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Summary

The article gives an analysis of main elements of Russia's Baltic Sea policy under the Putin administration. It deals with the factors which explain Russia's regional activism and points out certain positive trends in Russia's relations with the Baltic States and in its approach towards the Kaliningrad exclave. The author warns against a risk of quick NATO enlargement to include the Baltic States while advocating a solution which would allow to take into account their security concerns without antagonizing Russia.

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Arkady Moshes

Russian Policy in the Baltic Sea Region in 2000-s: First Results and Future Prospects

Contents

Russian Policy in the Baltic Sea Region in 2000-s: First Results and Future Prospects	3
Introduction	3
Factors of Russia's Current Baltic Policy	4
Russia and the Baltic States	7
The Baltic Transit	10
Kaliningrad Issue	12
Instead of Conclusion: Risk Scenario and a Possible Way Out	13
Notes	16
Abstract	17

<i>Published by:</i>	<i>Den norske Atlanterhauskomiteé</i>
<i>Editor:</i>	<i>Kjetil Sørli</i>
<i>Printer:</i>	<i>Hegland Trykkeri AS, Flekkefjord</i>
<i>ISSN:</i>	<i>0802-6602</i>

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Russian Policy in the Baltic Sea Region in 2000-s: First Results and Future Prospects

by Arkady Moshes

Introduction

The beginning of the XXIst century makes the already topical issue of the Russian policy in the Baltic Sea region even more acute. In summer 2001 Russia is taking a year-long chairmanship in the Council of Baltic Sea States. This creates incentives for Moscow to pursue an active and innovative policy, aimed at Russia's gradual regional interaction. To use this chance is particularly important at the moment, when the process of EU enlargement starts rendering practical impact on adjacent Russia's territories, its exclave Kaliningrad in particular, and when the need to better coordinate regional (CBSS) and EU (Northern Dimension initiative) activities is becoming nearly an axiom for all parties concerned. On the other hand, the 2002 NATO summit in Prague is expected to decide upon the question of the Baltic States membership in the Alliance, to which Russia is traditionally hyper-sensitive and where its position is still diametrically different from that of the other Baltic Sea countries.

For a year that has passed since the Russian presidential elections of 2000, Moscow has been sending somewhat mixed signals with regard to the essence and main goals of its future Baltic Sea policy. In the beginning of his term in office, even before the inauguration, President-elect Vladimir Putin sent his very first address to the CBSS Prime-Ministerial meeting in Danish city of Kolding, in which he expressed Russia's readiness for cooperation in the spheres of energy, infrastructural development, environment, education, law enforcement and others, and emphasized the need to deepen security confidence between the Baltic Sea states¹. Later on the Putin administration undertook certain steps to shift accents in the policy towards the Baltic States in favour of larger pragmatism, tried to work out a more consistent approach towards the Kaliningrad problem. At the same time the Baltic/Nordic region, contrary to the tradition of its conceptual prioritizing in the previous years, did not receive even a mention in the new Russian Foreign Policy Concept of July 2000.

At the moment, notwithstanding the fact that cooperation between Russia and other Baltic Sea states is developing successfully, it is still not clear whether Russia's full-fledged regional integration will be eventually possible, or what was once called the Otherness of Russia will strongly persist in regional, as well as in all-European agenda.

This article aims to analyze briefly the first results of Russia's Baltic Sea policy under Putin, to look at some new features which undoubtedly appeared in its regional course, and warn against unnecessary risks for a Russia-inclusive region-building, which may result from a fast NATO Baltic enlargement.

Factors of Russia's Current Baltic Policy

Throughout the 1990-s the Baltic Sea region - although, admittedly, not each and every individual state - was perceived predominantly positively in Russia². The factors, that have shaped such an attitude, continued their influence on decision-making in the new decade as well, and this is a source of optimism with regard to the future.

Most importantly, the region-building around the Baltic Sea rim was aimed to prevent the emergence of new dividing lines (and not to move those existing further East). This paper cannot analyze in details why this happened. It suffices to mention among possible reasons diversity of cultural, historical, religious traditions and military-political orientations which made a definition of a critical belonging criteria, except for geography, difficult, and experience of genuine regional cooperation and good-neighbourliness in the North of Europe, partly including Russia. What, however, needs to be emphasized particularly, is the opportunity for Russia to participate in shaping the system, which is qualitatively different from trying to get admitted and adapt to the regulations of an already existing system (or organization) formed without Russia, let alone - against it. No surprise, therefore, was the full membership of Russia in the regional bodies, or a number of initiatives, put forward by Moscow in the regional format in the 1990-s.

As for the security aspect, as stated in the report of the Russian non-governmental Council on Foreign and Defence Policy (CFDP) "Russia's Interests in the North of Europe: What Are They?", the North West flank is considered to be most secure and stable (par. 6.2). This vision has resulted in a 40%-reduction of Russian armed forces in the area in 1997-98 that facilitated regional confidence-building.

Economic importance of the Baltic Sea region for Russia cannot be overestimated. Even if Germany, Russia's leading trade partner since mid-1990s, with the 13 bn USD of bilateral trade in 2000³, is left outside consideration, still the amount of trade with Nordic and Baltic countries will exceed USD 10 bn, which altogether will be higher than trade with any individual country in the world except Germany. The impact of economic cooperation inside the region is particularly obvious when the experiences of Russian Baltic administrative regions are looked into in details. Karelia, for example, due to its proximity to Finland, in relative terms has become one of Russia's leading exporters (70% of the republic's foreign trade) and has been successfully using Finnish assistance for its development (250 Finnish-Karelian

projects in 1994-2000 which received 80 m FIM)⁴. Kaliningrad, dependent by 80% on food imports from Poland, Lithuania and Germany, strengthens the argument in a different aspect.

The Baltic Sea region is the only area of direct contact between Russia and the European Union which stretches along 1300-km long Russian-Finnish border. In the present decade the line of contact will be continued southward of the Finnish Gulf. As long as the relationship with the EU is defined as that of "key importance" by the Russian Foreign Policy Concept, Union's regional instruments receive additional prioritization in Moscow. Henceforth followed a positive reaction to the EU Northern Dimension initiative.

Finally, the grass-root penetration of Russia into the region (business-to-business and people-to-people interaction) is taking place. Throughout at least the second half of the 1990-s, the annual number of border-crossings was about 4 million in each direction. In 1999, six out of eight top positions with respect to the number of most frequent visitors to Russia from non-CIS countries were held by the citizens of the Baltic Sea states, and four out of top six positions were taken by these states when it came to countries most frequently visited by Russians⁵. This process has enormously contributed to creation of security community in the region.

At the same time, it is not possible to overlook the appearance of at least two trends, which may add scepticism to Russia's approaches to the region. First, there is a certain general fatigue, in some cases - even frustration, related to the fact that Russia's best hopes in the region has not materialized. Most Russian initiatives did not meet proper understanding - partly because they were unrealistic, partly because they were Russian (as, for example, regional security guarantees to the Baltic States). Russian idea about "Baltic Schengen" - a visa-free travel in the region - faced the hard reality that very soon Russia would find itself to be the only country on the other side of the "visa curtain". Russian proposals of region-based security system as a part of all-European but as opposed to bloc-based were not seriously explored. Very much still remains to be done with regard to the situation with the Russian-speaking

non-citizens in Latvia and Estonia before Moscow finds it fully satisfactory.

Some words deserve to be said here concerning the future of the EU Northern Dimension initiative. This useful political concept in practical terms is taking off very slowly. It does not have a budget of its own, which would be best suitable to overcome the present institutional short-comings due to which the use of funds in Russian regions, bordering candidate countries, is not possible. It is not clear whether there will be a sufficiently strong constituency in the EU to push forward the ND agenda after the inertial effects of Finnish and Swedish presidencies are exhausted. And worst of all, in what concerns Russia, the focus of the initiative is still very much on energy issues. If it continues to be so (which in a way makes the ND redundant, as the USSR and Russia used to sell energy to Europe for decades before the initiative was launched) and fails to contribute to technological modernization of Russia, it will discourage rather than encourage Moscow to take an active part in the Northern Dimension⁶.

Second, there is a trend towards “re-securitization” of the regional agenda. This is connected to processes of non-regional origin, but nevertheless affects the general climate here. US plans for missile defence provoked strong Russia’s concerns with regard to deployment of a new radar in Norwegian Varde (and a possible inclusion of a station in Thule (Greenland) to the new US early-warning perimeter). However, the strongest challenge in this context is the forthcoming second wave of NATO enlargement which may include the Baltic States. This last factor, as will be shown below, threatens to undermine the progress in the regional developments, which otherwise would seem to be likely to continue.

Russia and the Baltic States

In 2000-2001 the improvement of Russia’s relations with all three Baltic States went on. Admittedly, this conclusion may be challenged on the ground that main problems of particularly Russian-Latvian and Russian-Estonian relations (absence of border treaties, disagreements on the citizenship issue)

have not been resolved. However, if one compares the present situation with at least 1998, when Moscow stopped one step short of imposing economic sanctions on Latvia, the evolution towards the better will become less contestable.

Moscow demonstrated its interest towards high-level political contacts with the Baltic capitals. In February 2001 a meeting between President Putin and his Latvian counterpart Vaira Vike-Freiberga took place in Austrian Alps, preceded by a visit of Latvian Foreign Minister Berzins to Russia. In March the Lithuanian President Adamkus paid a very successful official visit to Moscow. Estonia remains an exception in this list, however, Russia and Estonia in April 2001 initialled the text of a commercial and economic cooperation agreement which upon signing would lead to abolition of double customs duties that had been imposed on imports from Estonia - something that Tallinn was interested to achieve for many years.

It is too early to say whether these and some other facts indicate the beginning of re-thinking of Russian policy towards the Baltic States in general, but introduction of elements of more pragmatic course stands beyond doubts. Among the arguments, which could have influenced policy-making in Russia, there are the following. First, Russian society, willingly or unwillingly, is getting accustomed to the fact of Baltic non-belonging to post-Soviet space, to their return to Europe which will be codified once they become EU members. The need to manage problems of EU enlargement in a constructive manner requires not only trilateral, but also bilateral dialogue. Second, some problems of bilateral relations either get solved, like completion of the Russian troops withdrawal in 1998, or at least lose urgency - the border regime is working perfectly despite the absence of border treaties. There are changes in the general atmosphere even around the most conflict-prone issue of minorities linked to the end of re-patriation of Baltic residents to Russia. If in the pick 1992-1993 the number of repatriates annually reached about 25-27 thousand people from Latvia and Estonia and 15 thousand from Lithuania, in 1999 Russia received 2108, 987 and 852 people from these countries respectively⁷. This means, that the majority of the Baltic Russians has chosen

their fate to be together with the Balts which is gradually leading to adjustment of Russian policy as well. Third, cooperation, however limited, between law enforcement agencies and economic actors takes place in bilateral as well as the regional format, which also renders positive influence on the general situation.

The optimism, naturally, has to be cautious as long as further progress does not take place automatically. The agenda remains politicized on the Russian as well as on the Baltic side. The most characteristic examples in recent years, surprisingly for some, were given by Lithuania, which seems to have the best individual relationship with Russia from the three Baltic States. In 1999 the control over privatized Mazeikiai oil refinery was given by the authorities to the US company "Williams International" which had no crude oil of its own, while the bid of the Russian oil giant "Lukoil" was rejected. The decision was taken on non-economic grounds (indeed, the refinery suffered enormous economic losses from the need to buy crude oil on the world market to replace preferentially-priced purchases from Russia) while political - or even geopolitical - motivation prevailed. In 2000 the previous Lithuanian parliament adopted a legislation which required to claim a compensation from Russia to cover what was considered to be economic losses of the country in 1940-1991, estimated to be USD 20 bn. Needless to say, that these claims were unrealistic as long as it would require Moscow to recognize the fact of occupation which is now absolutely out of question for a number of reasons. The only result which could be brought about was re-triggering of an emotional and mutually unfriendly debate of the early 1990s, ranging from general interpretation of the Soviet period in Lithuanian history to debating legitimacy of present Lithuanian territory, which certainly would very much hinder the prospects for bilateral cooperation. However, Lithuanian conservatives, well aware of possible effects, nevertheless decided to use the issue as an electoral point which demonstrated that there was a number of people in the country who continued to fight the Soviet Union 10 years after it had ceased to exist.

Much in the bilateral relationships between Russia and the Baltic States will depend on two things. First, it is the dynamics of naturalization and political integration of Russian minorities which thus far has not provided grounds for eventual success. If the process does not accelerate compared to now (about 15,000 naturalized in Latvia in 2000 out of over 550,000 non-citizens), the issue will overburden the bilateral agenda for a long time, and furthermore, will one day become a point of contention in the EU-Russia relations. Second, it is the risk to provoke a strong Russian response across the spectrum by the revision of the role of those Balts who fought on the Nazi side in WWII which will be interpreted by Russians as an attempt to justify Nazi connection as freedom fighting.

The Baltic Transit

The beginning of construction of new and modernization of old Russian ports in the Finnish Gulf is one of the most important directions of Moscow's Baltic Sea policy under President Putin. The new Russian leadership made clear its views that the Baltic Pipeline System (BPS, in Russian - BTS) to export oil via own ports would have strategic importance for energy and transportation security of the country. Unlike the Yeltsin era, when there was a lobby in favour of the project, but its implementation was in doubt, under Putin practical work began.

It is planned that the first phase, including construction of the oil port at Primorsk (Leningrad *oblast*) and a pipeline Kirishi-Primorsk, as well as reconstruction of an existing pipeline from Yaroslavl to Kirishi, will be completed by the end of 2001. The costs are estimated to be USD 460 m. At that time Primorsk will be able to service exports of 12 m tons of oil, but later the through capacity may grow to 30 m. In addition, a port in Batareynaia Bay is planned to service 7,5 m (later 15 m) tons of oil products every year, and the oil terminal in Saint-Petersburg may handle in 2003-2004 another 12-15 m tons. A new port is being built in Ust-Luga with a through capacity of 35 m tons of general cargo, out of which 8 m tons of coal will be serviced

development of areas and industries involved, some of which without state orders are now in decline. It is also expected that within 20 years of operation, the BPS will bring over 100 m USD of federal and 300 m of local taxes. Second, in the short term, appearance of excessive transit capacities will lead to tougher competition among the ports in the Baltic Sea for Russian goods and, so, to lower tariffs, which will raise the income of exporters. Third, the argument, that the ports in the Baltic States are ice-free and, therefore, are able to offer much cheaper services, is not fully persuasive. The Saint-Petersburg port, which has become second in the Eastern Baltics after Latvian Ventspils and whose turnover is growing annually, proves that ice-breaker fees do not critically affect the overall costs - let alone the fact that the White Sea port of Arkhangelsk has been practicing a round-year navigation since 1972.

Neither stand criticism two other main arguments of the foreign opponents of the BPS, namely, 1) that it will negatively affect the Russians in the Baltic States, many of which are employed in the transit business, and 2) that BPS is not environmentally safe. The former statement can be true under certain circumstances, and if so, it would contradict those goals of Russian policy which are aimed at protection of compatriots abroad, however, every state has to care first and foremost of its own citizens and taxpayers rather of those of other states. As for the latter argument, the best counter statement would be not that BPS, according to multiple expertise, is in compliance with the Russian legislation on the issue, but that Finland revealed a strong interest towards the continuation of the system up to its own ports.

The possible decrease of Russian exports through the Baltic States raises their legitimate concerns. However, these may turn out to be premature. On the one hand, Russia is on the eve of massive oil exertion in the Timano-Pechera oil province, on the other, it is trying to position itself as a “new” transit state itself between Asia, both Far Eastern and Southern, and Europe. Kazakhstan, for example, has already started to use Russian Baltic infrastructure for its own oil exports. The final outcome will, therefore, depend on the

world oil prices. Should they remain high, the export is likely to increase, keeping both Russian and Baltic ports in the business. If, however, the prices go down and exports decrease, competition is likely to seriously diminish Baltic States transit incomes.

Kaliningrad Issue

By the moment of Russian presidential election of 2000 Kaliningrad had firmly occupied a strange position of “double periphery” - for both Moscow and Brussels. The latter, all its declarations notwithstanding, in 1991-2000 provided only 15 m Euro in terms of assistance to the oblast within the TACIS programme⁹, which was a bit more than 1 Euro per resident per year and could hardly form a financial backing for any consistent policy. Moscow, in turn, was for a long time preoccupied with how to ensure security of the exclave, which is the main base of the Baltic Fleet, rather than with its economic development.

As a result, in 2000 the average monthly salary in Kaliningrad was 55,4 US dollars, compared to 64,3 USD in Russia on average, 280,8 in neighbouring Lithuania and 429,9 in Poland¹⁰. The amber industry, the major potential source of income in the area, was in ruins and nearly all amber extracted smuggled out of the country. Fishing industry and ports were in decline. A lot of criminal activities were performed in the area, partly due to malfunctioning of the regime of special economic zone, providing for tariff and tax advantages for some good produced in Kaliningrad and imported to it.

The approaching EU enlargement is bringing new challenges to Kaliningrad, among which the most important would be perhaps the introduction of the Schengen visa regime and discontinuation of preferential treatment of the area residents by Poland and Lithuania. This would result in the need for Kaliningraders, many of which are involved into cross-border trade on a regular basis, to apply for visas even to visit their own country, mainland Russia, by land. After the enlargement, if the process would not be

properly managed in advance, the gap between Kaliningrad and its neighbours would become only wider.

Russia realized these risks rather early and at least in November 1999, in its medium-term Strategy of developing relations with the EU proposed, although without much specification, to make Kaliningrad a “pilot” region for cooperation. The Union did not respond quickly, but in the early 2001, thanks to a very large degree to the efforts of the Swedish presidency, the interaction between Brussels and Moscow was established, based on the recognition of the imperative to prevent deterioration of the situation in Kaliningrad after EU enlargement and facilitate its adaptation to enlargement effects.

In turn, Moscow in March 2001 adopted a concept of federal socio-economic policy towards Kaliningrad¹¹, aimed at creating conditions for sustainable development of the area, compensating its exclave situation, removing obstacles for cooperation with EU and Baltic Sea countries, but also ensuring military and information security of the area. Besides outlining a list of very specific measures with regard to transit and import tariffs, transport and port infrastructure, fisheries, energy supply etc., the concept takes seriously the risk of limitations to the freedom of movement for Kaliningraders after EU enlargement and proposes to have a reciprocally more liberal mutual regime of entry, exempt from Schengen, as well as to conclude a general Russia-EU treaty on the development of Kaliningrad as a region of mutual cooperation.

Instead of Conclusion: Risk Scenario and a Possible Way Out

The pragmatic developments in the Russian Baltic Sea policy, resulting from a prevalence of positive factors of decision-making, unfortunately, remain dependent upon whether next year NATO will embark on the new wave of enlargement, this time including the Baltic States. This is where the approaches of Russia are hardly reconcilable with those of other Baltic Sea states and, therefore, a crisis can be provoked. This should be clear to Western audience,

despite the realization in Russia of the fact that it had no veto power on this decision and Moscow's recognition of every state to choose its allies - and even more so since the latter formula is always accompanied with a caveat that the choice should not damage security of neighbours.

There exists an argument, according to which the problem for Russia is not the membership of the Baltic States in NATO, it is the entry. Later on the outbreak of a political conflict can be overcome, but its immediate effects threaten to break the progress in regional developments significantly.

It is hard to forecast which elements what is now called "an adequate response" will consist of. Possibly, there will be military actions including deployments of Russian troops in Belarus to ensure military security of Kaliningrad in the worst-case scenario, certain build-up in Kaliningrad itself, and strengthening of the Baltic Sea Fleet to protect the military transit to the area (since the land transit via Lithuania will be seen as vulnerable). There is a powerful lobby in Moscow, which will be able to make its voice heard if the Alliance comes militarily closer to Russia. Naturally, Russian deployment of this kind will need to be compensated by Polish, Lithuanian and possibly other countries counter-measures which altogether will mean an enormous step back from present level of security, and confidence-building in the region.

Also, exact negative effects for the business interaction are difficult to calculate both with regard to the Russian transit via the Baltic States and small businesses. However, it is clear that if general militarization of the area takes place, the business and investment climate will deteriorate. As a by-effect, the Baltic States EU membership may be delayed. As long as their security will be guaranteed, the Union will feel no need to interfere into then their very problematic relations with Russia. Additionally, even without a crisis, as it is now obvious, NATO membership did not accelerate, to say the least, EU membership of Central European countries.

NATO enlargement in the Baltics will produce a crisis in Russia-Europe relations which neither side is interested to have. This is unlikely to be a long

one in practical terms - Russia cannot afford a crisis in relations with the area where 40-50% of its trade goes - but, again, mutual trust will be very much in jeopardy.

From the author's point of view, a perfect solution, allowing to calm down security concerns of the Baltic States without simultaneously antagonizing Russia would be to enlarge the EU first while postponing Baltic expansion of NATO for another 5-7 years. The Baltic States under this scenario would remain NATO's closest outsiders.

The proposed option has very much to do with a psychological nature of the Russian resistance to the NATO expansion, and a little trust to this organization in the post-Kosovo world. Interestingly enough, that according to the poll, conducted in August 2000 by All-Russia Centre for Public Opinion Studies, 54% of respondents agreed that Russia had the reasons to be afraid of NATO countries (32% disagreed and 14% found it difficult to answer) while 54% of the same sample thought ("yes" and "rather yes than no") that Russia should strive to join the EU (25% answered "no" and "rather no than yes" and 21% found it difficult to answer)¹², notwithstanding the fact the membership of two grouping largely coincided.

Surely, the EU is unlikely to give the Baltic States the NATO article 5 type of guarantees in the foreseeable future, but it is equally clear that policy of pressure, let alone open threats to use force, are unthinkable when it comes to a member of the Union which in close future will hold a "control share" of Russian trade and as a whole will be seen as Russia's major partner in Europe. Furthermore, the EU enlargement first would facilitate the progress in Russia-Baltic relations by creating new opportunities for Russian businesses now active in the Baltic States to enlarge their activities in the Common Market, by expanding a lower, compared to those national, common external tariff to new member states, by including the issue of the Baltic transit to EU-Russia energy dialogue, by providing a chance to get more resources from Brussels to be spent together by new members and adjacent Russian territories and by altogether raising further the priority of Russia for the EU and viceversa.

The gains of the proposed way out are obvious for all interested. Not least, it could produce synergetic effect as far as regional developments around the Baltic Sea is concerned. Premature enlargement of NATO, on the contrary, would only focus the debate on counter-productive agenda of hard security and dividing lines.

Notes

¹ Diplomaticheski Vestnik, n. 5, 2000, p. 6.

² For more details, see A.Moshes, B.Nygren. Russia Looks at the Baltic Sea region. Foravarshogskolan, SI Serie R:2. Stockholm, 2000.

³ Customs statistics. Preliminary data. Bulletin of Foreign Commercial Information (BIKI), Febr. 27, 2001.

⁴ Nezavisimaia Gazeta, April 4, 2000.

⁵ Rossia v Tsifrakh (Russia in Figures). 1999. - Moscow, Goskomstat, 2000, pp. 136-137.

⁶ Russian position on this was clear from the outset. Speaking at the ND conference in Helsinki in November 1999, Russian Foreign Minister Igor Ivanov said: "We would like to deal seriously with modernization of our industry, agriculture, social and cultural sphere, conversion of defence industry... In other words, Russia's participation in the "Northern Dimension" will be the fuller, the more it will reflect our real needs". - Diplomaticheskyy Vestnik, n. 12, 1999, p. 9.

⁷ Rossia v Tsifrakh..., p. 72.

⁸ For more details see Baltiya - Trans-European Corridor to the XXI Century. CFDP Report, Moscow, 2000.

⁹ http://europa.eu.int/comm/external_relations/ceeca/news/ip_01_66.htm, visited Feb. 2, 2001.

¹⁰ Vremya Novostei, March 22, 2001.

¹¹ Published in Kommersant-daily, April 2, 2001.

¹² <http://polit.ru/documents/309976.html>, visited on Sept. 8, 2000.

Abstract

Russian Policy in the Baltic Sea Region in 2000-s: First Results and Future Prospects

1. At the moment the issue of the Russian policy in the Baltic Sea region becomes increasingly acute. In summer 2001 Russia is taking a year-long chairmanship in the Council of Baltic Sea States. This creates incentives for Moscow to pursue an active and innovative policy, aimed at Russia's gradual regional interaction. To use this chance is particularly important due to fact that the process of EU enlargement starts rendering practical impact on adjacent Russia's territories, its exclave Kaliningrad in particular. On the other hand, the 2002 NATO summit in Prague is expected to decide upon the question of the Baltic States membership in the Alliance, to which Russia is traditionally hyper-sensitive and where its position is still diametrically different from that of the other Baltic Sea countries.

2. Present Russian Baltic Sea policy is determined by two sets of factors. On the positive side one can find very good prospects for Russia's regional in-building, its full membership in the regional bodies and fora, providing for chances to shape the agenda, absence of security threats of the regional origin, economic importance of the area which includes Russia's leading trade partner Germany and traditionally important counter-agent Finland, the role of the Baltic Sea region as the only and enlarging area of direct contact with the EU, the interest and sometimes an imperative need for Russia's Baltic administrative units to develop cross-border relations, the actively on-going business-to-business and people-to-people interaction, all in all resulting in a positive perception of the region in general and facilitating the creation of a security community. Thus far, the positive evaluation has been prevailing in the Russian views of the region.

At the same time one should not overlook the appearance of trends that may add scepticism to Russia's approaches to the region. First, there is certain fatigue, for some - even frustration, connected to the fact that a

number of Russian initiatives in the region did not materialize for various reasons (particularly, on visa-free travel in the region, on building a regional security system as a part of all-European but as opposed to a bloc-based one). It can be added here that the EU Northern Dimension initiative in concrete terms is taking off very slowly and clarity is still absent whether it will be able to contribute to technological modernization of Russia. Second, there is a risk to “re-securitize” the regional agenda.

3. In Russia’s relations with the Baltic States a certain progress has become visible over the past year. This reflected Russia’s refocusing its policy towards larger pragmatism in general. An interest to high-level contacts has been renewed. Cooperation between businesses and law-enforcement agencies continued. Several agreements in the economic sphere can be expected to appear soon. At the same time the mentioned progress is not yet sustainable. Approaches on both sides remain over-politicized to the detriment of economic actors. In what Russia is concerned, much in the bilateral aspect will depend on the dynamics of naturalization and political integration of Russian-speaking minorities which thus far in Latvia and Estonia has been rather slow.

4. Under the Putin administration Russia has taken seriously the plans to create and modernize its own port infrastructure in the Finnish Gulf to service a part of Russia’s oil and gas exports. The first phases of the construction will be completed by the end of 2001. While in the West the project was largely considered through a geopolitical prism, in reality the rationale was to a large extent geoeconomic. A strong development, social and fiscal effect from the implementation of this large-scale undertaking is expected as well as advantages for exporters from lower tariffs resulting from tougher competition. In addition, Russia, on the one hand, is on the eve of massive oil exertion in the Northern oil provinces and, on the other, tries to position itself as a link in the Asia-Europe transit, which both require the increase of through capacities. Critically important for the transit through the ports in the Baltic States will be the level of world oil prices.

5. The situation around Russia Baltic exclave Kaliningrad has begun

to change. If a year ago Kaliningrad was a “double periphery” for both Moscow and Brussels, having its economy declining, by now the attention of these two actors have been attracted to the area. In the process of intensive dialogue between Russia and the EU, a general understanding of the need to manage the problem within the EU enlargement context has been reached. Many concrete solutions are still far away from being found, but the problems are relatively well-defined. Moscow seems to have made its choice to develop Kaliningrad as an area of special enhanced cooperation with the Union, which was made clear in a special concept, adopted in spring 2001.

6. At the moment the progress in Russian Baltic Sea policy, aimed at gradual regional integration of the country, is facing a major risk of quick NATO enlargement to take the Baltic States. If this happens, military counter-measures are highly likely to be undertaken by Russia to ensure military security of Kaliningrad and military transit to the area in the worst-case scenario, followed by similar actions of Poland and Lithuania, which will be an enormous step back from the present level of security and confidence-building in the region. Economic cooperation between Russia and the Baltic States will be impeded. A crisis in Russia-Europe relations can be provoked. Baltic EU membership can be delayed, as long as when Baltic States security will be guaranteed by NATO, the Union will feel no need to interfere into then their very problematic relations with Russia.

7. There seem to be a perfect solution, allowing to calm down security concerns of the Baltic States without simultaneously antagonizing Russia. The EU should be enlarged first while Baltic expansion of NATO should be postponed for another 5-7 years. The Baltic States under this scenario would remain NATO’s closest outsiders. But while short of the NATO article 5 type of guarantees, as EU members the Baltic States will receive all necessary de facto assurance against coercive policy, let alone open threats to use force. For any rationale government of Russia, which is implicitly or explicitly seen to be the only source of security concerns for the Balts, to go into clashes with a member of the Union, seen as Russia’s major partner in

Europe and controlling in near future over a half of Russian trade, will be unthinkable. Furthermore, the EU enlargement first would facilitate the progress in Russia-Baltic relations by creating new opportunities for Russian businesses in the Common Market, by including the issue of the Baltic transit to EU-Russia energy dialogue, by providing a chance to get more resources from Brussels to be spent together by new members and adjacent Russian territories and by altogether raising further the priority of Russia for the EU and viceversa.

The gains of the proposed way out are obvious for all interested. Not least, it could produce synergetic effect as far as regional developments around the Baltic Sea is concerned. Premature enlargement of NATO, on the contrary, would only focus the debate on counter-productive agenda of hard security and dividing lines.

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