since continued to develop further the main planks of their cooperation. More specifically, these are dialogue and cooperation on political and security issues, including crisis management, the energy partnership and the Common European Economic Space.

5. In Stockholm, the European Council authorised the European Investment Bank to provide loans for specific environmental projects in Russia. The start of a dialogue on justice and home affairs at ministerial level, the renewal of a dialogue between finance ministers and the start of a dialogue on Kaliningrad were regarded as other positive signs.

6. At the Gothenburg European summit on 15-16 June 2001, the EU expressed its concerns about media independence in Russia and repeated that freedom of expression and media pluralism were vital democratic principles and values essential to a real EU-Russian partnership.

7. After the Gothenburg summit, further action was taken to implement an earlier common action, dating back to 1999, on an EU cooperation programme for non-proliferation and disarmament in Russia which envisaged projects to help guarantee nuclear safety and assist the destruction of chemical weapons.

8. As regards the rule of law, public institutions and civil society in Russia, the Council recognised that substantial progress had been made during the last decade, but that there were still considerable

² Order 113, adopted on 5 December 2000.

shortcomings, in particular in regard to the application of the law, the functioning of the judicial system and the independence of the media.

9. Following the terrorist attacks of 11 September 2001, an EU-Russia summit was held in Brussels on 3 October 2001, concentrating mainly on four topics:

- Both partners decided to intensify their cooperation with the aim of fighting *international terrorism*. They agreed, within the framework of the existing structures and bodies of the Partnership and Cooperation Agreement (PCA) to study conditions and arrangements for exchanging information on such subjects as the activities and movements of individuals or groups belonging to terrorist networks, deliveries of arms and explosives, and new forms of terrorist activity, including NBC threats;
- Dialogue and cooperation on *political and security issues* would be intensified and mainly deal with the more operational aspects of major areas relating to international current events. It was decided that, following the consultations already in place, specific meetings would be organised, as events unfolded between the Political and Security Committee (PSC) – or its President – and Russia, including at ambassadorial level. In addition, monthly meetings would now be held between the *Troika*, the PSC and Russia in order to take stock of the consultations concerning crisis prevention and management. It was also announced that arrangements for possible Russian participation in crisis-management operations of a civilian and military nature would be developed according to progress made in the ESDP;
- In order to elaborate the concept of a *Common European Economic Space*, it was decided to set up a high level joint group, meeting twice a year, which would consider how economic relations between the EU and Russia could be intensified through greater economic integration and closer alignment of respective legislations. Later, President Putin expressed his hope that this enhanced, regular dialogue on political and security issues would, in future, result in the establishment of a permanent EU-Russia structure in which all security-related issues in Europe could be covered;
- As regards preparations for an *EU-Russia energy partnership*, both partners considered that the initial analytical and exploratory phase of the dialogue was over and that preparatory work should now shift to the political level for the purpose of taking the necessary decisions. Tangible progress should now be made in a number of fields, including improvement of the legal basis in Russia for the production and transport of energy and also the agreements on shared production. Some new energy transport infrastructures such as the Yamal-Europe gas pipeline through Belarus and Poland should be declared of common interest and more should be done. A high level committee with responsibility for monitoring progress on these different issues would present its first report in the following spring.

10. At the summit meeting, the EU also made it clear that as Russia's main trading partner, it supported Russia's objective to accede to the World Trade Organisation (WTO). It had decided to give a new impetus to this process by preparing an exhaustive list of its demands to Russia before the end of the year. The main obstacles to Russia's application for WTO membership, lodged in 1993, are the requirements to adapt trade legislation, reduction of agricultural subsidies, the elimination of tariff barriers and respect for intellectual property rights.

11. In its relations with Russia, it seems that the EU has made the right choice. At this particular time, Russia is still weak, with major socio-economic problems and limited impact on international developments. The EU is obliged to help Russia because long-term security in Europe requires a prosperous Russia. A major part of creating a secure and stable Europe will consist of ensuring Russia is properly integrated.

2. Relations with WEU

12. WEU's first contacts with Russia date back to 1989, during the Soviet era. Following the dismemberment of the Soviet Union in 1991, Russia showed little interest in WEU. It was only in 1994 that it began to show a renewed interest in the Organisation, expressing the wish to intensify dialogue and establish special relations with it. Russia hoped at the time to regain its superpower status

and to bring influence to bear on the development of the European Security and Defence Policy and thereby on the European decision-making process. The proposal by the Russian Foreign Affairs Minister, Mr Primakov, to study solutions for institutionalising Russia's relations with WEU was refused by the WEU Secretary-General, who preferred to maintain the status quo. Russia's lack of a formal status in WEU did not, however, prevent it from maintaining the numerous contacts with the Organisation that were felt to be politically necessary and desirable. As indicated in previous reports adopted by this Committee, since 1995 there have been regular meetings between the WEU Secretariat General and Permanent Representative of the WEU Presidency on the one hand, and the Russian Ambassador in Brussels, on the other hand. There have also been talks with visiting Russian government members, while the WEU Secretary-General and Presidency representatives have also made visits to Russia³. The Presidential Committee of the WEU Assembly decided in June 1996 to invite Russian observers to the Assembly's sessions on a regular basis. They also have the possibility of being invited to meetings of the main Assembly Committees – also as observers – and of participating in colloquies organised by the Assembly. Moreover, there are regular contacts between Assembly members and their colleagues from the Duma and the Council of the Federation. However, the Assembly's relations with the Russian Parliament are still based on *ad hoc* invitations⁴.

3. Relations with NATO

13. Since the Political Committee's last report on Russia⁵, relations between NATO and Russia in the Permanent Joint Council (PJC) have been fully re-established and the PJC again met at ministerial level in December 2000 and May 2001. A wide range of issues has been discussed in the PJC framework including nuclear weapons, defence reforms and proliferation, although it is most doubtful whether any matters of real substance are being addressed there, or if NATO is really willing as yet to share decision-making and give the Russians a real role⁶.

14. On 3 October 2001, President Putin met with NATO Secretary-General Lord Robertson in Brussels to discuss how NATO-Russia cooperation could best be enhanced. Lord Robertson declared that a number of new areas had been identified where NATO and Russia could work together, only some of them arising out of the need to deal with the terrorist challenge. It should be noted that on the subject of NATO enlargement, Russia's position had not changed.

15. Ways and modalities of further consultation and possible cooperation between Russia and NATO in counteracting the global threat to security and stability were also discussed in a meeting of the NATO-Russia Permanent Joint Council on 2 October 2001.

16. Communiqués from recent meetings between NATO and Russia brim over with warm words and good intentions but there still seems to be little substance behind them and it may not be easy for either partner to come up to expectations.

17. In a recent address, Russia's Ambassador to NATO, Sergei Ivanovich Kislyak, made it clear that there are still major issues to be addressed. He said clearly that there were still many issues of real importance to the dialogue between NATO and Russia that went well beyond the subjects broached in the PJC. NATO and Russia did not share responsibilities or take joint decisions. There was no real trust as yet, nor a Europe without dividing lines. He acknowledged that the 3 October meeting between President Putin and NATO Secretary-General Lord Robertson brought a new quality to the relationship.

18. The 11 September events had finally overturned the old clichés as regards security and forced more concrete cooperation in answer to new challenges. Ambassador Kislyak repeated that Russia

³ See the report on "Russia and European security", submitted by Mr Blaauw, Rapporteur, Assembly Document A/1722 of 15 November 2000.

⁴ See the report submitted by Mr Martínez, Rapporteur, on "WEU's relations with Russia", Assembly Document 1603 of 28 April 1998.

⁵ See the report on "Russia and European security", submitted by Mr Blaauw, Rapporteur, Assembly Document A/1722 of 15 November 2000.

⁶ William Hopkinson, "Enlargement: A new NATO" (page 40), WEU Institute for Security Studies, Paris, October 2001.

wanted to cooperate but that it did not want a coalition on the basis of Article 5. He pleaded for an equal relationship and changed attitudes and especially for NATO not to consult Russia only when it had already taken decisions⁷.

4. Domestic policy

19. The end of the Yeltsin era – towards the end of his mandate, President Yeltsin no longer appeared capable of playing his role as head of state and of taking coherent and rational decisions – and the election of his successor, Vladimir Putin, in March 2000 paved the way for greater internal stability. Mr Putin enjoyed the support, among others, of the business world, the army and above all, the FSB, successor to the KGB. During the first year of his mandate the new President consolidated his position, in particular by means of an administrative reform dividing Russia into seven federal districts, each headed by one of his supporters. The aim was to strengthen central government and to enforce legislation and indeed the constitution throughout the territory of this vast country. The nomination of these presidential envoys was the most radical reshaping of Russia's administrative structure since the adoption of the new constitution in 1993. This new system has already had positive results and the threat of the country breaking apart has gone, but the President and the federal government are still a long way from imposing their full control over the regions.

20. In March 2001, President Putin nominated new ministers for defence, for the interior and for nuclear energy. He nominated a new director of the fiscal police and a new Director, Alexei Miller, was nominated at Gazprom, in particular to put the accounts of the giant gas company in order. The General Auditor published a report indicating that 90% of the privatisations carried out since 1994 have been illegal⁸. He has also made an inventory of embezzlements in the Russian administration. A law is being adopted against money laundering. At the beginning of 2001 the President embarked on a process of sweeping legislative and structural reform, aided in this effort by improved relations with the Duma. However, application of the new legislation may be problematic for a while due to the shortage of administrative resources and bureaucratic inefficiency and corruption.

21. Notwithstanding these positive efforts, the government will still be facing major problems for years to come. Poverty is still ubiquitous. Average salaries are still very low but there has also been a serious decline in public services. Education and public health have been the most obvious victims of a strict budgetary discipline. Lack of funds is also the origin of an alarming deterioration of public housing and last year's energy crisis in the regions of the Far East and eastern Siberia may be repeated this year with even more dramatic consequences.

5. The economic situation

22. The Russian economy seems these past few years to have surmounted the 1998 economic crisis. GNP, which in 1998 fell by 4.9%, was up by 5.4% in 1999 and by 8.3% in 2000. Growth is estimated at 5% for 2001. High oil prices have turned a projected federal fiscal balance deficit of 5% of GDP in 1998 into a projected surplus of 2% in 2001. Russia's foreign reserves have tripled to US\$ 37.5 billion since the beginning of 2000, while public debt has almost halved – from 94% of GDP to 50% – since the end of 1999. Public finances are solid and there is a trade surplus of US\$ 60 billion⁹. The industrial share of GNP is 38.4%, while the service sector accounts for 55.2% and agriculture 6.4%. That growth rate is not merely due to high oil prices – energy exports account for 58.7% of total Russian exports – but above all to a rise in domestic demand. Clearly, a decline in the oil price could have a very negative impact on the economy and the state budget. The main destinations for Russian exports are Germany (9%), the United States (7.2%), Italy (7%), Belarus (5.4%), China (5.1%) and Ukraine (4.9%), while as far as Russian imports are concerned, Germany once again takes the lead (11.5%), followed by Belarus (11.1%), Ukraine (10.8%), the United States (8%), Kazakhstan (6.5%) and Italy (3.6%). The efforts undertaken in 1999 to put public finances in order (federal budget surplus of 2.2%) continued in 2000 and the outlook for 2001 is positive, given the tax reforms introduced at the beginning of the year. However, inflation – which at an estimated 22% in 2001 exceeds the

⁷ *Atlantic News*, No. 3332, 26 October 2001.

⁸ *Le Monde*, 29 June 2001.

⁹ *The Economist*, 12 May 2001.

government's forecast of 12% – remains high, while the servicing of the public debt (US\$ 163 million in 2000) is putting considerable pressure on the budget. According to many observers and also the government, the paying back of the national debt to creditors in the Paris Club will be a problem in 2003, when Russia is due to pay US\$ 18 billion. Other weak points are the poor state of infrastructure, including power stations, bridges, railways and so forth, and the lack of a robust banking sector which, according to one German banker, is the greatest obstacle to Russia's economic development¹⁰. Observers note that Russia has failed to use the advantage which it gained from high oil prices and devaluation. Furthermore, in spite of its political stability since 1999, Russia is still not very attractive to foreign investors because of the legislative uncertainty, instability of the rouble and uncertainty about the right to dispose freely of profits¹¹.

6. *The conflict in Chechnya*

23. Notwithstanding the ground offensive which was launched against the Chechen rebels in September 1999 and which prevented neighbouring regions such as Dagestan or Ingushetia from being contaminated by the independence movements, the situation in Chechnya still does not seem to have been brought under control. Contrary to earlier government announcements, the Russian armed forces have not yet managed to defeat the rebel forces. There are still frequent skirmishes and almost every week soldiers are being killed in ambushes, but there are also frequent reports of misuse of power by the army, including brutality, torture and abduction. Russian exactions have been severely criticised by organisations such as the Council of Europe. In March 2000, for example, a representative of the Council of Europe Parliamentary Assembly who was sent to Dagestan, Chechnya and Ingushetia condemned the "serious human rights violations and war crimes" committed there by both sides. There has now been official government recognition that the Russian army's record in Chechnya deserves scrutiny and criminal cases have been opened against Russian military personnel in Chechnya. Nevertheless, the suspension of Russia's voting rights decided in April 2000 by the Council of Europe Parliamentary Assembly has since been lifted, without the situation having improved to any great extent. Following the 11 September attacks on New York and Washington and Russia's decision to support the coalition against international terrorism, it has asked the West to reassess its judgment of the conflict in Chechnya and to accept the Russian claim that it is a war on terrorism.

24. On 24 September 2001 President Putin proposed to all Chechen fighters and political figures to immediately cease all contacts with "the international terrorists and their organisations", and to contact the representatives of the federal government within 72 hours. At the time of writing, negotiations have not yet started and the representatives of President Putin and the independence leader Aslan Maskhadov have not yet agreed on a meeting. The fighting in Chechnya continues unabated, with dozens of fatalities almost every week. Chechens still regularly ambush Russians and attack kommandaturas, while the savage behaviour of the Russian troops continues. Hostage-taking, massacres, pillaging and torture go on as before.

25. Indeed, a different perception of the conflict in Chechnya may be the price the United States and Europe must pay in exchange for Russia's support in the coalition against Bin Laden, presumed to be responsible for the attacks in the United States. Furthermore, it would appear that within Russia itself, the camp of those wanting to win this fight is growing. The terrorist attacks in the United States have seemingly boosted its support. According to an opinion poll, the percentage of Russians in favour of continuing the military operation grew from 36% in July to 41% at the end of September. At the same time, the percentage of those in favour of negotiations dropped from 53% to 44%¹².

26. The Russian government is well aware that the outcome of the conflict in Chechnya will inevitably determine the scale and limits of Russia's influence in the Caucasus. Russia has the right to protect its territorial integrity and to combat terrorism. Wahhabite and other radical Islamic movements are no doubt using the conflict in Chechnya to actively pursue their objective of creating a strictly Islamic state in the northern Caucasus, which would contravene the principles of human rights and civil society, as is the case with the Taliban regime in Afghanistan.

¹⁰*Frankfurter Allgemeine Zeitung*, 25 September 2001, page 18.

¹¹All figures are taken from the *Country Report Russia* produced by *The Economist Intelligence Unit*.

¹²*Le Monde*, 3 October 2001.

27. Nevertheless the question remains of whether the means and methods used by Russia do not serve to exacerbate rather than to solve the conflict in Chechnya. Armed forces which are supposed to be combating terrorism, but which in reality are often terrorising the civilian population, can only increase resistance against the government which sent them. As ye sow, so shall ye reap.

7. Recent developments in Russia's foreign policy

(a) General

28. The Russian government is aware of the limits of its capacity to influence the course of world events, but it is also conscious that for several reasons it has a role to play which cannot be ignored.

29. Russia still has a formidable and effective nuclear arsenal and is a permanent member of the United Nations Security Council. Moreover, it has the ways and means to influence the situation in the countries in its immediate neighbourhood on its western and southern borders.

30. The present Russian leadership is sincerely interested in closer links with western Europe and the United States, but not at any cost. Conscious that many US allies also have doubts about the United States' growing unilateralism, Russia has spoken out against it and made efforts to promote multipolarity. Russia is also mindful of the negative effects that the irreversible trend towards globalisation may have on its economy unless it makes a determined effort to modernise, reinforce and develop it further. President Putin has made it clear that the development of Russia's economic relations with the rest of the world is highest on his list of priorities.

31. Another important issue in Russia's foreign policy is its relations with its neighbours, where not only the further development of economic relations, but also the further enhancement of security and stability are driving forces. Needless to say, in the light of recent events in Central Asia, the threat of expansionist Islamic radicalism is a subject of concern which Russia shares with the independent former Soviet republics in the region.

32. Under President Putin's leadership many efforts have been made to improve relations with China, the European Union, the EU member states and the United States. Russia's recent activities in the foreign policy field have created the strong impression that it cherishes great ambitions for the further development of its relations with Western Europe. President Putin relies on the support of a minority in his strategic choice to steer Russia into the mainstream of close cooperation with the rest of Europe. While he has yet to win over major parts of his country's political and military elite, whose mindset dates back to the Soviet or cold war era, he enjoys overwhelming popularity among the Russian electorate at large.

33. With regard to the main goal of Russian strategic policy in Europe, Mr Putin showed increased assurance in his September 2001 address to the Bundestag, during which he said:

“No-one doubts the great value of Europe's relations with the United States. Nevertheless, I think that Europe cannot become a strong and autonomous centre without adding the human, territorial and natural resources, together with the economic, cultural and military potential of Russia to its own capacities. (...) Russia is a European country”¹³.

34. Apart from the fact that Russia is seeking to regain a leading role in Europe's strategic system, it also seems to aspire in the long term to some form of integration in the European Union. This is an idea supported by a good many Europeans who see themselves becoming more and more dependent on Russian energy resources.

35. Russia's desire to strengthen its ties with Europe goes hand in hand with a strengthening of its relations with certain neighbouring countries such as Belarus and Ukraine, which are among its main economic partners. Russia has even signed a treaty of union with Belarus, while the Belarus President, Alexander Lukashenko, does not seem to rule out the idea of his country returning to the Russian fold.

¹³ *Frankfurter Allgemeine Zeitung*, 27 September 2001 (Translation).

36. The 26 September talks held by Russia and other CIS members on the creation of a joint rapid deployment force¹⁴ was the most recent manifestation of Russia's new political determination.

37. In spite of all these signs of a strengthening of its power, Russia's negotiating position vis-à-vis the United States on the 1972 ABM Treaty remains weak. Indeed, having initially rejected outright the American plan for the development of an antimissile shield as a violation of the Treaty, Russia is now adopting a more flexible attitude, the main reason doubtless being that it does not have the means to get involved in a new arms race with the United States. President Putin seems to have come to the conclusion that he has no other choice but to go along with the United States and allow for an adaptation of the ABM Treaty which would enable the latter to implement an anti-missile testing programme. However, he has also made clear that in return for this courageous step, he expects a more visible role for Russia in European security arrangements and major mutual reduction in the US and Russian nuclear arsenals.

(b) Relations with China

38. Under President Putin there has been a noticeable rapprochement between Russia and China which had already started before the events of September. This new relationship was given a further boost with Jiang Zemin's visit to Moscow, the conclusion of a friendship treaty between the two states and the creation of the Shanghai cooperation organisation whose members (China, Russia, Uzbekistan, Tajikistan, Kirghizstan and Kazakhstan) aspire to enhancing security in their region and to creating a counterweight to the United States in their part of the world.

39. In Russia, the deep ambivalence about relations with China persists, because they are insular neighbours with a long history of conflict. While China's interest in a closer relationship with Russia is political, Russia is mainly interested in increasing trade with China and in particular, in promoting the sale of energy, passenger aircraft and armaments.

40. Although both Russia and China have an interest in good-neighbourly relations, neither sees the other as a substitute for the United States.

41. China is dependent on US markets and investment to sustain its economic growth. Two-way trade between China and the United States is more than US\$ 110 billion a year, against a yearly total two-way trade between China and Russia of US\$ 8 billion. Russia worries about demographic and economic pressures from China in its far eastern territories, home to 5 million Russians, compared with 120 million people in the Chinese provinces across the border.

42. China, the biggest importer of Russian armaments, nevertheless remains a potential geopolitical rival and is looking askance at Mr Putin's willingness to discuss the ABM Treaty with the United States. Officially, both countries have agreed on their opposition to the US plans for a missile-defence shield but here too, they have different agendas. Russia still has a formidable nuclear arsenal which could overwhelm a limited nuclear arsenal, making it far more concerned about US missile defence plans.

(c) Relations with Georgia

43. Georgia is complaining about heavy Russian pressure in what it considers an escalating campaign of intimidation to punish it for its western leanings. In December 1999, Russia agreed to withdraw its troops from four different military bases in Georgia but, citing practical problems in implementation, is now rescheduling the withdrawal without calling into question its commitment. Russia has also introduced a visa regime for Georgian citizens while no visas are required for inhabitants of the secessionist Georgian regions of Abkhazia and South Ossetia. Furthermore, Russia has insisted on payment of gas and electricity and cut off supplies last winter. The visa regime may have to do with Russia's desire to tighten control of its southern borders, while the stricter rules for payment of energy deliveries may be part of a new search for cost-efficiency in Russia's energy policy, but the Georgian Government sees a heavy hand in all of this.

¹⁴ *Financial Times*, 27 September 2001.

44. Tensions in relations between Russia and Georgia may have to do most of all with Russia's worries over the continuing conflict in Chechnya and the long-standing accusation that Georgia is harbouring fighters from Chechnya, which shares a border with Georgia.

45. In early October 2001, Russia deployed more troops to strengthen its border with Georgia, saying that unrest in Georgia's Abkhazia region is opening yet another conflict on its southern flank, in addition to the conflict in Chechnya. Russia said that Georgian-backed "terrorists", including fighters from Chechnya, are igniting new combats in Abkhazia, a Muslim region which broke away from Georgia in 1994 with Russian support and with the help of Chechen fighters who are said to have been recruited by Russia.

46. There are many reasons for concern over the situation in Georgia. Three regions, Abkhazia, South Ossetia and Adzharia are no longer under the control of the central government. UN-sponsored negotiations between Abkhazia and the Georgian Government on a statute of autonomy for Abkhazia within Georgia are in deadlock.

47. Georgia has accused Russia of supporting Abkhazia's intransigent attitude. It takes the view that Russia's policy is ambiguous because, on the one hand, it recognises the indivisibility of Georgia and the inviolability of its borders while, on the other, it is not prepared to support deployment of an international peacekeeping force in the region.

48. Since Georgia's independence, poverty and corruption are ubiquitous, its economy is in a dire state and there are few prospects of improvement. At the end of October 2001, President Shevardnadze dismissed the entire government after an internal conflict over a raid against an independent commercial TV station.

8. Russia and the coalition against international terrorism

49. In recent years – as confirmed in various official documents – Russia has perceived the instability and regional conflicts in the area around its Eurasian borders as a major threat to its security and other interests. For Russia, this threat is clearly linked with the expansionist tendencies of Islamic radicalism and international terrorism. A combination of these elements played a role in the separatist conflict in Chechnya. Russia considered the West as a potential ally in the fight against this threat and Russian officials even suggested joint operations against Osama bin Laden in Afghanistan, but the West was reluctant even to endorse Russian operations, particularly in Chechnya. Indeed, while it did not deny Russia's right to defend its territorial integrity and to combat terrorism, it had, and indeed still has, strong objections against the methods used by the Russian forces.

50. Although it may be too early to draw final conclusions, the 11 September terrorist attacks in New York and Washington may also have heralded a new era in the relations between Russia, the United States and the Atlantic Alliance. For President Putin, the building of a worldwide coalition against terrorism was a historic chance to recast Russia's relationship with the West on the basis of a common interest. On 24 September 2001, President Putin declared that Russia would open its airspace to US humanitarian flights, share intelligence, take part in search and rescue operations and supply arms to anti-Taliban forces in northern Afghanistan. He also said that Russia had no objection to Central Asian states allowing US planes into their airfields.

51. As a consequence, US troops have now, for the first time since the cold war, been stationed on the territory of Central Asian republics which were formerly part of the Soviet Union. Up until now Russia has always resisted the growth of American influence in Central Asia, the Caucasus and the Caspian region, preferring to keep them under its own influence. States which showed a preference for closer ties with the United States often suffered various kinds of retaliatory action.

52. Russia's concerns about the possible expansionist tendencies of Islamic radicalism and of international terrorism have apparently now outweighed its fears of a loss of influence in that region.

53. It should be noted, however, that Russia had little choice. On 14 September 2001, Russia's Defence Minister, Sergei Ivanov, declared that he saw "no grounds whatsoever for even the hypothetical possibility of NATO military operations on the territories of the Central Asian countries",

not least because they lay “within the zone of competence” of the Tashkent Treaty, a collective security treaty binding some CIS countries¹⁵.

54. Russian attempts to coordinate the Central Asian republics’ reply to the US request for support and assistance in its fight against terrorists in Afghanistan proved a failure when different republics started to reply positively on an individual basis, led by Uzbekistan, whose aim is to achieve wider support in its fight against the Islamic Movement of Uzbekistan, which operates from bases in Afghanistan. Only Tajikistan, where a fragile government is kept in place with Russian support while some 20 000 Russian troops guard its border with Afghanistan, cannot do more than allowed to by Russia.

55. It goes without saying that Russia expects to be rewarded for its assistance in the fight against terrorism. It wants the West to see Russia’s campaign in Chechnya as part of the struggle against international terrorism. Indeed, the United States and Germany have already hinted at a “differential evaluation” of the conflict in Chechnya. Russia is also pressing for greater economic integration through entry into the World Trade Organisation, to which the American Trade Representative, Robert Zoellick, has replied that Russia might join the WTO by the end of 2002. The EU has promised to accelerate efforts to help Russia join the WTO, a campaign it has waged in vain for the past eight years. President Putin wishes further to have closer ties with the EU, a redefinition of collective security in Europe and a new strategic relationship with the United States.

56. It should be noted that Russia is still opposed to further enlargement of NATO, but according to President Putin, speaking after his meeting with the North Atlantic Council on 3 October, that position could be reconsidered if NATO were to transform itself and assume a broader political identity, and if Russia could be drawn into the process.

57. While intensive diplomatic activity was going on in order to build the coalition against terrorism, Russia also signed a military cooperation agreement with Iran on 2 October 2001 which includes the purchase of Russian military hardware valued at US\$ 300 million per year for the next five years, making Iran the third largest purchaser of Russian arms after China and India. The November 2000 Russian decision to resume arms sales to Iran provoked an outcry from the United States, which claims that Iran is involved in terrorism, in particular through its support for Hezbollah. Russia’s Defence Minister, Sergei Ivanov, emphasised that Iran had a crucial role to play both in regional security and in the wider area of promoting stability in the Middle East. Russia is helping Iran to build a nuclear power station at Bushehr and has plans for the construction of a second one.

58. It should be kept in mind, however, that Russia’s participation in the coalition against terrorism is fragile. If the West does not take this opportunity to change the pattern of its relations with Russia, Russia could turn away from the West and intensify relations with other states, or else withdraw into itself. It should be kept closely involved in developments regarding Afghanistan, where it would consider any attempt to include Taliban representatives in a possible future government as hostile to its own interests.

9. The Commonwealth of Independent States (CIS)

59. When it was created soon after the collapse of the Soviet Union, the Commonwealth of Independent States (CIS) was considered by some as an organisation through which Russia could try to regain influence in the newly independent republics of the former Soviet Union. The CIS was indeed conceived as an institution for economic and political integration in the post-Soviet sphere and some integrationist efforts combined with official Russian Government declarations about its special interests in its near abroad revived concerns about recreating a Russian empire. In fact, the CIS proved to be a useful framework for resolving problems relating to the Soviet Union’s military heritage and for reaching compromises and easing tensions in the complicated and multiple divorce process.

60. The March 1992 Kyiv Agreement created an institutional framework for peacemaking and peacekeeping in the CIS area, but not one of the operations performed since then has met the

¹⁵ *Financial Times*, 3 October 2001. In fact, of the three independent former Soviet republics bordering Afghanistan, only Tajikistan is a member of the Tashkent Treaty.

requirements of the Kyiv Agreement, since Russia has dealt with each conflict in an *ad hoc* fashion. Also in 1992, a number of CIS countries (Armenia, Belarus, Kazakhstan, Kirghizstan, Russia and Tajikistan) concluded a collective security treaty known as the Tashkent Treaty. In October 2000, those countries agreed on new arrangements to revitalise the Tashkent Treaty, including legal procedures for the deployment of troops from one member state to another for joint action against military aggression.

61. To all appearances, CIS currently is neither an effective nor a popular organisation and even Russia tends to downplay its importance. Its ambition is not to recreate an empire, which it would in any case never succeed in doing, given the many centrifugal forces in the independent former Soviet republics. Russia's current objective is to regain allies in its immediate neighbourhood and, if possible, to ensure that they do not compete with or threaten Russian interests and also that they support Russia's foreign policy and do not team up with nations which might thwart Russian interests. President Putin is trying to attain this objective through intensive bilateral contacts rather than through the CIS framework. In this respect, he has been paying special attention to the countries belonging to the GUUAM group.

10. Conclusion

62. Since the election of President Putin, Russia has regained the strength and confidence it had lost, particularly as a result of the 1998 economic crisis. There is clearly still an urgent need for further economic reform and Russia has still some way to go before becoming a truly democratic and constitutional state. The behaviour of its armed forces in Chechnya is a reminder of that.

63. The 11 September events have projected Afghanistan and the central Asian countries to the forefront of the international news, while highlighting the position held by Russia in the region. Indeed, although the West reacted with relief at Russia's support for the coalition against terrorism and the conciliatory remarks by Mr Putin with regard to NATO enlargement, the situation is not devoid of danger. In spite of the dismemberment of the Soviet Union, Russia remains a major player on the world stage, with its vast resources, and with its geopolitical interests which are very diverse and sometimes different from those of Europe as was shown by Russia's pact with Iran, its rapprochement with North Korea and its recognition of the elections in Belarus.

64. At this juncture, when a fragile but hopefully determined broad coalition against the real threat of worldwide extremist and mass terrorism has been established, it must be the highest priority of all states involved to keep that coalition alive.

65. As regards the West's relations with Russia, this may have to imply restraint regarding NATO enlargement in the near future, as well as more determined efforts to build a trustworthy and reassuring security regime for Ukraine, Belarus, Moldova, the Caucasus and Central Asia, in full cooperation with Russia. It would be very unwise for the West, or the United States in particular, to create the impression that it is trying to outwit Russia in a competition to exert strategic influence in those regions.

66. If long-term stability in Central Asia is the ultimate objective, then both Russia and the West will have to encourage reform and modernisation in that region. Conspiring with the present authoritarian regimes where clan rule, official corruption and government incompetence are pervasive would only create an illusion of stability not unlike the situation in certain states in and around the Arabian peninsula.

67. It has been rightly observed that if the United States becomes involved in long-term security commitments in the Islamic world, it might sooner or later withdraw its troops from Kosovo and Bosnia and Herzegovina. In that case, the EU would have to assume its responsibilities in the Balkans, which would necessarily call for close cooperation with Russia. Similarly, EU-Russian cooperation is essential to support economic and political development in countries like Belarus, Moldova and Ukraine.

68. In its policy towards those countries, the EU should recognise the inevitability of a major Russian influence there which it should try to shape and use for positive purposes rather than seeking to eliminate it. If the objective is to achieve stability, security and economic development in those

countries, then this will only succeed in cooperation with Russia. If the EU treats Russia as a wayward child that needs to be lectured or as a competitor whose influence must be diminished, as the United States often seems to do, it will never succeed in building the friendship with Russia that is vital for security and stability on the European continent¹⁶.

III. Ukraine

I. Relations with Russia

69. Good neighbourly relations with Ukraine are part and parcel of Russia's new strategy towards countries that formerly belonged to the USSR. In 2000, the Presidents of Russia and Ukraine met no less than eight times. These meetings are indicative of Russia's intention to establish closer links with Ukraine following the latter's efforts to obtain the West's support to counterbalance Russian influence. Russia is not happy with the pro-western stance Ukraine has taken. Successive treaties between the two countries, Ukraine's dependence on Russia for power supplies and Russia's strategy of endeavouring to bring the "lost sheep" back into the fold are all signs of the importance Russia attaches to Ukraine as a former flagship of soviet power.

70. When President Kuchma was faced with a political scandal last year because of his alleged involvement in the murder of a journalist, President Putin came to the rescue. Not unnaturally he expected something in return for his help and urged that, short of actually turning towards Russia, Ukraine should at least strive for a better balance in its East-West relations.

71. In fact, there are many ways in which Ukraine is still tied to Russia. Russia is Ukraine's largest trade partner. Russia satisfies most of Ukraine's energy needs and all of Ukraine's military equipment is still soviet-made. The influential Ukrainian oligarchs all have strong financial and economic ties with Russia. In January and February 2001, Russia and Ukraine signed a number of treaties including a 52-point military agreement, strengthening military cooperation. In the framework of defence and security agreements, joint Russian-Ukrainian exercises and military activities take place but only on a modest scale owing to lack of funds.

72. The appointment of Viktor Chernomyrdin, the former Russian Prime Minister, as Ambassador Plenipotentiary of the Russian Federation to Ukraine fits in with Russia's policy of drawing closer to one of its key partners and establishing good neighbourly relations. The Russian ambassador will also have the task of acting as representative for bilateral developments in the economic and business fields¹⁷. The fact that such a leading figure as Mr Chernomyrdin has been chosen for this post once again indicates the importance Russia attaches to Ukraine. It should, however, be noted that good neighbourliness with a big neighbour does not necessarily mean friendly behaviour on the part of the partner with more power.

73. In September 2000, Boris Tarassiouk, Ukraine's Minister for Foreign Affairs, considered too pro-western for Moscow's liking, was replaced by Anatoly Zlenko. The fact that Moscow was behind the sacking is a clear indication of how relations between the two countries have changed.

74. After the July 2001 visit of NATO Secretary-General Lord Robertson to Kyiv, the Russian Ambassador to Ukraine, Viktor Chernomyrdin, warned the Ukrainian Government against a policy of "neutrality" and expressed displeasure at Ukraine's attempts to distance the country from Russian influence. Mr Chernomyrdin appeared to be encouraging Ukraine to strengthen its links with Russia when he said that "the neutral status of a state such as Ukraine can clearly undermine its strategic interests"¹⁸.

75. Last year, the Russian gas company Gazprom, irritated by Ukraine's inability to pay for gas deliveries and accusing Ukraine of stealing and reselling gas from pipelines, opened a new pipeline route through Belarus and Poland to Germany, while seeking support for a second pipeline through Belarus, Poland and Slovakia. Ukraine imports nearly 60 billion cubic metres of gas from Russia and

¹⁶ Anatol Lieven in the *Financial Times*, 4 October 2001.

¹⁷ *Keesing's Record of World Events*, volume 47, No. 5, 2001, page 44172.

¹⁸ *Financial Times*, 12 July 2001.

Turkmenistan of which half is supplied by Gazprom as payment for its use of Ukraine's transit pipelines.

76. On 4 October 2001, Ukraine and Russia agreed to restructure US\$ 1.4 billion of Ukraine's debt for Russian natural gas supplied in the late 1990s allowing Ukraine a three-year period of grace before payments must begin, while at the same time Ukraine is no longer barred from reselling Russian gas. The debt restructuring is part of a broader agreement covering the conditions of Russia's use of Ukraine's pipelines, which carry more than 90% of Russia's gas exports to Europe.

77. In February 2001 in Kyiv, Ukraine and Russia signed bilateral agreements on cooperation in the fields of space, aeronautics and power supplies. The heads of state envisaged the forming of an aeronautics consortium and the construction of a bridge linking Russia with the Crimean peninsula¹⁹.

2. Relations with GUUAM

78. In this report, mention should be made of GUUAM, a rather loose consultative grouping of countries in whose creation and development Ukraine has been playing a leading role.

79. In 1995, Georgia, Ukraine, Azerbaijan and Moldova founded the then GUAM group as a political, economic and strategic alliance designed to strengthen the independence and sovereignty of its constituent republics. Uzbekistan joined the group in 1999 and the name was changed to GUUAM.

80. Ukraine considered GUUAM an important political means of asserting itself as a regional leader and the keystone of stability and security. It also thought that GUUAM could become an instrument for deepening cooperation on economic, energy and transport, providing Ukraine with access to Caspian oil and gas, while promoting its role as a transit country for exporting Caspian oil to Europe.

81. The other GUUAM countries were certainly interested in the role which Ukraine, by far the biggest partner in the group, could play in helping them withstand Russia's efforts to maintain its preponderant influence in the region and deepening their relations with the West. In recent years, however, Ukraine faced economic difficulties, numerous internal political problems and pressure from Russia, to which it is also vulnerable because of its energy dependence on that country.

82. For all of these reasons, Ukraine's attitude towards GUUAM has tended to become more inconsistent although it is aware that this body is probably the only one that could provide it with some sort of role as a regional power.

83. Discussions are taking place within and among GUUAM's member states about the group's priorities and the direction of its future development which does not contribute to its international standing.

84. In recent months, it has become clear that Ukraine has little choice other than to reinforce its links with Russia, which has regarded GUUAM as a subversive body right from the start, opposed to Russian interests in the region. Recently, each GUUAM member state has been subject to Russian pressure in one way or another, leading them to revise their priorities and opt to intensify relations with Russia, needless to say at the expense of cooperation in GUUAM.

85. A widely publicised GUUAM summit, scheduled to take place in Kyiv on 6-7 March 2001, was postponed. It finally took place in Yalta, Ukraine, on 6-7 June 2001 but the earlier objective of formally transforming GUUAM from a consultative grouping into a regional organisation was not achieved and no substantive progress was made on the issue of establishing a free-trade zone between its members.

3. Relations with the European Union

86. As early as June 1994, Ukraine signed a Partnership and Cooperation Agreement (PCA) with the EU which provided an overall legal framework for EU-Ukraine relations and outlined specific areas for cooperation. This PCA did not offer Ukraine any prospect of future EU membership. It took the EU almost four years to ratify this agreement which only came into effect on 1 March 1998. While the PCA is politically important and establishes an institutional dialogue with the EU, the assistance

¹⁹ See <http://www.thetimes.co.uk>

and closer cooperation for which it makes provision is not as important as the association agreements the EU has concluded with most of the central and eastern European countries.

87. In June 1996, the EU decided to consider Ukraine as a country with an economy in transition, thus allowing Ukrainian goods better access to the EU market. The EU has now become the largest bilateral provider of foreign technical and macro-financial assistance to Ukraine and, after Russia, it is its second largest trading partner, accounting for 22.5% of Ukraine's total trade.

88. In 1996, Ukraine announced that its strategic goal was to join European and Euro-Atlantic structures, giving priority to full membership of the EU. This long-term strategic goal was formalised in a Presidential decree in June 1998.

89. Until now, the EU has taken a somewhat cautious approach to EU-Ukrainian relations. In December 1998, the EU Council decided to prepare an EU common strategy for Ukraine. In ensuing discussions, Ukraine attempted to secure recognition in the EU Common Strategy for future EU membership but the EU, pointing to Ukraine's many domestic problems and its breaches of PCA provisions, insisted that Ukraine should give first priority to PCA implementation. The adoption in 1999 of the EU Stability Pact for South East Europe, which offered the countries of that region the prospect of EU associate membership, gave Ukraine the impression that it was not being allowed to participate in the European integration process to the same extent.

90. At its Helsinki Summit in December 1999, the EU adopted its Common Strategy on Ukraine in which it acknowledged Ukraine's European aspirations and welcomed its "pro-European" choice. The European Council stopped short of recognising Ukraine's right to become a fully-fledged member of the EU, as it had not yet met the Copenhagen criteria.

91. The Common Strategy singled out three fields for the further deepening of EU-Ukrainian relations:

- support for the democratic and economic transition processes in Ukraine;
- meeting common challenges on the European continent (stability on security, the environment, energy and nuclear safety);
- support for increased cooperation in the context of enlargement.

92. Ukraine, while confirming that EU membership remains its strategic goal, is at present no longer insisting on formal EU recognition of its right to become a member of the Union. It is now concentrating on domestic change, more rapid progress in implementation of the PCA and joining the WTO. It is to be noted, however, as discussed elsewhere in this chapter, that progress in all these fields is very slow, not least because of strong resistance from influential industrial and political lobbies. Most of Ukraine's largest and most successful companies continue to maintain financial and economic links with other former Soviet republics, in particular Russia, and see their future interest in developing cooperation with Russia, rather than the EU.

93. On the other hand, Ukraine complains that the EU does not recognise it as a market economy – there is very little direct EU investment in Ukraine due to its unfavourable investment climate and high-risk business environment. Ukraine accounts for only 0.42% of total EU trade.

94. At its last meeting in June 2001, the EU-Ukraine Cooperation Council identified six priority areas on which its work would concentrate over the next 12 months: energy, trade, justice and interior affairs, alignment of Ukrainian law with EU legislation, protection of the environment and transport.

95. The EU emphasised at the same time that the intensification of bilateral relations should go hand in hand with the deepening of economic and political reforms in the country. After the meeting, the Chairman of the EU Foreign Affairs Council declared that a free and independent press and respect for democratic principles and individual liberties were also essential if Ukraine was to continue down the road towards European integration.

96. At the EU-Ukraine summit in Yalta on 11 September 2001, the EU again emphasised that the Ukrainian Government would have to demonstrate its resolve to respect press freedom, improve the

way in which the judiciary worked and implement indispensable political and economic reforms if it wanted its official declarations on its “pro-European” choice to be taken seriously.

97. The EU is also keen to secure a commitment from the Ukrainian authorities that the March 2002 legislative elections will be democratic and that the current legal investigations into the death or disappearance of journalists will continue and be stepped up.

98. The EU noted that the energy sector was among the economic activities which needed to be reformed most urgently, in particular as regards further privatisation, increased energy efficiency and improvement of installations for the transit of oil and gas from Russia to the EU. The country’s legal and judicial framework should be reformed in order to facilitate foreign investment.

99. After seemingly endless negotiations, Ukraine closed the Chernobyl nuclear power station in December 2000. The European Commission has provided funds for Ukraine to buy fuel for conventional power stations in order to increase their production. In early 2001, 25 million euros were provided in the framework of the “Fuel Gap Programme” with a total budget of 65 million euros for 2000-2002. Another 20 million euros were provided in July from the Tacis budget. A Euroatom loan of US\$ 585 million will be used to build two alternative energy power stations once the EBRD has given its go-ahead²⁰.

100. At the EU-Ukraine summit in Paris in 2000, ideas were launched to involve Ukraine in the ESDP in some way, including the possibility of strengthening military and civilian cooperation, also in the context of crisis management but seemingly not much progress has been made in this field up to now.

4. Relations with NATO

101. In February 1994, Ukraine joined NATO’s Partnership for Peace (PfP) programme²¹. It continues to pursue a policy of neutrality. It refuses to accede to the Commonwealth of Independent States’ security treaty and is not a candidate for membership of the Atlantic Alliance even though it regularly takes part in NATO exercises under the PfP. Every year some 250 activities are scheduled in the context of the Ukraine-NATO Commission, concerned exclusively with the development and reform of Ukraine’s defence system. In July 1997, Ukraine signed a charter of cooperation with NATO under which links between them were to be strengthened through practical cooperation in the framework of the PfP and by making provision for more extensive consultations on policy. This has resulted in Ukraine taking part in a large number of exercises, wide-ranging military exchanges and training programmes.

102. The PfP Planning and Review Process (PARP) is being used as a tool to support Ukraine’s defence reform efforts. In this framework, an assessment of current capabilities of the Ukrainian armed forces and of Ukraine’s current reorganisation and restructuring plans has recently been completed. A number of NATO allies are now exploring options to reinforce these defence reform efforts by assigning senior officers to the Ukrainian Ministry of Defence to assist Ukraine in areas such as forces planning.

103. This partnership provides Ukraine with a number of possibilities for dialogue and cooperation. It is in the process of restructuring its armed forces in the framework the PARP. This reform is described in a document entitled “The state programme of the Ukrainian armed forces: reform and development until 2005”²². The object of this ambitious programme is clearly defined as being the formation of modern, well-equipped, efficient and well-trained armed forces able to take action in all circumstances without this entailing too high a cost. The current budget underestimates soldiers’ real requirements and is confined to covering running expenditure. Pilots lack training and have an insufficient number of flight hours. Some 2 000 young people under the age of 30 leave the army each

²⁰ See *Bulletin Quotidien Europe*, No. 8016, 28 July 2001, page 9.

²¹ Lidia Kossikova, “Ukraine 1999-2000, en voie de rétablissement” *Courrier des pays de l’Est*, No. 1010, November-December 2000, page 162 *et seq.*

²² “The state programme of the Ukrainian armed forces : reform and development until 2005”, quoted in the draft general report by Hans R. Sjørd, “Missile defence and other challenges to alliance unity”, DSC (01) 7, AU 198, page 20, 24 August 2001.

year. Ukraine's defence industry has difficulty in meeting 3% of the requirement for spare parts. These figures were recently published in the aforementioned report. The Ministry of Defence hopes to reduce the size of the armed forces from 310 000 to 295 000 by 2005. The national objective for the long term is that the country should have professional armed forces by 2015.

104. The NATO Liaison Office in Kyiv is working with military and other branches of government to improve civil-military relations and parliamentary oversight of defence. Retraining programmes are helping retired officers to find jobs in the civilian sector.

105. Apart from the abovementioned activities, there are also extensive bilateral programmes between Ukraine and individual NATO allies. The Joint Working Group on Defence Reform is now following up the meeting held in London in March 2001, aimed at maximising value for over 600 bilateral activities currently scheduled. The North Atlantic Alliance is aware that in the past ten years of its independence, Ukraine has made great efforts in the fields of security and stability.

106. On the occasion of his visit to Ukraine in July 2001, NATO Secretary-General George Robertson expressed his satisfaction with Ukraine's significant contribution to European security, mentioning in particular the destruction of its nuclear weapons, its accession to the Non-Proliferation Treaty as a non-nuclear weapon state and its consistent policy of good relations with all neighbours. He also noted that the resolution of the Crimea and Black Sea fleet problems had made a good partnership with Russia possible.

107. On the other hand, it appears that recent negative trends in the democratic quality of Ukrainian political life have caused concern among NATO allies. Lord Robertson expressed these feelings when he said that if Ukraine wished to integrate into Europe, it would have to adhere to the high democratic standards which were the norm among its partners in Europe. He added that on the road to European integration there were no shortcuts to democracy and that the entry rules were based on the shared values of pluralist democracy, respect for the rule of law, free and open markets and press and political freedom.

5. Democracy and the rule of law

108. The Parliamentary Assembly of the Council of Europe (PACE), a body widely regarded as an authoritative watchdog in the fields of democracy, the rule of law and human rights, is monitoring those states which, upon accession to the Council of Europe, did not meet all the criteria for honouring obligations and commitments to adapt their legislation. Ukraine is one of those states. In recent reports, the Assembly has been quite critical of developments in Ukraine. In particular, it has condemned the lack of freedom of expression and the inadmissible way in which opposition politicians, journalists and media representatives are treated, this being wholly at odds with the principle of democracy.

109. In Resolution 1244, adopted on 26 April 2001, the PACE urged "the Ukrainian authorities, notably the President, to put an end to the practice of intimidation and repression of opposition politicians and the independent press, and to take all necessary measures to discourage and curb attacks and threats against journalists and other media representatives". According to a more recent report²³ of the PACE, Ukraine has now made considerable progress in fulfilling its formal obligations as a member of the Council of Europe, in particular by adopting or amending important pieces of legislation. However, crucial laws which are part of those obligations are still the subject of lengthy discussions. The report also notes that weak and inconsistent implementation and enforcement of the law remains a key deficiency of the legal system. In a resolution adopted on 27 September 2001, the Assembly condemns aggression against, intimidation and even murder of journalists, members of parliament and opposition politicians in Ukraine.

110. The report further mentions that according to media NGOs, the Information Policy Council, established by Presidential decree of 3 April 2001, is not making any significant impact to improve the lack of freedom of expression in Ukraine. In its abovementioned resolution of 27 September 2001, the

²³ "Honouring of obligations and commitments by Ukraine", Rapporteurs: Mrs Hanna Severinsen and Mrs Renate Wohlwend, Document 9226, 24 September 2001.

PACE calls therefore on the Ukrainian authorities “to ensure the rule of law, to conduct their media policy in a way which will convincingly demonstrate respect of the freedom of expression in the country and to improve the legal framework for the media and the safety and working conditions of journalists”.

111. Other Euro-Atlantic institutions, in particular the EU and NATO, have also criticised Ukraine on this subject, which they all consider to be one of the most important membership criteria.

6. Ukraine's arms trade

112. Since gaining its independence, Ukraine has become one of the principal small arms suppliers on the world market, exporting comparatively modern weapons. This can be explained by the fact that the Ukrainian defence industry as former arms supplier to the Soviet forces, now has considerable overcapacity. In the present situation of less funding for military research and development and greater technological sophistication, and since most of the weapons it deals in are either second-hand or, if new, based on older Soviet designs, Ukraine may experience difficulties in trying to maintain its position as a significant smaller supplier. In recent years, it has been delivering arms to Pakistan, Sierra Leone, the Democratic Republic of the Congo, FYROM and Sri Lanka. There is little doubt that Ukraine is active in the arms export market both for economic reasons and to keep alive its arms industry, which still employs a large number of people.

113. During the recent crisis in the Former Yugoslav Republic of Macedonia, where Albanian extremists took up arms against the government, both the EU and the United States demanded that Ukraine stop supplying military equipment to Macedonia. In 1999, Ukraine signed an agreement on military-technical cooperation with Macedonia under which it has delivered six Mi-24D attack helicopters, four Mi-8 transport helicopters and four Su-25 ground attack aircraft.

7. Illegal migration

114. One of the security risks of which the government of Ukraine is well aware is the alarming increase in refugees and illegal migration via Ukrainian territory. Since the end of the cold war, Ukraine has become a major route for illegal migration and the trafficking of drugs and human beings. Although in 2000 only 15 000 illegal migrants were intercepted, the government estimates that up to one million are present on Ukrainian territory. Most of them have arrived from Asia and from some African countries. Around 90% of these migrants use established channels of illegal migration, controlled by international criminal groups. In most cases these migrants only stay in Ukraine for as long as is necessary before they are able to travel further to western Europe or the United States.

115. The increase in illegal migration and human trafficking leads to more drugs and weapons trafficking, corruption and other criminal activities in Ukraine itself and in the border regions. More than 60% of illegal migrants arrive in Ukraine via Russia and the remaining via other CIS states.

116. Ukraine's northern and eastern borders are in many cases not properly demarcated and it has a 3 000-kilometre coastal frontier to the south. Other problems are that Ukraine lacks the necessary legislation and unified administrative structure for immigration control and efficient naturalisation and deportation procedures. Moreover, border control equipment is often old and obsolete.

117. Germany has started to provide assistance for proper control of Ukraine's border with Russia. So far, the EU has not done much to help control Ukraine's eastern and northern borders because it has focused its attention on strengthening control over the country's western borders.

118. Apart from illegal migration, there is also a problem of illegal Ukrainian workers in those central and eastern European countries which are soon to join the EU. According to estimates, the number of illegal Ukrainian workers stands at 10 000 in Hungary, 40 000 in the Czech Republic and 60 000 to 100 000 in Poland.

119. EU applicant countries will be obliged to introduce new border regulations and stricter visa policies on their eastern borders as an important condition of membership. Poland has expressed its intention of keeping its visa-free border regime with Ukraine for as long as possible, not least because of the important bilateral cross-border, trans-border and regional cooperation arrangements that are in operation.

8. *The Republic of Crimea*

120. This territory was governed by the Tartars until 1783 and has since remained within the Russian fold. In 1954, Crimea was offered to Ukraine, which changed virtually nothing, as both lands were part of the Soviet Union. The population of the peninsula is currently 67% Russian. In 1992, Ukraine gave the Republic of Crimea autonomous status within its borders.

121. Political tension reached its height in January 1994, with the election of the Russian nationalist Yuri Meshkov as President of Crimea by a 72.9% majority. To counter secessionism the Kyiv Government granted local government a high degree of autonomy. A succession of amendments to the new Crimean Constitution were not validated until October 1998. The Constitution, like that of Ukraine dating from 1996, states clearly that the Republic of Crimea is autonomous, an integral part of Ukraine and does not have sovereign status²⁴.

122. In March 1997, a Treaty of Friendship, Cooperation and Partnership was signed between Ukraine and Russia, together with a raft of agreements regarding the fleet²⁵. The Ukrainian Parliament also confirmed that Sevastopol is by law Ukrainian territory²⁶. Ukraine succeeded in retaining the town in return for hiring out a part of its naval base to Moscow²⁷ until 2017.

9. *Political situation*

123. The political situation in Ukraine appears to have deteriorated since the presidential elections in November 1999, when President Kuchma beat the communist contender Petro Symonenko, in spite of widespread public discontent with the country's endemic economic crisis and manifest corruption in the state system.

124. In December 1999, President Kuchma appointed Viktor Yushchenko to be Ukraine's first reformist Prime Minister since independence. The new government started to introduce a programme of significant economic reforms and the progress it made was praised by international financial institutions and Western governments. A year later, both the IMF and the World Bank resumed their aid to Ukraine.

125. However, oligarchs in Ukraine objected to the Prime Minister's idea of making economic affairs more transparent and less corrupt. Together with the communists, who considered Yushchenko too Western-oriented, they succeeded in forcing him and his government to resign in April 2001. Under Prime Minister Yushchenko, the national economy showed its first increase in GDP since 1990 and in the first quarter of 2001 there was a 10.4% increase in industrial output.

126. Mr Kuchma's electoral programme, which put forward bold reforms, gave him a clear victory. In the absence of a stable parliamentary majority – an underlying difficulty throughout his leadership – administrative reform, especially reorganisation of the ministries and a scaling down of the machinery of government was delayed until the next parliamentary elections. In late 2000, the President's position was weakened for two reasons. First, the flexibility of the Constitution which made definition of the division of powers a matter for the law, made Parliament, without a firm majority, chronically unstable. The constant clashes between the executive and legislative powers which have characterised the Ukrainian political scene over the last ten years are far from being resolved²⁸. Furthermore, the suggestion that the President was somehow behind the murder of the journalist, Georgy Gongadze²⁹ has led to his being severely criticised even outside Ukraine. There were also allegations that the

²⁴ *Eastern Europe and the Commonwealth of Independent States*, 1999, pages 857-858.

²⁵ These instruments, ratified in March 1999 by the Rada, affirmed the immutability of existing borders.

²⁶ Frank Cook, "Ukraine and its armed forces: a new actor on the European stage", NATO Parliamentary Assembly, AS 105, DSC (99) 3-9 April 1999, International Secretariat, page 7.

²⁷ *Etat du monde 2001*, Annuaire économique géopolitique mondial, Editions La Découverte et Syros, Paris 2000, pages 585 *et seq.*

²⁸ Lidia Kossikova, *op. cit.*, pages 160-174.

²⁹ The disappearance of the journalist, the editor of an opposition newspaper, roused deep anger among the people. The disclosure of public recordings of conversations involving President Kuchma, following the discovery of the journalist's decapitated body, severely dented the President's political credibility.

President had ordered vote-rigging in the 1999 presidential elections. To prevent the outbreak of another political crisis the President dismissed from office both the Head of the Ukrainian Secret Service and the Chief of the Presidential and Interior Ministry security guards.

127. In March 2001, the political crisis reached its height with the formation of a new Assembly with a centre-right majority, which asked the President-in-Office to resign from his post. Unable to find a satisfactory solution for his months-long stand-off with the Supreme Council, President Kuchma announced a constitutional referendum, to take place in April, in order to ensure what he called the “systematic and efficient work of the legislature”.

128. The questions in the referendum that had the support of 80% of the votes cast included increased powers for the President to dissolve parliament, the establishment of an upper chamber of the parliament representing the regions and a reduction of the lower chamber from 450 to 300 representatives. The referendum text failed to win the support of a qualified majority (300 votes) in Parliament – the left voted against, along with twenty members of the majority coalition – and consequently was not implemented.

129. Subsequently the Deputy Prime Minister and Energy Minister, Mrs Ioulia Timochenko, was accused of corruption and embezzlement during her time as head of the Ukrainian Gas Company³⁰. Mrs Timochenko attributed her dismissal to unwillingness on the part of the President and the oligarchs to allow reforms to be carried out in the energy sector. The purpose of this kind of political manoeuvring was to calm things down and emphasise the fact that the President had little to do with such criminal acts. The Parliamentary Assembly of the Council of Europe expressed its concern over “the frequent abuse of power by the Ukrainian executive authorities in respect of freedom of expression”³¹ and was prepared to consider taking sanctions against Ukraine since the country no longer seemed willing to observe the rules of democracy it had subscribed to when it became a member in November 1995.

130. Mr Anatoly Kinakh, leader of the Union of Industrialists and Entrepreneurs, was appointed Prime Minister in May 2001, once parliamentary approval had been obtained. Mr Kinakh supports the economic shake-up but is in favour of protecting domestic production against foreign competition – a stance that has won him considerable support among all political factions.

131. To bolster cohesion within government, President Kuchma has published a decree replacing Deputy Prime Ministers by state secretaries and under-secretaries within the Cabinet. These state secretaries were appointed by a presidential decree on 29 May 2001 for the President’s term of office. Their responsibilities include “the safeguarding of organisational, legal, analytical and technical work of the cabinet of ministers”. The state secretaries have considerable power but are not subject to parliamentary control. In fact, many observers believe that these new government officials allow the President to exert even more influence over the executive authorities. The changes were supposed to reinforce political credibility and stability within government, but some political groups maintain that they were introduced to strengthen the power of the President.

132. Recent statements by President Kuchma regarding his commitment to press freedom are an attempt to silence the many criticisms from international bodies such as the European Union or the International Monetary Fund. They are also intended to counter the attempt by the mother of the dead journalist, Georgy Gongadze, to bring criminal proceedings against the President and two of his subordinates³². The President has officially invited OSCE observers to monitor the parliamentary elections due to take place in March 2002.

10. Economic situation

133. The purpose of the economic reforms on which Ukraine embarked after 1990 was to stabilise the economy and keep inflation under control. Progress was slow and the reforms had little impact on the country, which at the time was going through a period of political upheaval. The 1998 financial

³⁰ *Keesing’s Record of World Events*, volume 47, No. 2, 2001, page 44022.

³¹ PACE, Document 8945 and 8946, 23 January 2001.

³² *Eastern Economist Daily*, n°1683, 12 September 2001, page 2.

crisis was less critical for Ukraine than for Russia³³. When it ended, the International Monetary Fund signed a standby agreement under which it was to grant aid to Ukraine provided the government ensured that its structural reforms were implemented. Although a close watch was kept on the country to ensure that these conditions were complied with, the funds were nonetheless subject to embezzlement³⁴ as a result of laxity on the part of a government reluctant to see the reforms applied in practice.

134. Ten years of independence and a series of reform programmes had scarcely any impact and resulted in stagnation. Little progress was made on company and land privatisation. Corruption, the black economy and criminal activities increased to intolerable levels.

135. This lack of economic development made Ukraine increasingly dependent on other countries. Because of the confused legal and judicial situation, Western investors were reluctant to risk investing their money in the Ukrainian economy. There was no other choice for Ukraine but to turn to Russia, which took over a number of its strategic economic assets in lieu of payment of its huge energy debts.

136. Ukraine is the Russian Federation's largest debtor and the recipient of 70% of its gas exports³⁵. The problems Russia encountered in obtaining payments resulted in bartering more or less becoming the norm when a decision was taken that, in exchange for gas supplies from Russia, Ukraine would export coal³⁶. The issue of gas debts was one of the most frequently recurring problems in relations between the two countries³⁷. Ukraine's energy debt currently stands at some 1.5 billion dollars. On 4 October 2001, both countries concluded an energy debt restructuring agreement.

137. Ukraine's continuing dependence on Russia for its energy supplies and its inability to pay make it an easy victim in debt negotiations. This is one reason why the West and the European Union in particular are stressing the urgent need to restructure Ukraine's energy sector. The European Bank for Reconstruction and Development (EBRD) is expected to sign an agreement before the end of 2001 to draw up a financing package for the completion of two Soviet-designed nuclear power stations in Ukraine. The EBRD has said that Ukraine has made significant progress in reforming its energy sector but that important steps still remain to be taken. The lack of transparency in the process of privatising the energy sector is now deterring further foreign investment.

138. Industry is a powerful lobby in Ukraine and particularly so following the recent appointment of Mr Kinakh as Prime Minister. Ukraine is also, after Israel, the third-ranking beneficiary of American aid and has a large outstanding debt with the United States³⁸. The IMF's assessment of Ukraine's economy is that the country will have to take out a further loan which, for 2001 alone, amounts to 250 million dollars³⁹.

³³ In contrast to the situation regarding Russia, IMF payments to Ukraine continued throughout the crisis.

³⁴ The former Prime Minister, Mr Lazarenko, estimates that a sum of 200 million dollars was paid into accounts in Belgium and Switzerland on behalf of persons close to Mr Kuchma.

³⁵ See Lidia Kossikova "L'endettement des pays de la CEI envers la Russie" in *Courrier des Pays de l'Est*, No. 445, December 1999, page 13. Ukraine's dependence on Russia for this most important of utilities is forcing the Ukrainian authorities to look for other sources. It is considering taking part in the construction of a 70-kilometre pipeline passing through Turkey and the Balkans. The construction of a second pipeline under the Danube and crossing the border between Ukraine and Romania is also being planned. The European Bank for Reconstruction and Development (EBRD) is to provide 95 million dollars out of a total cost of 118 million dollars for this project. *Eastern Economist Daily*, No. 1682, 11 September 2001, page 1.

³⁶ *Op. cit.* pages 10-13.

³⁷ On a visit to Kyiv in February 2000, the Russian Prime Minister, Mr Kassianov, suggested that Russia forgo part of Ukraine's debt and instead have a stake in Ukrainian firms. Moscow accused the Ukrainians of siphoning gas from the Droujba pipeline which runs across the country to western Europe. See Anne de Tinguy, "Ukraine: la fin d'une politique d'ouverture et d'équilibre entre l'Est et l'Ouest" in *Défense*, No. 97, August 2001, page 56 ff.

³⁸ Eric Foster quotes USAID experts who have doubts about a new initiative on reforms in Ukraine, and about monitoring of likely non-compliance with the conditions set by the World Bank and the IMT. *Op. cit.* page 20. Since 1994, Ukraine has received loans and assistance to the tune of 2.4 billion dollars. Source: <http://www.thetimes.co.uk> (10 September 2001).

³⁹ *Eastern Economist Daily*, No. 1981, 10 September 2001.

139. However, despite all this, it has to be said that the first one hundred days of Mr Kinakh's government have been encouraging. After a long period of recession, GDP has risen by 10.5% and industrial output is up by 17.9% for the first half of 2001⁴⁰. Inflation has stabilised at below 3.3%. The main obstacles standing in the way of a more favourable economic trend continue to be dependence on foreign markets and the fact that the country's infrastructure is underdeveloped. The government is working on a social and economic development aid programme as well as on a plan to reduce poverty. Mr Kinakh stresses that economic stability is closely linked with the political situation. His political ambitions are pushing him towards a strategy of transparency and cooperation with all the different parties Ukraine depends on.

IV. Belarus

1. The September 2001 presidential elections

140. President Lukashenko was first elected in 1994. In 1996, he extended his mandate, due to expire in 1999, by means of a referendum which drew protests from the international community and led the European Union to suspend its official relations with Belarus. Mr Lukashenko was re-elected on 9 September 2001 with 75.6% of the vote. The united opposition led by Mr Gontcharik, leader of the largest trade union confederation which received 15.4% of the vote, immediately challenged the official results and put forward its own estimates. These gave the outgoing President only 45% and a second ballot was required by the constitution.

141. The elections were monitored by a large number of observers, including 715 international monitors. According to the OSCE observer Kimmo Kiljunen, while the elections were in a manner of speaking free, they were clearly not fair, and moreover there were "fundamental flaws in the electoral process". Apart from the fact that Mr Lukashenko was practically the only candidate who ever appeared on television, the opposition did not have the necessary financial resources for an effective electoral campaign.

142. What really worried observers, however, was the early vote which took place from Tuesday to Saturday, and for which the turnout was 14.3%. In any case, the demonstration which Mr Gontcharik had called for on the evening of the elections was attended by only a small number of people and his appeal to the major European states not to recognise Mr Lukashenko's re-election and to severely condemn the way in which the elections had been conducted went largely unheeded. According to the OSCE, the country's isolation was not in the interests of the people of Belarus and would not help to strengthen democracy⁴¹. The OSCE also declared that the state media were biased in favour of the incumbent and that economic and legal pressure had been brought to bear on the independent media⁴². The Russian President even described Mr Lukashenko's victory as "convincing"⁴³, but the Russian parliamentary opposition disagreed with this positive reaction, declaring that Belarus would use Russia as a milk cow. The United States was the only country that indicated that it would not recognise the election result.

143. The EU declared that it deeply deplored the fact that the presidential elections had not been held in compliance with OSCE rules. It also condemned the harassment of opposition representatives, national observers, the independent media and NGOs, whose rights should be observed. It recalled that the development of its relations with Belarus depended essentially on respect for human rights and progress towards democracy.

2. Economic situation

144. Belarus has a surface area of 207 000 km² and some 10 million inhabitants. It is a landlocked country which shares borders with Latvia, Russia, Ukraine, Poland and Lithuania. The capital, Minsk, is also the seat of the Commonwealth of Independent States (CIS), founded in 1991. In 1998 GNP was

⁴⁰ It should be noted that this upward trend has not been accompanied by an equivalent increase in state revenue. A 5.8% increase in GDP corresponds to only a 0.3% increase in the country's budget.

⁴¹ *Le Figaro*, "Lukachenko proclame sa réélection" (Lukashenko proclaims his re-election), 11 September 2001.

⁴² *Wall Street Journal Europe*, 10 September 2001.

⁴³ *Ibid.*

US\$ 22 555 million⁴⁴. The private sector share of the economy amounts to only 20%. Some 80% of the country's industry is state-owned, while 60% of small commercial and service companies are dependent on the local governments. According to a Belarus businessman, the future of most industrial companies, whose products date back "not just to yesterday, but to the day before yesterday"⁴⁵, is uncertain. Apart from a shortage of finance, they need to change their management and reduce staff, which would certainly lead to social problems.

145. Although Belarus has a wealth of resources, its productivity, already low, has actually declined regularly since independence in 1991, due to a style of economic management which harks back to the Soviet era. Food shortages – 81.8% of land is still under collective ownership – have been aggravated by the fact that part of the production is sold illegally on the Russian market. Furthermore, 23% of the country's territory was contaminated by the fallout from the Chernobyl nuclear disaster in 1986, and the economy not only of that particular region, but of the country as a whole, is still suffering the effects of the compulsory removal of some 335 000 people and the poor health of the population in the contaminated areas⁴⁶. Foreign debt, at US\$ 1.1 billion, is relatively low. The balance of trade shows a sharp deficit, since the country's exports in 1999 amounted to US\$ 5.9 billion, as against imports to the tune of US\$ 6.7 billion. In 1999, direct foreign investment stood at US\$ 250 million, in other words, 67 dollars per capita (compared with 448 dollars for Azerbaijan, 116 for Georgia, 494 for Kazakhstan, 71 for Russia and 55 Ukraine⁴⁷).

146. By taking the middle road between liberalism and a state-controlled economy, President Lukashenko has succeeded in protecting his country against the worst of the economic pitfalls which have befallen other countries of the former communist bloc. The political and economic system of Belarus, for all its faults, has some advantages: the population is educated (the illiteracy rate is less than 5%), wage costs are low and the country's geographic position makes it a crossroads for most of the traffic heading from western Europe towards Russia. The 1998 economic crisis in Russia, which had a strong impact on Belarus, appears, judging by a memorandum to the IMF drafted in April 2001, to have convinced the government to envisage more far-reaching economic reform. The reforms that have been announced include larger-scale privatisation and a deregulation of wages and prices.

3. Domestic situation

147. Belarus has an authoritarian, but not completely totalitarian government. The opposition does have the possibility of organising demonstrations, but sometimes the militia carry out arrests and use violence. Nevertheless, unexplained disappearances or deaths are rare. Officially, two thirds of press organs are independent, but according to the OSCE, the vast majority are close to the government. Infringements of freedom of the press and other liberties are common, taking the form, among other things, of wage cuts for journalists, arbitrary taxation, and the use of blackmail and physical violence.

148. A number of dissidents have been arrested and taken to court. Two former Belarussian public prosecutors recently declared that most of the thirty or so missing persons in Belarus were killed by a death squad run by President Lukashenko's regime. The former Vice-President of the Parliament, Viktor Gontchar, the former Interior Minister, Yuri Zakharenko, the businessman Anatoli Krassovski and the journalist Dmitri Zavadski are said to have been kidnapped and killed by a special forces unit on the government's payroll.

149. The Belarussian regime is also allegedly exporting arms to countries such as Syria and Cuba, as well as to Libya and Iraq, and ignoring arms embargos imposed by the United Nations.

4. Relations with Russia

150. Russia, Belarus' main economic partner, is also its main partner in the foreign policy area. According to the Belarus Foreign Affairs Minister, Mikhail Khvostov, the deepening of cooperation

⁴⁴ Fischer, *Weltalmanach* 2001, page 857.

⁴⁵ *International Affairs* 77,3 (2001), page 611.

⁴⁶ *La lettre diplomatique* no. 54, page 53.

⁴⁷ All figures are taken from *Courrier des pays de l'Est*, No. 1010.

between Belarus and Russia is an objective process based on the will of the two countries⁴⁸. Although part of the Belarus elite and the opposition fear a genuine integration of Belarus in the Russian Federation, following the creation of a Union between the two in 2000, this does not seem very likely. The Minister asserted that there had never been any question of reintegrating Belarus, which was a sovereign state, and that the main aim of the Union was for the two states to pool their material and intellectual potential in the interests of social and economic development⁴⁹.

151. Belarus's very close ties with its large Russian neighbour are also evident in the fact that only 37% of the population regularly uses its native language; in Minsk the figure is only 12%. Some observers say, however, that the use of Russian is due, among other things, to a political choice on the part of the regime, the use of Belorussian being the hallmark of nationalist and opposition groups.

152. On the other hand, there are many reasons on both sides for Belarus and Russia to maintain a close relationship.

153. The country's western borders provide it with a link to central eastern Europe. Difficult relations with Belarus would complicate Russia's communications with Kaliningrad, creating many additional practical problems. Russia has deployed an anti-missile early-warning station on Belarus territory to replace the dismantled Skundra radar station in Latvia. It has the right to use a military base in Belarus free of charge and the two countries run a joint air defence system. Up until now, Russia has seen Belarus as a buffer against unwelcome NATO enlargement.

154. Even more important are economic relations between the two countries. Belarus plays a role in the transit of Russian energy exports towards western Europe. Transit fees are said to be twice as low as those demanded by Ukraine, and Belarus, unlike Ukraine, has been a disciplined and reliable agent. One transit pipeline has been operational since 1999 and there is a project for building another one. Belarus and its oil refineries could also participate in Russian oil exports through ports in Latvia and Lithuania.

155. Russia currently satisfies 90% of Belarus's oil and gas requirements and charges preferential prices for those energy deliveries. While this has the advantage of allowing Russia to pay lower prices for the Belarus industrial output which supplies the Russian production process, it means that Russia meets part of Belarus's economic expenses, reducing the incentive to create a more energy-efficient production process. It is therefore hardly surprising that Russian companies are eager to acquire the best parts of Belarus' economic activity, such as the potash industry and energy companies. Russia is of course the biggest trading and economic partner of Belarus, accounting for 65% of its exports, while Belarus represents 54% of Russia's imports.

156. Belarus is Russia's second largest trading partner, behind Germany, and the balance of trade between the two is in Russia's favour. While barter is still a common practice, its importance is decreasing. In 1999, barter applied to 36.3% of Russian exports to Belarus and 42.1% of imports.

157. President Lukashenko has been trying since 1995 to establish a special relationship between Belarus and Russia, proposing a unified state or federation. Initially, Russia's reaction to such proposals was lukewarm, but growing concern over NATO enlargement and the possible isolation of Russia resulted in April 1996 in an agreement on the creation of a community between Belarus and Russia. Most liberals and democrats in Russia opposed this agreement, favoured by communists and nationalists, while President Yeltsin played the Belarus card in order to placate his communist opponent prior to the 1996 presidential elections.

158. A Belarus-Russia Charter was signed in May 1997 without having practical consequence. It would seem that Russia is in practice playing down the issue of the Union, trying to concentrate on the more feasible economic aspects. A December 1999 Treaty on creating the Union did not establish one single, united state, but rather was a document regulating the process of creating a union, envisaging the introduction of a customs union and single currency in 2005. An implementation programme sets clear deadlines for the completion of various legal and economic procedures and tasks necessary for

⁴⁸ *La Lettre diplomatique*, No. 54, page 47.

⁴⁹ *Ibid.*

unification, but the implementation programme is behind schedule and many deadlines have been set only for 2005. Russia has realised that the objectives of promoting foreign policy cooperation and defence integration can be achieved without what could be cumbersome political integration.

159. As regards defence integration of the two countries, no deployment of Russian troops in Belarus is expected. Military cooperation is aimed rather at enhanced interoperability and efficiency. Agreements envisaging military-industrial cooperation and joint defence procurement were signed in April 2000.

5. Relations with NATO and the EU

160. Belarus, unsurprisingly, does not consider the process of NATO enlargement a constructive approach. It takes the view that the military threat disappeared with the dissolution of the Warsaw Pact Organisation. Nevertheless, the at times excessive comments by Mr Lukashenko on this matter seem now to be a thing of the past. If Belarus presents a security risk for its neighbours and for the process of European integration, it is because of its return to authoritarian rule and absence of economic reforms. The *rapprochement* between the Euro-Atlantic community and Russia, NATO enlargement eastwards in 1999, the prospects of EU enlargement and the unfortunate experience of being too dependent on a single country are all factors which have contributed to a slight change in Belarus's position. Neither are the major economic opportunities offered by Europe a negligible factor. As Mr Khvostov says, "The European Union carries considerable political weight and represents a large and credible market which is also a source of modern technologies and investment resources"⁵⁰.

161. The relations between Belarus and the EU have been troublesome from the beginning. An initial dialogue started in 1992, but it soon became apparent that the EU and its member states did not consider Belarus a priority in their integration and enlargement process. They focused on nuclear disarmament, and in particular on the transfer of former Soviet nuclear weapons from Belarus to Russian territory. As a result of its poor progress with political and economic reform, Belarus was the last east European country to sign a partnership and cooperation agreement with the EU in 1995.

162. As a consequence of human rights violations by the Lukashenko regime and of the November 1996 referendum which turned out to be a constitutional *coup d'état* aimed at changing the democratic system of the 1994 constitution into an authoritarian presidential one, EU-Belarus relations deteriorated further.

163. In September 1997 the EU Council took a number of decisions which practically brought relations to a standstill. No work would be done on the PCA and the Interim Agreement on trade issues. There would be no support for Belarus' membership of the Council of Europe and its guest status in that organisation would be suspended. There would be no relations at ministerial level except with the EU Presidency or the *Troika*, and the parliament set up by President Lukashenko would not be recognised. The TACIS National Programme for Belarus was suspended, except for ongoing projects and programmes in support of democratisation.

164. The OSCE then intensified its efforts to help Belarus's return to democracy and other values it had to embrace if it was to participate in the process of European integration. Under heavy pressure from Russia, President Lukashenko agreed to the establishment of an OSCE Advisory and Monitoring Group (AMG) in Minsk, which began work in February 1998. This AMG is now involved in such activities as advice on new legislation, strengthening the political parties, stimulating a dialogue between the government and opposition, and in various other activities which are instrumental in achieving a return to democracy.

165. In 1999, realising that a policy of isolation would neither help solve the existing constitutional crisis nor bring about socio-economic change, the EU started a step-by-step policy which was linked to progress in the fields of democratisation and human rights. It also decided to introduce a new TACIS national programme for the year 2001.

166. Sadly, very little progress has been made since then. In February 2001, President Lukashenko signed an undemocratic electoral code, deliberately precluding dialogue and *rapprochement* between

⁵⁰ *Ibid*, page 46.

Belarus and the EU. The parliamentary elections of October 2000 were a farce and the election results another example of authoritarian manipulation. According to the Head of the OSCE mission in Minsk, there is very little likelihood of any meaningful enhancement of the functions of the parliament, for as long as there are only a very few independent members. The presidential election results in September 2001 left little hope for any rapid improvement in the present situation of deadlock.

6. Conclusion

167. In conclusion, it can be said that the most recent elections held in Belarus demonstrated that President Lukashenko's power is firmly entrenched and there is no real opposition. In light of the more moderate stance recently taken by Belarus politicians vis-à-vis the West, the improvement of Russia's relations with the West and the future position of Belarus as a state bordering on the European Union, the EU institutions will in all likelihood need to envisage a change of attitude to Belarus. It might be in Europe's interest to organise a systematic dialogue with the country, particularly in view of the fact that it stands at the crossroads between western Europe and Russia. Moreover, a critical dialogue with Belarus might contribute to the process of democratisation there.

168. It would seem therefore that timorous international reaction and the weakness of the opposition might provide an incentive for Europe to alleviate the country's isolation, while continuing to view Mr Lukashenko as an "unpredictable despot"⁵¹. The geographic position and political importance of Belarus, which would become the European Union's close neighbour following EU enlargement, are factors which are very difficult to ignore.

⁵¹ *International Affairs* 77,3 (2001), page 608.

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Addendum**3 December 2001***The parliamentary dialogue with Belarus***ADDENDUM***submitted by Mr Hancock, Rapporteur*

1. Earlier this year, the Presidents of both Chambers of the National Assembly of the Republic of Belarus invited a delegation of the WEU Assembly to visit Belarus as a first step towards establishing a constructive dialogue between members of the WEU Assembly and members of the National Assembly of the Republic of Belarus;
2. The Presidential Committee of the Assembly, after thorough discussion, accepted this invitation in principle and decided that a delegation would visit Belarus when the time was ripe. At the same time, it invited the Political Committee to submit a report on the situation in Belarus.
3. Your Rapporteur considers that Belarus still has a long way to go before becoming a fully developed democracy, but takes the view that a policy of isolating the country has proved ineffective and has not been conducive to change. He has come to the conclusion that Belarus is in favour of a policy of constructive dialogue with European institutions and is prepared to take further steps towards normalising relations. He also notes the national security of Belarus is closely linked to the common European security system and that dialogue among parliamentarians with experience in that area could make a vital contribution to the further development of an all-encompassing European Security and Defence Policy.
4. Your Rapporteur is therefore of the opinion that the time is ripe for the WEU Assembly to accept the invitation of the National Assembly of the Republic of Belarus, preferably in the spring of 2002, in order to examine the possibilities for a constructive dialogue between the WEU Assembly and the National Assembly of the Republic of Belarus.

DRAFT RECOMMENDATION

on new developments in Russia, Ukraine and Belarus

The Assembly,

- (i) Noting that under President Putin, the Russian government has actively embarked upon a vast programme of bringing a whole series of laws and practices into line with international standards and that international financial institutions and other organisations see this as a positive step, but at the same time recognising that despite this undeniable progress much remains to be done;
- (ii) Considering that following the tragic events of 11 September 2001, Russia has taken a number of foreign policy initiatives which offer the Euro-Atlantic community a historic chance to base its relations with that country on a completely new footing;
- (iii) Noting that Russia, while still considering the 1972 Anti-Ballistic Missile (ABM) Treaty to be an important factor for stability in the world, has shown its readiness to adapt the Treaty in order to allow the United States to implement a test programme deemed essential for developing a Missile Defence (MD);
- (iv) Aware that Russia is endeavouring to obtain agreement on major mutual reductions in US and Russian arsenals that would bring the number of nuclear warheads down to fewer than the 3 500 stipulated in the START 2 Agreement, which has not yet entered into force, while the United States also appears ready to make substantial reductions in its nuclear arsenal;
- (v) Aware that Russia is keen to gain recognition for its position as a bulwark against the spread of extremist Islamic movements into Europe;
- (vi) Welcoming Russia's recent decision to abandon the Lourdes signals intelligence base in Cuba and to give up its lease of the Cam Ranh Bay naval base in Vietnam as important signs of its determination to put the cold war behind it once and for all and build a new relationship with the United States;
- (vii) Considering that the energy partnership envisaged between the EU and Russia could make an important contribution to the EU's policy of diversifying its energy supplies while providing Russia with opportunities to improve the exploitation of its energy resources;
- (viii) Aware of Russia's objective of having a more visible role in European security arrangements which may go beyond NATO's geographic and treaty-based responsibilities;
- (ix) Considering that Europe and the United States will need to put forward imaginative proposals in response to Russia's bold new approach to international relations;
- (x) Considering that both the West and Russia will together have to make determined cooperative efforts to establish reliable and reassuring security arrangements for the Caucasus and Central Asia;
- (xi) Confirming the key role of a stable and independent Ukraine as a European partner for maintaining stability and security in the eastern part of Europe and of its importance for the peace and security of Europe as a whole;
- (xii) Noting, however, that the task NATO and the EU face of forging closer relations with Ukraine is being seriously hampered by the lack of progress in Ukraine on embracing essential values such as pluralist democracy, respect for the rule of law, free and open markets and press and political freedom;
- (xiii) Considering that it is a major task for the EU, together with the Council of Europe and the OSCE, to provide advice and training for Ukraine in order to help it develop a civil society, adopt effective laws and apply them properly;
- (xiv) Aware that Ukraine, despite its geographic location, with easy access to the Black Sea and borders with a number of Central European countries, remains very dependent on Russian markets for its economic development and that, at present, over 80% of its energy needs are met by Russia, inevitably making it prone to Russian political influence;

- (xv) Aware that a unified Russian-Belarusian state may never become a reality, but that for a number of practical reasons the 1999 Treaty on Creating the Union is likely to result in close cooperation between the two countries, in particular in the fields of finance and the economy, industry, defence and foreign policy;
- (xvi) Observing that the policy in recent years of isolating Belarus has not proved effective;
- (xvii) Considering that the September 2001 presidential elections, although fundamentally flawed, provided an opportunity for the emergence of political and social forces genuinely attached to democratic values and principles;
- (xviii) Considering that Belarus is bound to become a border state of the EU in the near future and that from Russia's point of view it is also the most important transit country to western Europe, these being compelling reasons for the EU to intensify its relations with Belarus;
- (xix) Noting that both Belarus and Ukraine, due to their economic and energy dependency, may inevitably need, for a time, to draw closer to Russia before eventually, with the help of the present more imaginative and courageous Russian leadership, finding their rightful place in the larger framework of Euro-Atlantic organisations;
- (xx) Considering that in view of Russia's stated objectives of strengthening its dialogue and cooperation with the EU on political and security issues, further developing the Russia-EU energy partnership and establishing a Common European Economic Space, both Belarus and Ukraine will have no choice other than to adopt a similar policy;
- (xxi) Welcoming the renewed and intensified cooperation in the NATO-Russia Permanent Joint Council in which both partners are committed to building a more solid partnership in the interests of security and stability in the Euro-Atlantic area;
- (xxii) Firmly in favour of the resolve being shown by both NATO and Russia to change the climate of their relationship and further extend their cooperation following the terrorist attacks of 11 September 2001 in New York and Washington;
- (xxiii) Dissatisfied with the Council's frivolous reply to paragraph 2 of Recommendation 677 and of the opinion that, in the light of foreign policy initiatives taken by President Putin after 11 September 2001, there is every reason to develop a serious dialogue with Russia to discuss policy and armaments cooperation which are issues of particular common interest and mutual value,

RECOMMENDS THAT THE COUNCIL

1. Together with the national armaments directors and WEAG, examine the scope for comparing Western European and Russian requirements for the next generation of defence equipment and opportunities for technological and industrial cooperation between Western Europe and Russia in development and production of new defence equipment, bearing in mind that the state of relations between Western Europe and Russia at the present juncture offers unprecedented chances for intensifying mutual dialogue and cooperation;
2. Request the EU to further intensify dialogue and cooperation with Russia on political and security issues and in particular on:
 - developments in Belarus, Moldova and Ukraine where both have a common interest in security, stability and economic development;
 - the situation in the Balkans where both may be required to share peacekeeping and other responsibilities if the United States, as a result of other security commitments, withdraws or reduces its troops deployed in Kosovo and Bosnia and Herzegovina;
 the situation in the Caucasus where a number of unresolved conflicts within and beyond the borders of Russia may further destabilise the region.

AMENDMENTS

AMENDMENT 1⁵²

tabled by Mr Clerfayt

1. At the end of the draft recommendation proper, add a new paragraph as follows:

“Ask the Council of Europe to intensify help given to Russia, and particularly to Ukraine and Belarus, in furthering human rights compliance and respect for democratic principles and practices.”

Signed: Clerfayt

AMENDMENT 2⁵³

tabled by Mr Atkinson and colleagues

2. At the end of the draft recommendation proper, add a new paragraph as follows:

“Ask that Russia be more proactive in insisting on autonomous solutions for the separatist situations in Moldova, Georgia and Azerbaijan.”

*Signed: Atkinson, Cox, Blaauw, Chapman
Hörster, Arnau Navarro*

⁵² See 9th sitting, 4 December 2001 (amendment not moved).

⁵³ See 9th sitting 4 December 2001 (amendment adopted).

