



Russia's Role in the Balkans – Cause for Concern?

By David Clark and Dr Andrew Foxall

June 2014



Published in June 2014 by The Henry Jackson Society

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London WC2B 5PS

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www.henryjacksonsociety.org

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Front Cover Image: Welding first joint of Serbian section of South Stream gas pipeline © www.gazprom.com

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Executive Summary

Russian foreign policy has become more assertive and revisionist under the leadership of Vladimir Putin. One of the regions most directly affected by this is the Balkans, where there has been a significant increase in Russian influence over the last 15 years. Marginalised at the end of the Balkan wars of the 1990s, Russia has used its new financial power to achieve a large and growing presence in the energy, economic, political, diplomatic, military, and cultural affairs of the region.

While Russia has the same right as every other country to pursue its national interests, the goals and methods that define its approach in the Balkans pose a unique challenge to the democratic values and rules-based institutions of the European Union. Viewed from the perspective of the 'Putin Doctrine', the region is now a zone of competition between the 'Russian World' and a hostile West, in which Russia seeks not only to advance its own interests, but also to halt the spread of norms and relationships that provide an alternative to its authoritarian model of governance.

The EU needs to adopt a strategy towards the Balkans that reflects the common European interest, by promoting the norms and values that underpin the broader project of Euro-Atlantic integration (such a political pluralism, transparency, and the rule of law). Particular attention needs to be given to the standard of governance, the fight against corruption, the development of a competitive energy sector, and the pursuit of peaceful relations between states. The aim should be to guarantee the region's democratic progress and prevent the methods of 'Putinism' being imported into Europe via the back door.

Abbreviations / Acronyms

BND	Bundesnachrichtendienst
BTC	Baku-Tbilisi-Ceyhan
CFSP	Common Foreign and Security Policy
CIS	Commonwealth of Independent States
CSTO	Collective Security Treaty Organisation
DEPA	Dimosia Epichirisi Paroxis Aeriou
DPS	Democratic Party of Socialists
IMF	International Monetary Fund
INA	Industrija nafte
JANAF	Jadranski naftovod
KFOR	Kosovo Force
MOL	Magyar Olaj
NIS	Naftna Industrija Srbije
OSCE	Organization for Security and Co-operation in Europe
PCI	Projects of Common Interest
RISS	Russian Institute for Strategic Studies
SFOR	Stabilisation Force
SNS	Serbian Progressive Party

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Map 1: The Balkan region in its geographical context

1. Introduction

With the annexation of Crimea in March 2014 and the wider campaign to destabilise Ukraine since, Russia has become an openly revisionist power, seeking to redraw the borders and rewrite the rules of the post-Cold War settlement. Although the impact of this shift has been felt most immediately in Eurasia, where President Vladimir Putin is working to reintegrate the post-Soviet space under Russian leadership, his foreign-policy vision encompasses a broader set of objectives aimed at restoring Russia's 'great power' status at an international level.

Among the regions most directly affected by Moscow's new diplomatic assertiveness is the Balkans where Russia has invested considerable time and resources attempting to strengthen its influence in recent years. These efforts have met with visible success across a range of fronts. Russia's position as a dominant energy supplier has been entrenched through downstream-asset acquisitions and new bilateral partnerships. Rising trade and investment flows mean that Russia's economic weight in the Balkans is greater than at any point since 1991 – and Russia's networks of diplomatic and political influence have grown correspondingly. Marginalised during the Balkan wars of the 1990s, Russia is once again an important player in the region.

These developments mean that European policymakers need a better understanding of Russian strategy in the Balkans. Although Russia, like all countries, has every right to cultivate close and friendly relations with other countries in order to advance its national interests, it would be a mistake to see its activities as a mirror image of Europe's own diplomatic efforts. Russian leaders see the world – especially relations with the West – in zero-sum terms. They seek not only to promote their own interests, but also to weaken the interests of others, as part of a Hobbesian struggle for power. The tendency to see the European Union (EU) as a rival, which has become more pronounced during the crisis in Ukraine, means that Russian goals often conflict with the common European interest.

The purpose of this paper is to examine the objectives of Russian policy, the instruments being used to

strengthen Russian influence, and their implications both for the Balkans region and for Europe as a whole.¹ It begins by analysing Russia's foreign policy since 2000 and moves on to situate Russia's interest in the Balkans in this wider context. It then considers Russia's instruments of influence in the Balkans, through six dimensions: energy; economics; politics; diplomacy; military; and culture. The paper goes on to consider the consequences of Russia's influence, for both the Balkans and the EU, in the spheres of energy security, governance, foreign policy, and human rights. It concludes with some tentative policy recommendations aimed at limiting and mitigating the negative consequences of Russia's approach.

¹ There is much ambiguity as to what constitutes the Balkans. For the purposes of this paper, we define the region as the following countries: Bosnia-Herzegovina; Bulgaria; Croatia; Greece; Kosovo; Macedonia; Montenegro; Serbia; and Slovenia. We apply this selective definition because of the similarities in the instruments that Russia has employed to gain influence in these countries.

2. Background: Russian Foreign Policy Since 2000

Since 2000, Russian foreign policy has undergone a number of major shifts, corresponding to four distinct periods:² Vladimir Putin's 'Great Russia' strategy, based on state consolidation and pragmatic relations with the West, from 2000 to 2001; the anti-terror alliance with the West, from 9/11 to the start of the Iraq War in 2003; a mounting systemic crisis in relations with the West, accompanied by a greater willingness to test foreign-policy boundaries, from 2003 to 2013; and, finally, an open break with the West and a rejection of its norms, since the start of the Ukraine crisis.

Given the chaotic nature of the post-Soviet transition in Russia in the 1990s, the great majority of the Russian political elite by the year 2000 agreed that rebuilding Russia's national strength required a restoration of state power. Putin came to office with a commitment to strengthen the "power vertical",³ and initially pursued a foreign policy designed to further the goal of rebuilding a functioning state in Russia. Priority was given to the development of positive relations with Europe and key emerging nations, in order to maximise Russian economic growth.

After the terrorist attacks in the United States (US) on 11 September 2001, the context of Russia's relations with the West changed, as security issues became predominant. Russia initially supported the US in the 'War on Terror', in the expectation that there would be mutual benefits and recognition of Russia's strategic importance. Moscow shared the goal of ending Taliban rule in Afghanistan and calculated that concern about violent Islamism would give it a freer hand in Chechnya.⁴ Yet, there was also concern to limit any extension of US power that might result from the fight against al-Qaeda. Moscow was firmly of the opinion that US bases in Central Asia should

be temporary, and that intervention beyond Afghanistan be ruled out.

From 2003 onwards, the US-led war in Iraq and Western support for the "colour revolutions" in Georgia (2003), Ukraine (2004), and Kyrgyzstan (2005) gradually soured relations between Russia and its Western partners.⁵ In his 2007 speech to the Munich Security Conference, Putin claimed that the US had "overstepped its national borders" through the policies that it "imposes on other nations" in its effort to establish a "unipolar" world.⁶ Specific factors that contributed to the deterioration in relations included: the murder, in London, of the former Russian intelligence officer, Alexander Litvinenko (2006); Russia's war against Georgia (2008); the Russia-Ukraine gas disputes (2006 and 2009); Russia's support for the Assad regime in Syria (from late 2011); and Russia's decision to grant political asylum to the US whistle-blower, Edward Snowden (in 2013).

With the annexation of Crimea and the destabilisation of Ukraine from early 2013 onwards, Russian foreign policy has taken a further shift towards open confrontation with the international order. Continuities with Putin's early foreign policy remain, particularly the preoccupation with restoring national greatness; but, now the project is defined against the West, rather than in partnership with it. This 'Putin Doctrine' links themes of national salvation and great-power revivalism to a form of Russian exceptionalism in which the West plays the role of the hostile 'other'.⁷ Framed as a 'civilisational' struggle, the Balkans is becoming one of the principle arenas of foreign-policy competition.

² This argument builds on: Spechler, D. R. (2010) 'Russian Foreign Policy During the Putin Presidency: The Impact of Competing Approaches', *Problems of Post-Communism*, 57 (5). See also, De Haas, M. (2010) *Russia's foreign security policy in the 21st century: Putin, Medvedev and beyond* (Oxon, Routledge).

³ Selezneva, L. (2003) 'Post-Soviet Russian Foreign Policy: Between Doctrine and Pragmatism' in: Fawn, R. (ed) *Realignments in Russian Foreign Policy* (London, Frank Cass).

⁴ Russell, J. (2007) *Chechnya – Russia's 'War on Terror'* (London, Routledge).

⁵ Bugajski, J. (2009) *Dismantling the West: Russia's Atlantic Agenda* (Washington, D.C., Potomac Books).

⁶ 'Speech and the Following Discussion at the Munich Conference on Security Policy', *Kremlin*, 10 February 2007, available at: http://archive.kremlin.ru/eng/speeches/2007/02/10/0138_type82912type82914type82917type84779_118123.shtml.

⁷ Shevtsova, L. (2014) 'The Putin Doctrine: Myth, Provocation, Blackmail, or the Real Deal?', *The American Interest*, 14 April 2014, available at: <http://www.the-american-interest.com/articles/2014/04/14/the-putin-doctrine-myth-provocation-blackmail-or-the-real-deal/>.

3. Russian Interests in the Balkans

“The Balkan region is of great strategic importance to Russia, including its role as a major transportation and infrastructure hub used for supplying gas and oil to European countries.”

— Concept of the Foreign Policy of the Russian Federation, 2013⁸

Russia has pursued an active foreign policy in the Balkans since at least the late 18th century, when the borders of Russia's expanding empire first reached the Black Sea.⁹ At that time, its main strategic priority in the region was to secure access to the Mediterranean from the Black Sea, by weakening Ottoman control of the Straits (the Bosphorus and the Dardanelles). Sponsoring and supporting local rebellions against Ottoman rule among the Slav and Orthodox peoples of the Balkans, together with concerted diplomatic efforts, became one of the principal routes for advancing that interest.

A mix of strategic interests and ethno-cultural ties meant that Russia came to see itself, and be seen, as the natural protector of the independent states that were formed as the Ottoman Empire retreated during the middle of the 19th century. The importance of this historic role to Russia's sense of its own status as a great power, has been a recurring theme of its involvement in the Balkans ever since. In his 1914 manifesto announcing Russia's decision to go to war in defence of Serbia, Tsar Nicholas II made the connection between honour and status explicit:

Russia, related by faith and blood to the Slav peoples and faithful to her historical traditions, has never regarded their fates with indifference... Today it is not only the protection of a country related to us and unjustly attacked that must be accorded, but we must safeguard the honour, the dignity, and the

integrity of Russia and her position among the great powers.¹⁰

Russian influence in the Balkans declined in the Soviet era, particularly after the communist regimes in Yugoslavia and Albania split from Moscow (in 1948 and 1961, respectively). Soviet leaders based their claim to a leading role on the slogan of ‘proletarian internationalism’, rather than on faith or ethnicity,¹¹ although, it is worth noting that Bulgaria became the most loyal of the satellite states, even to the point of asking to join the Soviet Union in the 1970s.¹²

The end of communism brought renewed interest in Tsarist-era thinking in Russia, including the idea of a special Russian responsibility in the Balkans which was linked to notions of national greatness.¹³ This was behind much of the opposition to Western intervention in Bosnia-Herzegovina and Kosovo in the 1990s. The fact that the North Atlantic Treaty Organisation (NATO) was able to use force against a Slav Orthodox nation, Serbia, in the face of strong opposition from Moscow became a potent symbol of Russia's decline and an enduring source of resentment.

The tendency to emphasise ethnic and cultural factors has again become more pronounced with Vladimir Putin's decision to reframe Russian foreign policy as a ‘civilisational’ mission, drawing on Eurasianist and Slavophile currents of thought. Whereas Putin formerly stressed the commonality of European values, he now talks in terms of a clash of civilisations between ‘the Russian World’ and its allies on the one hand, and a hostile West bearing false and alien values on the other. He clearly sees the Balkans as an important battleground in this struggle, reinforcing his claim to a leading role in the region and his desire to

⁸ ‘Concept of the Foreign Policy of the Russian Federation’, *The Ministry of Foreign Affairs of the Russian Federation*, 12 February 2013, available at: http://www.mid.ru/brp_4.nsf/0/76389FEC168189ED44257B2E0039B16D.

⁹ In 1783, Russia annexed Crimea and Georgia came under Russian protection; see: Jelavich, B. (1991) *Russia's Balkan Entanglements, 1806-1914* (Cambridge: Cambridge University Press).

¹⁰ Headley, J. (2008) *Russia and the Balkans: Foreign Policy from Yeltsin to Putin*, p17 (London, Hurst).

¹¹ See, for example, Barghoorn, E.C. (1960) *The Soviet Cultural Offensive: The Role of Cultural Diplomacy in Soviet Foreign Policy* (New Jersey, Princeton University Press).

¹² Bideleux, R. and Jeffries, I. (2007) *The Balkans: A Post-Communist History* (London, Routledge).

¹³ Tsygankov, A.P. (2010) *Russia's Foreign Policy: Change and Continuity in National Identity* (Plymouth, Rowman & Littlefield).

counterbalance or disrupt its progress towards Euro-Atlantic integration.

While the ideological dimension now matters in a way that has not been true since the end of the Cold War, Russia also has more tangible reasons for regarding the Balkans as an area of strategic interest.¹⁴ This includes a growing commercial presence in the economies of several Balkan countries where Russia has benefited from privatisation programmes to become a significant investor and trading partner. Property ownership, tourism, and leisure provide essential linkages with the Russian elite.

One of the most important considerations for Russia is the role that the region plays in the European energy system. A growing energy market in its own right, the Balkans is also becoming increasingly important as a transit route to the rest of Europe. This is the case both for Russia in its efforts to bypass Ukraine (via the South Stream development) and for new suppliers in the Caspian basin hoping to bypass Russia – including the aborted Nabucco pipeline and the Baku-Tbilisi-Ceyhan (BTC) pipeline. The routing of new pipelines, and efforts to diversify supply, could help to make or break Russia's energy dominance; it is a contest that Russia intends to win.

Foreign- and security-policy priorities are obviously crucial. The most immediate is Russia's desire to secure a dominant position in the Black Sea, as part of its 'zone of privileged interests'. Six years ago, Russian Deputy Prime Minister, Dmitry Rogozin, warned:

Romanians, Bulgarians and all others around the Black Sea should be very careful about what they are doing and what they allow others to do in their waters.¹⁵

Another is the country's need to cultivate reliable allies willing to support its diplomatic positions in key international forums. The Balkan region has also become an important battleground in Russia's efforts to prevent the establishment of international norms deemed favourable to the West and to limit the encroachment of Western institutions.

The calculations that Russia makes in the Balkans are different from those applied elsewhere in the

post-Soviet space where Putin now sees EU integration as a threat to his own plans for a Russian-led Eurasian Union. For instance, enlargement of the EU in the Balkans is not actively opposed in the way that Association Agreements for Ukraine, Moldova, Georgia, and Armenia have been. Indeed, EU enlargement in the Balkans may even help Russia if the accession of friendly states inhibits the ability of the EU to adopt common positions that conflict with Russian interests. However, as Russia's ambassador to Serbia, Aleksandr Chepurin, has said, NATO expansion in the Balkans remains a "red line" for Moscow.¹⁶

¹⁴ See, for example, Fatić, A. (2010) 'A Strategy based on doubt: Russia courts Southeast Europe', *Contemporary Security Policy*, 31(3)

¹⁵ Tcherneva, V., 'Where does Russia's sphere of influence end?', *European Council on Foreign Relations*, 23 September 2008, available at: http://www.ecfr.eu/content/entry/commentary_tcherneva_where_does_russias_sphere_of_influence_end/.

¹⁶ 'Serbia's NATO membership – "red line for Russia"', *BETA and Tanjug*, 27 November 2013, available at: http://www.b92.net/eng/news/politics.php?yyyy=2013&mm=11&dd=27&nav_id=88482.

4. Russia's Instruments of Influence

If the Balkan wars of the 1990s exposed the limits of Russian influence under President Boris Yeltsin, the revival of Russian national power under Vladimir Putin – made possible by the boom in Russia's revenues from the sale of hydrocarbons – of the following decade has been accompanied by an active effort to increase the country's role in the Balkans across a broad range of areas. Attempts to promote closer relations have been most evident in countries with strong historic and cultural ties to Russia, like Serbia and Bulgaria; but, even in Croatia and Slovenia, Russia has been able to advance its interests and secure high-level political support for significant elements of its agenda.

The strength of Russia's approach is that it does not rely too heavily on a single policy instrument to achieve its goals; different instruments are combined and their mix is adapted to the requirements of each national market. It also emphasises soft power over hard power. Without a common border or a significant ethnic-Russian diaspora, the coercive tactics used in Georgia and Ukraine are not viable in the Balkans; so Russia has focused instead on initiatives designed to generate goodwill and create economic incentives at an elite level. The most important include the following:

i) Energy

Russia is, by far, the dominant oil and gas supplier in the Balkans, where all countries remain heavily dependent on imports to meet demand. In addition, Russian companies play a large and growing role in the region's downstream energy markets as owners of assets, partners in joint ventures, and developers of new infrastructure. These investments are designed to reduce competition and create local networks of financial interest that reinforce Russia's dominant position.

Private and state-owned Russian companies now enjoy a significant stake in the energy sectors of several Balkan countries and have probably benefited more than anyone else from the wave of

post-communist privatisations. Moreover, there is evidence of co-ordination, with the activities of different companies complementing each other – rather than forcing competition – across different sectors and geographical markets.

The two main pillars of *Gazprom's* strategy in the Balkans are the construction of the South Stream gas pipeline and its ownership of the Serbian energy giant, *Naftna Industrija Srbije* (NIS). South Stream is projected to supply the EU with 15% of its gas needs, via a pipeline under the Black Sea, by 2018. The overground sections of the pipeline will run from Bulgaria to Austria, through Serbia, Hungary and Slovenia, with spurs supplying Croatia and Republika Srpska along the way. The possibility of using South Stream to supply Montenegro and Macedonia has also been floated by Russia.¹⁷

When NIS was privatised in 2008, *Gazprom* acquired a majority stake in the company, without a tender, for a fee thought to be as little as a fifth of its market valuation.¹⁸ In addition to a monopoly of oil and gas production in Serbia (53 fields), NIS operates two oil refineries, one gas refinery, a major distribution network of terminals and depots, and 388 petrol stations located in Serbia, Bulgaria, Romania and Bosnia-Herzegovina – it has a 78% share of the Serbian market in oil products. Signing the deal, Putin said: “Our close political relations were today converted into economic results”.¹⁹ The terms of the agreement also included Russian promises to invest in new infrastructure in Serbia, including extra gas-storage capacity and the Serbian segment of South Stream.

Russia's energy relations with Bulgaria are also extensive. On 27 May 2014, a €3.5bn tender to build

¹⁷ ‘Russia attaches “great importance” to South Stream’, *Tanjung*, 12 July 2013, available at: http://www.b92.net/eng/news/business.php?yyyy=2013&mm=07&dd=12&nav_id=86924.

¹⁸ Filipovic, G., ‘Minister slams Russian grab for Serb oil monopoly’, *Reuters*, 28 December 2007, available at: <http://uk.reuters.com/article/2007/12/28/us-serbia-russia-nis-idUKL2852531920071228>.

¹⁹ Shchedrov, O. and Michael Stott, ‘Serbia signs strategic energy deal with Russia’, *Reuters*, 25 January 2008, available at: <http://uk.reuters.com/article/2008/01/25/uk-russia-serbia-idUKL2515142420080125>.

the Bulgarian section of South Stream was awarded to a consortium comprised of the Russian company, *Stroytransgaz*, and its Bulgarian partner, *Gasproekt Jug*.²⁰ Both *Stroytransgaz* and its owner, Gennady Timchenko (a close associate of Putin), have been blacklisted by the US under sanctions adopted following Russia's annexation of Crimea in March 2014.²¹ This illustrates the extent of Russian influence.²²

Private Russian companies favoured by the Kremlin also have a big presence in Bulgaria and beyond. Kirsan Ilyumzhinov, a Russian oligarch close to Putin, acquired a majority stake in Bulgaria's largest fuel distributor, *Petrol Holding*, in 2012. *Lukoil* – a private oil company run by another loyal oligarch, Vagit Alekperov – owns Bulgarian assets including the Burgas oil refinery (the largest in the Balkans) and a major oil-storage depot, giving it a 74% overall share of the Bulgarian wholesale market in oil products. *Lukoil* also owns the privatised Serbian oil distributor, *Beopetrol*, along with hundreds of filling stations across Bulgaria, Serbia, Montenegro, Macedonia and Croatia.

In Bosnia-Herzegovina, the Russian state-owned oil company, *Zarubezhneft*, again without a tender, has achieved a strategically significant presence in the oil sector through its presence in Republika Srpska, the Bosnian-Serb entity. It acquired the Rafinerija Nafta Brod oil refinery and the Modriča motor oil plant when they were privatised in 2007. These are the only two such facilities in Bosnia, both located in Republika Srpska. It also acquired the local retailer, *Nestro Petrol*, which now has a chain of 82 petrol stations and a 35% share of sales. In 2011, the government of Republika Srpska granted the *Zarubezhneft*–NIS joint venture, *Jadran-Naftagas*, a 28-year exclusive concession for the exploitation of oil and gas reserves on its territory.

Energy ties are also growing stronger with Croatia. In May 2011, *Zarubezhneft* and *Jadranski naftovod* (JANAF), the Croatian state-owned pipeline operator, signed a

Memorandum of Understanding on co-operation in the oil and gas sectors.²³ *Zarubezhneft* hopes to secure new oil- and gas-exploration contracts and has been lobbying for the construction of a new pipeline linking Omišalj port with its refinery in Republika Srpska and *Gazprom's* refineries in Serbia.²⁴ Following a change of government in December 2011, Croatian ministers successfully lobbied their Russian counterparts to be included in South Stream and have been discussing a range of other possible energy projects. *Gazprom* has offered to build a number of gas-fired power stations under joint ownership.

Perhaps most significantly of all, *Gazprom* and the Russian state oil company, *Rosneft*, are both known to be interested in acquiring the Croatian national energy company, *Industrija nafte* (INA), currently the subject of a dispute between its joint owners: the Croatian government and the Hungarian company, *Magyar Olaj* (MOL). *Rosneft* and the Croatian Minister of Economy, Ivan Vrdoljak, signed a joint statement of interest to invest in June 2013. The agreement established a working party to explore potential Russian investment in areas such as oil transportation and storage infrastructure.²⁵

Although Athens and Moscow talk regularly about increasing direct Russian involvement in the Greek energy sector, tentative plans to make that a reality have not yet come to fruition. The Greek government was keen to sell its state-owned gas company, *Dimosia Epichirisi Paroxis Aeriou* (DEPA), to *Gazprom*, in 2013; but the deal ultimately foundered over concerns about the state of the Greek economy and the impact of new EU competition rules. As the dominant gas supplier to Greece, Russia is able to vary its prices in exchange for political influence. In February 2014, Putin cut gas prices for Greece by 15% – in line with improving diplomatic relations – following a request from Antonis Samaras, the Greek Prime Minister.²⁶ The two governments have also been discussing the revival of two mothballed pipeline projects. The first is the extension of South Stream to Greece, which

²⁰ 'Stroytransgaz consortium to construct South Stream in Bulgaria', *Gazprom*, 27 May 2014, available at: <http://www.gazprom.com/press/news/2014/may/article192044/>.

²¹ 'Sanctions-hit businessman to build Russian pipeline in EU's Bulgaria', *AFP*, 27 May 2014, available at: http://www.business-standard.com/article/pti-stories/sanctions-hit-businessman-to-build-russian-pipeline-in-eu-114052701789_1.html.

²² It is worth noting, however, that, in early June, the Bulgarian government bowed to pressure from the European Commission and suspended construction on its section of the South Stream pipeline; see: Lough, J. (2014) 'The EU's Tough Gas Game with Russia', *Chatham House*, 12 June 2014, available at: http://www.chathamhouse.org/expert/comment/14874?dm_i=1TYG,2JF0,C8A42U,99RSQ,1.

²³ 'MOU Signed', *JANAF*, 20 May 2011, available at: <http://www.janaf.hr/mou-signed/#.U6BgRhZN20I>.

²⁴ Socor, V., 'Russian Oil Business Targeting EU's Entrant Croatia', *Eurasia Daily Monitor* 9.20 (2012), available at: http://www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=38942&no_cache=1#.U6BahxZN20I.

²⁵ 'Rosneft to explore opportunities in Croatia's energy sector', *SeeNews Power Market Review*, 21 June 2013, available at: <http://powermarket.seenews.com/news/rosneft-to-explore-opportunities-in-croatias-energy-sector-360803>.

²⁶ Stamouli, N., 'Greece Seals Deal for Lower Natural Gas Prices', *The Wall Street Journal*, 25 February 2014, available at: <http://online.wsj.com/news/articles/SB10001424052702303880604579405140644147098>.

Athens still wants; the second is the Burgas-Alexandroupoli oil pipeline that would allow Russia to overcome supply limitations imposed by the Straits. This project was cancelled by the previous centre-right government in Bulgaria, but is once again under active consideration.

ii) Economic

Non-energy trade and investment ties between Russia and the Balkans have also grown significantly since the 1990s and form an increasingly important part of Russia's overall strategy in the region. With the Eurozone pre-occupied by its own financial crisis, and the United States pivoting towards Asia, the countries of South-East Europe have become more open to offers of investment and financial support from other parts of the world. Along with China, Russia is seen as a major emerging economy with the financial resources and political will to play a significant role in the region's development.

Russia's state-owned *Sberbank* is now an important player in the Balkans following its €505m takeover of *Volksbank International* in 2011. Its first acquisition outside the Commonwealth of Independent States (CIS), and part of a broader plan to become a major global financial institution, *Volksbank International* has given *Sberbank* 295 branches and a client base of over 600,000 across several countries, including Serbia, Croatia, Slovenia and Bosnia-Herzegovina. In Croatia, *Sberbank* is aiming to expand its corporate-lending operations; in December, it gave a €150m loan to state-owned motorway operator *Hrvatske Autoceste*, to finance its business plans for 2014-15, and, more recently, it refinanced Croatia's biggest food producer and retailer, *Agrokor*, with a loan of €600m.

Russia's 'ruble diplomacy' has also featured as part of its developing strategic partnership with Serbia. The Serbian government has been in talks with *Sberbank* about a special funding programme for its farming sector, as well as initiatives to boost exports to Russia – through support for Serbia's *Export Credit and Insurance Agency*.²⁷ In 2012-13, the Russian government agreed to bail out the Serbian economy to the tune of \$1bn. Within the framework of the partnership, Serbia is said to be talking to Russia about possible investment in 71

projects, with an estimated value of \$7bn.²⁸ One project already underway is the 2013 agreement between the Russian and Serbian state railway companies to modernise the Serbian rail network and buy new Russian-made rolling stock. The project is underwritten with an \$800m loan from Russia.²⁹

A similar relationship is being forged with Republika Srpska where the government is negotiating a €270m loan from Russia that will allow the entity to cover its deficit without the need to renew its existing International Monetary Fund (IMF) loan – the government of Republika Srpska is objecting to the political and legislative requirements specified by the IMF.³⁰ Russia's economic presence in the entity is said to have increased by 40% in 2013, the centrepiece of which is *Zarubezhneft's* €750m expansion of the Brod oil refinery.

A May 2014 article in *Der Spiegel* magazine claimed that the German federal intelligence service, the Bundesnachrichtendienst (BND), has reported concerns about Russia's increasing economic influence over Bulgaria and the risk that Moscow will use it to foster divisions within the EU. According to the article:

One third of [Bulgaria's] economic output is either directly or indirectly controlled by Moscow, the German reports indicate. Bulgaria's governing coalition – of the Bulgarian Socialist Party and the Movement for Rights and Freedoms party, which represents the country's Turkish minority – is considered closely aligned with Moscow. It includes an illustrious group of former Communist Party members, intelligence service [sic] workers and Bulgarian oligarchs who do business with Russian President Vladimir Putin's minions.³¹

Of all the countries in the region, the one in which Russia has arguably the biggest stake is Montenegro. According to the *German Institute for International and*

²⁷ 'Sberbank to offer "greater support" to Serbian economy', *Tanjug*, 15 May 2013, available at: http://www.b92.net/eng/news/business.php?yyyy=2013&mm=05&dd=15&nav_id=86182.

²⁸ Pivovarenko, A., 'Modern Russia in the Modern Balkans: Soft Power through Investment', *Russian International Affairs Council*, 23 May 2014, available at: http://russiancouncil.ru/en/inner/?id_4=3744#top.

²⁹ 'Russian specialists getting down to modernization of Serbia's railways', *ITAR-TASS News Agency*, 25 March 2014, available at: <http://en.itar-tass.com/economy/725152>.

³⁰ Jukic, E., 'Bosnian Serbs Seek Russian Loan to Replace IMF', *BIRN*, 3 April 2014, available at: <http://www.balkaninsight.com/en/article/russian-credit-to-replace-the-imf-in-republika-srpska>.

³¹ Traufetter, G., 'In the Kremlin's Grip: Fears Grow Over Bulgaria's Russian Dependence', *Der Spiegel*, 12 May 2014, available at: <http://www.spiegel.de/international/europe/fears-grow-in-europe-that-russia-will-influence-bulgaria-a-968955.html>.

Security Affairs, Russia is Montenegro's largest inward investor, with as much as 32% of enterprises under Russian ownership. Most of these investments are concentrated in real estate, tourism and leisure with wealthy Russians attracted by the opportunities of visa-free travel and low tax rates. With around a third of all tourists coming from Russia, this represents a source of economic dependency which the Russian authorities have sought to exploit. Ending visa-free travel is one of the measures that Moscow has threatened if Montenegro moves too far in following Western sanctions over Crimea.³²

Over recent years, crisis-hit Greece has made extensive efforts to attract Russian business and investment. Antonis Samaras, the Greek Prime Minister, has spoken to Putin about the possibility that the Russian state rail operator, *Russian Railways*, might take over its Greek counterpart, the *Hellenic Railways Organisation*, as well as the *Thessaloniki Port Authority*, when both are privatised. In addition, the Greek government has adapted its immigration rules, to give long-term visas to Russians who acquire property in the country. Tourism flows from Russia have increased substantially as a result, with 1.4 million visiting in 2013 (an increase of 46% on the previous year). These links appear to be having an impact on Greece's foreign-policy debate: 14 business organisations lobbied the Greek government to oppose EU sanctions against Russia in April 2014.³³

iii) Political

Russia is developing close political ties based on shared ideological and cultural affinities in at least five Balkans countries – Serbia, Bulgaria, Bosnia-Herzegovina (Republika Srpska), Montenegro, and Greece – where influential forces are active in advocating pro-Russian positions on major policy issues. Russia's political allies in the region include parties of the populist and nationalist right, as well as elements of the post-communist left. The most visible expression of Russia's strategy to build political alliances is the formal inter-party agreement between Putin's United Russia party and the ruling Serbian Progressive Party (SNS) of President Tomislav Nikolić.

The SNS, which came to power in 2012, was formed by a faction of the Serbian Radical Party, a far-right movement that supported Slobodan Milošević in the 1990s and whose paramilitary units were involved in ethnic cleansing during the Bosnian War. Although formally pro-EU, the SNS' ideological positions closely resemble the tenets of 'sovereign democracy' articulated by United Russia, with its emphasis on statism, social conservatism, hostility to NATO, support for the principles of and non-interference (by the West) in foreign affairs and the defence of national sovereignty.³⁴ This closeness is reflected in the inter-party agreement and a number of President Nikolić's statements: on a visit to Russia, in 2012, shortly after he became President, Nikolić told Putin: "We love you in Serbia".³⁵

The political leadership of Republika Srpska has also aligned itself publicly with Putin, following the ejection of its ruling Alliance of Independent Social Democrats from *Socialist International* in 2011 (for advocating extreme nationalism). The region's President, Milorad Dodik, has attended United Russia's congress as a fraternal guest and has spoken of his personal admiration for Putin. Dodik pursues a strongly pro-Russian foreign policy, vowing to block Bosnia-Herzegovina's accession to NATO and offering public support for Russia's annexation of Crimea.³⁶

Similar fraternal links have developed between United Russia and the main governing party in Greece, New Democracy. The party's leader, Antonis Samaras, visited Russia as a guest of United Russia, shortly before becoming Prime Minister in 2012. At an official Kremlin reception, Samaras said: "We want to rekindle the historic relations that have always existed between Greece and Russia", before thanking his hosts "for the friendship that we once again ascertain exists between our peoples and also between the political representatives of the two countries and the New Democracy and ruling United Russia parties";³⁷ Putin's press spokesman described United Russia and New Democracy as "brother"

³⁴ See: Sakwa, R. (2010) *The Crisis of Russian Democracy: The Dual State, Factionalism and the Medvedev Succession* (Cambridge, Cambridge University Press).

³⁵ 'Russia's Putin tones down Serb rivalries', *EurActiv.com*, 29 May 2012, available at: <http://www.euractiv.com/enlargement/putin-tones-serbian-rivalries-news-513005>.

³⁶ 'Ukrainian embassy "surprised" by Dodik's pro-Russian stance', *Tanjug*, 6 March 2014, available at: http://www.b92.net/eng/news/region.php?yyyy=2014&mm=03&dd=06&nav_id=89544.

³⁷ 'Samaras in Moscow, Holds Meeting with Ivanov', *Hellas Frappe*, 25 January 2012, available at: <http://picfrappe.wordpress.com/2012/01/25/samaras-in-moscow-holds-meeting-with-ivanov/>.

³² 'Montenegrin Foreign Minister: Montenegro can be a Reliable Friend of Russia', *independent.mk*, 25 April 2014, available at: <http://www.independent.mk/articles/4300/Montenegrin+Foreign+Minister+Montenegro+can+be+a+Reliable+Friend+of+Russia>.

³³ 'Greek export, tourist companies oppose economic sanctions against Russia', *The Voice of Russia*, 2 April 2014, available at: http://voiceofrussia.com/news/2014_04_02/Greek-export-tourist-companies-oppose-economic-sanctions-against-Russia-7675/.

parties.³⁸ On the left, the leader of the opposition SYRIZA party, Alexis Tsipras, visited Moscow in May 2014, where he was outspoken in support of Russia's position on Ukraine and against the imposition of EU sanctions.³⁹

Support for Russia in Bulgaria is most vocally provided by the Ataka Party, which takes pro-Russian positions on NATO and Crimea and whose leader, Volen Siderov, attacks Bulgaria's Euro-Atlantic orientation: "This shy attitude towards Russia in recent years is the result hypocrisy and brownnosing [sic] regarding American ambitions for geopolitical hegemony".⁴⁰ Ataka has close links to the Russian Embassy in Sofia, and there have been persistent rumours that it is covertly funded by Russia.⁴¹ Reflecting the closeness of its relationship with the Kremlin, the party even launched its 2014 EU parliamentary-elections campaign in Moscow.⁴² It currently holds the balance of power in the Bulgarian Parliament and threatened to bring down the government if it backed deeper EU sanctions against Russia.

Influential factions of the ruling Bulgarian Socialist Party, the direct successor to the old Communist Party, retain strong pro-Russian sympathies. One leading Socialist parliamentarian, Nikolay Malinov, responded to the annexation of Crimea by saying:

I'd like to congratulate all Orthodox Slavs around the world on winning the Third Crimean War and remind them that the Balkans come next. I reckon all Russophiles around this table may congratulate [themselves].⁴³

Socialist Foreign Minister, Kristian Vigenin, was severely criticised by MPs from his own party for visiting Kiev to meet the Ukrainian interim government after the ousting of Viktor Yanukovich.⁴⁴

Montenegro's ruling party, the Democratic Party of Socialists (DPS), and its leader, Prime Minister Milo Đukanović, are routinely represented – by Russian nationalists – as collaborationist and pro-Western, for leading Montenegro's secession from Yugoslavia and for supporting membership of the EU and NATO.⁴⁵ Russia-friendly positions, such as opposition to NATO membership, are instead advocated by the opposition Socialist People's Party, which grew out of the pro-Milošević wing of the DPS and opposed the split with Yugoslavia.

Another Montenegrin opposition party representing the ethnic-Serb minority, New Serb Democracy, advocates reunion with Serbia and also opposes NATO membership. It has strong ties to the Serbian Progressive Party and shares its foreign-policy outlook. The party's leader, Andrija Mandić, supported Russia's invasion of Georgia in August 2008, claiming that "[d]efense of vital Russian national interests in South Ossetia explicitly shows that the existence of a single center of power is coming to an end, the center that has primarily worked for those who are at the top".⁴⁶

iv) Diplomatic

Russia maintains an active and assertive diplomatic presence across the Balkans, with its representatives often expressing sharp disapproval of policies that conflict with Russian interests. Influence is used to advance Russian objectives (such as limiting the further expansion of NATO in the region and winning support for its positions within international organisations, including the EU).

The focal point of Russia's diplomatic strategy in the Balkans is its 'strategic partnership' with Serbia, signed in May 2013. This establishes co-operation across an expanding range of fields, including international affairs, security policy, law enforcement, economic development, trade, culture, science, technology and education. Significantly, it provides for foreign-policy co-ordination in international bodies – including the United Nations (UN), the Organization for Security and Co-operation in Europe (OSCE), and the Council of Europe – where Serbia's voting record is often aligned with Russia's. Serbia is one of only a handful

³⁸ 'Samaras meeting with Putin in a good climate', *Capital.gr*, 27 January 2012, available at: <http://english.capital.gr/News.asp?id=1392853>.

³⁹ Gilson, G., 'Tsipras blasts EU's Ukraine policy in Moscow', *EnetEnglish.gr*, 13 May 2014, available at: <http://www.enetenglish.gr/?i=news.en.article&id=1920>.

⁴⁰ 'Nationalist Chief: Bulgaria, Russia Are Like Father and Son', *Novinite.com*, 24 August 2013, available at: <http://www.novinite.com/articles/153104/Nationalist+Chief%3A+Bulgaria,+Russia+Are+Like+Father+and+Son>.

⁴¹ Orenstein, M.A., 'Putin's Western Allies', *Foreign Affairs*, 25 March 2014, available at: <http://www.foreignaffairs.com/articles/141067/mitchell-a-orenstein/putins-western-allies>.

⁴² 'ATAKA launched its election campaign in Moscow', *ATAKA*, 25 April 2014, available at: http://www.ataka.bg/en/index.php?option=com_content&task=view&id=330&Itemid=1.

⁴³ Bechev, D., 'Will Bulgaria take Russia's side?', *European Council on Foreign Relations*, 19 March 2014, available at: http://www.ecfr.eu/blog/entry/will_bulgaria_take_russias_side.

⁴⁴ 'Bulgarian Socialists Query Minister's Ukraine Visit', *Novinite.com*, 6 March 2014, available at: <http://www.balkaninsight.com/en/article/bulgarian-socialists-query-minister-s-ukraine-visit>.

⁴⁵ Tomovic, D., 'Russia Slams Djukanovic over Ukraine Statements', *BIRN*, 15 April 2014, available at: <http://www.balkaninsight.com/en/article/russia-slams-djukanovic-over-ukraine-statements>.

⁴⁶ '08PODGORICA215, TFGG-1: Mandic heats up on Georgia, dominates Montenegrin', *Wikileaks*, 21 August 2008, available at: <http://wikileaks.org/cable/2008/08/08PODGORICA215.html>.

of countries to have joined Russia in opposing UN resolutions reaffirming Georgia's territorial integrity since the Russo-Georgian war of 2008; it also failed to take part in the UN vote condemning Russia's annexation of Crimea, in March 2014.

The Greek Prime Minister, Antonis Samaras, has also described his country's relations with Russia as a "strategic partnership".⁴⁷ Bilateral ties were formalised in the 1993 Treaty on Friendship and Cooperation, but cooled in 2009 after the Socialist government of George Papandreou adopted an active policy of energy diversification.⁴⁸ Relations have improved since New Democracy returned as the lead coalition partner in 2012. The two countries share common positions on issues like the future of Cyprus, territorial issues relating to the Aegean Sea, and the status of Kosovo. Greece, during its EU Presidency, has recently championed proposals for EU-wide, visa-free travel for Russians and has sought to limit sanctions against Russia over Ukraine.⁴⁹

Russian resentment at Bulgaria's decision to join NATO has often expressed itself aggressively; but relations have improved since the change of government in 2013. Bulgaria's new Socialist leadership treads a careful public line between the country's EU/NATO commitments and the party's Russophile instincts. While formally supporting the EU position on Crimea, it has, in practice, used its seat in Brussels to limit measures against Russia, with party leader Sergei Stanishev saying: "I see no grounds to impose economic sanctions against Russia".⁵⁰ Russia has certainly found the Socialist coalition more amenable than its centre-right predecessor on issues like the legal framework for South Stream and the revival of the Belene nuclear-power project with *Rusatom*. Indeed, European Commission President José Manuel Barroso has complained that there are "people in Bulgaria who are agents of Russia".⁵¹

Official diplomatic channels are supplemented by informal exchanges between foreign-policy elites, facilitated by think tanks and NGOs. One of the most important is the *Russian Institute for Strategic Studies* (RISS), which enjoys official presidential patronage and funding thanks to a 2009 decree.⁵² RISS publishes materials, organises meetings and, in 2013, opened an office in Belgrade, Serbia, in addition to retaining a presence in Sofia, Bulgaria. Its Director is Leonid Reshetnikov, a Balkans expert and former senior officer in the Soviet and Russian foreign-intelligence services. In late 2013, he launched a stinging attack on the Serbian Energy Minister, Zorana Mihajlovič, accusing her of attempting to undermine bilateral co-operation on South Stream.⁵³ She was moved to different Ministerial post in the next reshuffle.

v) Military

Although Russia has not had a direct military role in the Balkans since the withdrawal of its troops from the NATO-led Stabilisation Force (SFOR) and Kosovo Force (KFOR) in 2003, its ambitions in the region still have a military dimension. Since Greece, Bulgaria, Croatia, Slovenia and Albania have already joined NATO, the priority objective is to prevent Montenegro, Bosnia-Herzegovina and Macedonia converting their Membership Action Plans into full membership. However, proactive defence objectives – including possible future military deployments – remain of interest. Plans to upgrade the Black Sea Fleet include the addition of six new frigates, six new submarines, and an amphibious assault ship. This could give Russia a naval presence larger than the fleets of all the other Black Sea nations combined.⁵⁴ The seizure of Crimea and the revival of the Mediterranean Squadron (in 2013) have already altered the regional balance of military power in Russia's favour.⁵⁵

The Montenegrin government is believed to have rebuffed a request by Russia to establish a naval base

⁴⁷ 'Lavrov visits Greece, talks bilateral relations, NATO, Syria', *ITAR-TASS News Agency*, 30 October 2013, available at: <http://en.itar-tass.com/russia/706217>.

⁴⁸ Olenchenko, V. and Yuri Kvashnin, 'Current Status and Possible Ways to Improve Russian-Greek Relations', *Russian International Affairs Council*, 21 February 2014, available at: http://russiancouncil.ru/en/inner/?id_4=3170#top.

⁴⁹ Dabilis, A., 'Venizelos Wants EU To Relent on Russia', *Greek Reporter*, 6 March 2014, available at: <http://greece.greekreporter.com/2014/03/06/venizelos-wants-eu-to-relent-on-russia/>.

⁵⁰ 'No grounds for sanctions against Russia – Bulgarian politician', *The Voice of Russia*, 27 April 2014, available at: http://voiceofrussia.com/news/2014_04_27/No-grounds-for-sanctions-against-Russia-Bulgarian-politician-2197/.

⁵¹ Evans-Pritchard, A., 'Russia's South Stream pipeline in deep freeze as EU tightens sanctions noose', *The Telegraph*, 7 April 2014, available at: <http://www.telegraph.co.uk/finance/newsbysector/energy/oilandgas/10750840/Russias-South-Stream-pipeline-in-deep-freeze-as-EU-tightens-sanctions-noose.html>.

⁵² Kononova, A. and Kornilov, A. (2014) 'The Russian Institute of Strategic Studies: The Organizational Dimension', *Bilge Strateji* 6.10 (2014), available at: http://www.bilgesam.org/Images/Dokumanlar/0-116-2014042136y3_the_russian_institute_of_strategic_studies.pdf.

⁵³ Spaic, T., 'Nikolic uncomfortable with Putin because of the Minister', *Blic*, 7 November 2013, available at: <http://english.blic.rs/News/10011/Nikolic-uncomfortable-with-Putin-because-of-the-Minister>.

⁵⁴ Klus, A., 'The New Strategic Reality in the Black Sea', *New Eastern Europe*, 22 April 2014, available at: <http://www.neweasterneurope.eu/articles-and-commentary/1197-the-new-strategic-reality-in-the-black-sea>.

⁵⁵ Vasilenko, S., 'Russia to create Mediterranean fleet to protect Syria', *Pravda.ru*, 12 June 2013, available at: http://english.pravda.ru/russia/politics/12-06-2013/124816-russia_mediterranean_fleet-0/.

at Tivar as a replacement for the possible loss of naval facilities in Syria.⁵⁶

Russia has had more success with Serbia, though. In 2011, the two countries established a 'regional humanitarian centre' based in the Serbian city of Niš, designed to allow a rapid response in the event of a natural disaster or other humanitarian emergency. Both governments have rejected accusations that the facility is intended to pave the way for the establishment of a military base.⁵⁷ In addition, in 2013, Serbia took observer status in the Collective Security Treaty Organisation (CSTO), the six-member multilateral defence pact set up by Russia in 1992 as a rival to NATO. Later the same year, in November 2013, Russia and Serbia signed an extensive 15-year bilateral defence-co-operation agreement covering areas such as training, personnel exchanges, joint exercises, procurement, arms sales and intelligence sharing.⁵⁸ The document was described as a framework agreement paving the way for more detailed discussions in each area. One outcome of the agreement is expected to be Serbia's purchase of advanced MiG-29 combat aircraft at a discounted rate.

Despite being a member of NATO, Greece is the other country in the region that maintains strong military ties with Russia. The armed forces of the two countries carry out joint-training exercises and take part in each other's military parades. Greece has also imported significant amounts of Russian weaponry since 1998, including the advanced S-300 surface-to-air missile.⁵⁹ Most recently, in 2013, Greece and Russia signed a bilateral defence agreement covering training, personnel exchanges, and military-technical cooperation.⁶⁰ The agreement is expected to cover the maintenance and upgrading of existing Russian weaponry used by the Greek armed forces, as well as new procurement. Russia hopes that the agreement will pave the way for new

procedures which will make it easier for the Russian Navy to use Greek ports.

vi) Cultural

Russia has an extensive programme of cultural and public diplomacy in the Balkans. The main body responsible for organising these activities is the *Russkiy Mir* ('Russian World') *Foundation*, established on Putin's initiative – by Presidential decree – in 2007. The *Russkiy Mir Foundation* runs an international network of Russia Centres, including three in Bulgaria, two in Serbia, and one a piece in Greece, Slovenia, Montenegro, and Republika Srpska. These mainly run Russian-language courses and cultural programmes, but also organise events explaining Russia's position on current political developments.

Another important strand of cultural diplomacy is undertaken by the Russian Orthodox Church, working closely with the Foreign Ministry. One of its main aims outside Russia is to foster Slav Orthodox unity at an international level, through its NGO: the *International Foundation for the Unity of Orthodox Christian Nations*. The Foundation's mission statement calls for the "[a]ctive participation of [the] All-Orthodox community in [the] enlargement and extension of the ties between Slavic nations and nations of [the] Eastern Christian area[...] in the spheres of spiritual life, culture, science and economy."⁶¹

One of the Foundation's activities is an annual prize awarded for "outstanding activity on strengthening unity [between] Orthodox Christian nations. For consolidating and developing [...] Christian values in the life of society".⁶² A recipient in 2013 was Milorad Dodik, who accepted the prize "as President of the Republika Srpska whose people feel sincere love for Russia".⁶³ Church leaders reinforce the message of Orthodox unity through a programme of foreign visits: Patriarch Kirill had meetings with the President and Prime Minister of Greece during an official visit in 2013.

The desire for Orthodox unity does not always take such a benign form. The Serb Orthodox Metropolitan

⁵⁶ 'Government refuses Russia's request to set up a military base in Montenegro', *Independent Balkan News Agency*, 20 December 2013, available at: <http://www.balkan.eu.com/government-refuses-russias-request-set-military-base-montenegro/>.

⁵⁷ 'Russia opens "humanitarian" base in Serbia', *EurActiv.com*, 18 October 2011, available at: <http://www.euractiv.com/enlargement/russia-opens-humanitarian-base-s-news-508382>.

⁵⁸ Russia has also obtained the use of an air base in Cyprus; see: 'Cyprus allows Russian air forces to use Paphos airbase – media', *The Voice of Russia*, 11 January 2014, available at: http://voiceofrussia.com/news/2014_01_11/Cyprus-allows-Russian-air-forces-to-use-Paphos-airbase-media-8842/.

⁵⁹ 'Greece buys Russian infantry fighting vehicles', *RIA Novosti*, 10 December 2007, available at: <http://en.ria.ru/analysis/20071210/91684719.html>.

⁶⁰ 'Russia, Greece Sign Defense Cooperation Deal', *RIA Novosti*, 4 December 2013, available at: http://en.ria.ru/military_news/20131204/185242450/Russia-Greece-Sign-Defense-Cooperation-Deal.html.

⁶¹ 'International Foundation for the Unity of Orthodox Christian Nations', *International Foundation for the Unity of Orthodox Christian Nations*, available at: <http://www.ifuocn.com/en/>.

⁶² *Ibid.*

⁶³ 'Patriarch Kirill Leads the 14th Ceremony of Awarding Prizes of Unity of Orthodox Nations International Foundation', *Patriarchal Press Service* and *DECR Communication Service*, 12 March 2014, available at: <https://mospat.ru/en/2014/03/12/news99411/>.

of Montenegro, Amfilohije, used his office to attack the Montenegrin government's decision to support the EU's stance on Crimea:

'May he who is not [...] loyal to the same-language, same-blood Russia, have the living flesh fall off him, may he be cursed thrice, and 3,000 times by me.' This is what St. Peter of Cetinje left to his Montenegrins, and it would be good if the current Prime Minister of Montenegro read these words at a time when he, for the first time in history, introduced sanctions against Russia.⁶⁴

⁶⁴ 'Montenegrin PM blasted over Russia policy', *BETA*, 29 April 2014, available at: http://www.b92.net/eng/news/region.php?yyyy=2014&mm=04&dd=29&nav_id=90152.

5. Consequences for the Balkans and the EU

Many of the aims and methods of Russian foreign policy in the Balkans fall within the rubric of normal and legitimate diplomatic activity. Every country seeks to expand trade, build alliances, promote its culture, and win support for its foreign-policy positions; but, there are also areas where Russia's activities in the region conflict directly with the norms and values that underpin Euro-Atlantic integration – such as transparency, the rule of law, open markets, sovereign equality, democracy, and human rights. The areas of greatest risk are energy security, governance, foreign policy, and regional security.

i) Energy Security

Significant energy-security concerns are raised by the construction of South Stream. The most remarkable fact about this €56bn project is that it will bring no new gas to the European market; Russia already has more than enough pipeline capacity to meet its European export needs – 250bcm annually, compared to actual exports in 2013 of 161.5bcm.⁶⁵ As Gerhard Roiss, the CEO of *Gazprom's* Austrian partner, *OMV*, has openly conceded:

It is not about importing more gas, but about the fact that gas could be transported to Europe [by] bypassing Ukraine.⁶⁶

The main purpose of South Stream is to facilitate Ukraine's exclusion from the European gas-transit network in order to further its subordination to Russia. Transit rights have been among Ukraine's few points of leverage in negotiations with Russia since the break-up of the Soviet Union.

A second important objective of South Stream is to strengthen Russian energy dominance in the Balkans

itself. Rates of dependence on Russian gas in the region are already high – Bulgaria, 83.3%; Serbia, 90%; Slovenia, 60.2%; Greece, 55.6%; Romania's dependence is lower (24.3%), but accounts for all of its imports – and tentative efforts to diversify supply have been made; but the prospect of South Stream has already killed off the rival Nabucco-West pipeline that would have brought gas from Azerbaijan to those Balkan countries most heavily dependent on *Gazprom*. That gas will now go to Italy via the Trans Adriatic Pipeline, instead. By maintaining its position as the dominant gas provider in the Balkans, Russia will find it easier to leverage access and price in exchange for political influence.

As well as undermining agreed EU goals of supporting the sovereignty of Ukraine and diversifying energy supplies, South Stream also challenges a third set of priorities: new competition rules contained in EU's Third Energy Package, which are designed to end monopolistic practices (by forcing pipeline operators to allow access to third-party suppliers). Russia has lobbied for *Gazprom's* pipelines to be exempt from the Third Energy Package, and the Bulgarian Parliament recently passed a law designating South Stream a “gas grid interconnection”, rather than a pipeline, in a bid to circumvent the rules.⁶⁷ Documents subsequently emerged suggesting that the legislative change was drafted by *Gazprom*.⁶⁸

The European Commission is not impressed. It has declared the intergovernmental agreement signed between Russia and its six European partners in South Stream to be incompatible with EU competition law. It is also looking into whether the awarding of contracts for the construction of South Stream, to Bulgarian and Russian firms, violated EU

⁶⁵ Umbach, F., 'Russia's pipeline expansion in stagnating market', *World Review*, 8 October 2013, available at: <http://www.worldreview.info/content/russias-pipeline-expansion-stagnating-market>.

⁶⁶ Assenova, M., 'South Stream: Bypassing Ukraine and Dividing the EU', *Eurasia Daily Monitor* 11.83 (2014), available at: http://www.jamestown.org/single/?tx_ttnews%5Bsword%5D=8fd5893941d69d0be3f378576261ac3e&tx_ttnews%5Bany_of_the_words%5D=Balkans&tx_ttnews%5Btt_news%5D=42315&tx_ttnews%5BbackPid%5D=7&cHash=015bf1d8e096694343c6bd06b3512276#.U3DRsF5N0YU.

⁶⁷ MacDowall, A., 'The South Stream “pipeline” and Bulgarian syntactical gymnastics', *The Financial Times*, 28 April 2014, available at: <http://blogs.ft.com/beyond-brics/2014/04/28/the-south-stream-pipeline-and-bulgarian-syntactical-gymnastics/>.

⁶⁸ 'Amendments to the Bulgarian Energy Act Pushed by Gazprom, Evidence Suggests', *Publics.bg*, 9 May 2014, available at: http://www.publics.bg/en/news/11140/Amendments_to_the_Bulgarian_Energy_Act_Pushed_by_Gazprom_Evidence_Suggests.html.

procurement rules. Commission President José Manuel Barroso has threatened to bring infringement proceedings against Bulgaria in the European Court of Justice. The European Parliament has also passed a resolution opposing South Stream.⁶⁹ The Bulgarian government has currently suspended work on South Stream, pending agreement on a way forward and early parliamentary elections have been called for the autumn of 2014 after the ethnic-Turkish Movement for Rights and Freedoms withdrew from the coalition in opposition to the government's handling of the project.

Russia's overtures to Croatia also have to be seen in the same context. The proposal to build an LNG terminal on the Croatian island of Krk is one of the most promising means of diversifying gas supply in the region following the demise of Nabucco-West. As a result, Russia's willingness to build a spur from South Stream into Croatia, with excess capacity, is one way of it trying to compete against and reduce the commercial attractiveness of the LNG option. The interest of Russia's two state-owned energy giants, *Gazprom* and *Rosneft*, in acquiring a controlling stake in INA, Croatia's privatised national energy champion, may also be intended to stymie the project.

Concerns are also rising about Russia's increased involvement in the European oil sector. A recent draft of the EU's new energy-security strategy identifies "the increased concentration of power in the Russian oil industry, and the increased ownership of Russian oil companies in the EU refinery capacity" as potential sources of vulnerability.⁷⁰ That vulnerability would increase dramatically if Russia succeeded in putting its plans for the Adria oil pipeline back on the agenda. At the moment, this pipeline is able to supply five countries in Central and South-East Europe from a terminal at Omišalj, on the Croatian coast. Russia wants to reverse the flow of Adria and connect it to its own Druzhba pipeline. This would turn a European import route into a Russian export route, significantly reducing the region's supply options.

ii) Governance

Exposure to Russian political practices and business methods creates the risk of what the British Foreign Secretary, William Hague, has called the "creeping oligarchisation" of the Balkans, including in countries that are already part of the EU.⁷¹ To the extent that 'Putinism' provides a model that regional elites seek to emulate, it does so at the expense of the standards of openness and democracy set out in the EU's Copenhagen Criteria. In a system of shared sovereignty, like the EU, questions of governance in candidate and member countries alike have to be a matter of common interest.

Concerns that Serbia's close diplomatic alignment with Russia could have a spill-over effect on its domestic governance seem to be justified. One of the most significant problems identified by the European Parliament relates to provisions in Serbia's criminal code, carried over from the communist era, that give the authorities broad scope to selectively prosecute business owners for "abuse of office" through engaging in profit-making commercial activities that are perfectly legal in any normal market economy.⁷² It is alleged that cases brought under these provisions are often acts of political and commercial score-settling in the interests of the ruling elite and its business allies.

Serbia's approach seems to mirror the Russia practice of 'reiderstvo'⁷³ in which the legal system is misused by public officials to seize or intimidate legitimate businesses. Recent amendments to the Criminal Code, prompted by EU criticism, have failed to address the problem. Despite the fact that the new Article 234 is meant to apply only to "unlawful material gain", almost all of the cases brought under the old code have been carried forward as if nothing has changed. The most prominent case concerns Miroslav Mišković, Serbia's largest employer, who was charged and detained for seven months for making a profit on a loan that had been approved by the National Bank of Serbia. The total number of

69 'P7_TA-PROV(2014)0457: European Parliament resolution of 17 April 2014 on Russian pressure on Eastern Partnership countries and in particular destabilisation of eastern Ukraine (2014/2699(RSP))', *The European Parliament*, 17 April 2014, available at: <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2014-0457+0+DOC+XML+V0//EN&language=EN>.

70 'Exclusive: EU energy report pushes CEE infrastructure', *Monitor Global Outlook*, 27 May 2014, available at: <http://monitorglobaloutlook.com/news-story/exclusive-cu-energy-report-pushes-cee-infrastructure/>.

71 Oliver, C. and Kiran Stacey, 'William Hague warns against "creeping oligarchisation" of Balkans', *The Financial Times*, 15 April 2014, available at: <http://www.ft.com/cms/s/0/aa455136-c4b1-11e3-8dd4-00144feabdc0.html>.

72 'P7_TA(2012)0114: European Parliament resolution on the European integration process of Serbia (2011/2886(RSP))', *The European Parliament*, 20 March 2012, available at: <http://www.europarl.europa.eu/sides/getDoc.do?type=MOTION&reference=B7-2012-0188&language=EN>.

73 See: Hanson, P. (2014) *Reiderstvo: Asset-Grabbing in Russia* (London, Chatham House).

business people targeted under Article 234 is said to be as high as 3,000.⁷⁴

Additional concerns relate to Russia's increasingly dominant role in the region's energy sector and the risk that strategically important assets will be acquired and managed in a non-transparent manner according to political and financial favouritism rather than commercial principles. The European Commission is already looking into contracts worth €3.5bn, awarded by Bulgaria under the South Stream project. Leaked US Government cables claimed that, during the last period of Socialist government, the Bulgarian energy sector was controlled by a narrow "energy mafia" with close links to Russia; they also raised questions about corruption relating to several projects, including the Belene nuclear-power station.⁷⁵ Concerns are likely to resurface now that a revival of the Belene project is under consideration.

Another case that has prompted questions is the Croatian government's behaviour towards the Hungarian energy company, MOL, part-owner of Croatia's largest energy company, INA. MOL's acquisition of a controlling stake in INA, five years after its 2003 privatisation, was badly received by elements of the Croatian political establishment, despite being approved by the competition authorities in Zagreb and Brussels. The company then experienced what it claims was an official campaign aimed at disrupting its operations in Croatia, including the use of administrative obstructionism, arbitrary tax demands, and judicial intimidation.⁷⁶ The Croatian authorities even issued a European arrest warrant against MOL's Chairman and Chief Executive, Zsolt Hernádi, in October 2013, on allegations that he had bribed the former Croatian Prime Minister, Ivo Sanader. The extradition request was declined after a Hungarian court found the allegations to be baseless.

As with some of the cases against business people in Serbia, the Croatian government's actions against MOL contain some disturbing echoes of the Russian government's campaign against selected business

interests. The use of prejudicial tax audits and the laying of criminal charges as instruments of executive policy are particularly reminiscent of the *Yukos* case. This raises many of the same issues about property rights and the rule of law, this time within an EU member state. The widespread assumption is that the Croatian government wants to force MOL to sell its stake in INA; but, since the government is in no position to buy MOL's shares, and since *Rosneft* and *Gazprom* are the only foreign companies that have expressed an interest in acquiring INA, it looks like Russia could be the ultimate beneficiary. Indeed, Croatia's Economy Minister, Ivan Vrdoljak, confirmed that he had held talks with both *Rosneft* and *Gazprom* about the future of INA in March 2014.⁷⁷

iii) Foreign Policy

Russian influence in the Balkans already complicates the EU's ability to develop common external policies, especially when it comes to energy security and tackling illegitimate Russian foreign-policy behaviour. Russia's Ambassador to the EU, Vladimir Chizhov, once described Bulgaria as a "Trojan horse" for Moscow's interests in Brussels;⁷⁸ this belief appears to have some basis after strong pro-Russian influences within the ruling Bulgarian Socialist Party made the country one of the most reluctant member states to consider serious sanctions against Russia following the annexation of Crimea. Even Slovenia, not traditionally a Russophone country, has resisted deeper sanctions as it courts closer economic ties with Russia.⁷⁹

These problems risk being amplified if Serbia joins the EU with its current foreign-policy alignment as a loyal ally and strategic partner of Russia. Shortly before becoming President, Tomislav Nikolić said that he wanted to make Serbia the "backbone of Russia in Europe".⁸⁰ He has delivered on his promise to support Russian interests, by refusing to honour Serbia's obligation – as an EU candidate – to adopt the Common Foreign and Security Policy (specifically,

⁷⁴ Forrester, I., 'Letter: Doing business in Serbia is alarmingly uncertain', *The Financial Times*, 12 March 2014, available at: <http://www.ft.com/cms/s/0/d0d6ad7e-a880-11e3-a946-00144feab7de.html#axzz34zFRs76i>.

⁷⁵ '2011-05-01 WikiLeaks: Russian Blackmail and Energy Mafia Surround Russian Energy Projects in Bulgaria', *WL Central*, 1 May 2011, available at: <http://wlcetral.org/node/1722>.

⁷⁶ Ayat, K., 'Croatia vs MOL', *Natural Gas Europe*, 8 May 2014, available at: <http://www.naturalgaseurope.com/tension-croatia-mol-ina-privatization-act>.

⁷⁷ 'Economy minister confirms talks with Rosneft, Gazprom Neft on INA', *dalje.com*, 14 March 2014, available at: <http://dalje.com/en-croatia/economy-minister-confirms-talks-with-rosneft-gazprom-neft-on-ina/502745>.

⁷⁸ Vogel, T., 'Moscow missionary', *European Voice*, 30 October 2007, available at: <http://www.europeanvoice.com/article/imported/moscow-missionary/58586.aspx>.

⁷⁹ 'Slovenian FM visits Russia to push for economic ties', *Xinhua News Agency*, 29 May 2014, available at: <http://www.globalpost.com/dispatch/news/xinhua-news-agency/140529/slovenian-fm-visits-russia-push-economic-ties>.

⁸⁰ Bojic, Z., 'We want Serbia as a supporter of Russia in the EU', *Serbian Progressive Party*, 12 March 2012, available at: <http://www.sns.org.rs/en/novosti/vesti/we-want-serbia-supporter-russia-eu>.

both the sanctions measures agreed in Brussels and the collective EU decision to support Ukraine's territorial integrity at the UN). The leadership of Republika Srpska followed suit by using its veto to prevent Bosnia-Herzegovina from implementing the EU measures.⁸¹

In April 2014, Serbian Foreign Minister Ivica Dačić explained his government's stance as follows:

Serbia will never join any kind of sanctions against Russia because it is not only a friendly country, an economic and political partner, but a country that never introduced sanctions against Serbia.⁸²

Given the broad and apparently unlimited nature of this support for Russia, it is clear that the EU has a significant problem that will need to be dealt with before Serbia's accession can be considered realistic. Although Serbia claims to be a neutral country, the policy of the current government means that it cannot, for the moment, be relied upon to put Europe's common interests before those of Russia.

iv) Regional Security

Russia's lurch towards ethnic irredentism has obvious implications for a region recently scarred by ethnic division and conflict. In the worst case scenario, ambitions for a Greater Russia – expressed, by Putin, as a right to return lands populated by ethnic Russians to the Motherland, by force – could reignite demands for a Greater Serbia. Certainly, the myth of a nation unjustly divided – in Russia's case, by the “geopolitical disaster” of the Soviet Union's collapse⁸³ – could be an equally potent theme for Serbian nationalists seeking to exploit popular discontent. The risk that Serbia might be tempted to copy Russia's approach would rise if closer military ties between the two countries encouraged the belief that Moscow might actively back Belgrade in any future conflict.

Croatia, Montenegro, and Kosovo could all be threatened by a revived Greater Serb nationalism; but, concern is focused most immediately on Bosnia-

Herzegovina, where Russia has used its influence to support the most separatist interpretation of the 1995 Dayton Agreement (by blocking efforts to reintegrate the country). At a minimum, it seeks to use continued division as a tool to prevent the federal government in Sarajevo from aligning with the West and joining NATO. However, the suspicion remains that the option of Republika Srpska's secession and possible union with Serbia is being deliberately kept open.

81 “Serbs won't let Bosnia join sanctions against Russia”, *Tanjug*, 26 March 2014, available at: http://www.b92.net/eng/news/region.php?yyyy=2014&mm=03&dd=26&nav_id=89781.

82 “Serbia will never join sanctions against Russia”, *BETA* and *Blic*, 30 April 2014, available at: http://www.b92.net/eng/news/politics.php?yyyy=2014&mm=04&dd=30&nav_id=90153.

83 “Annual Address to the Federal Assembly of the Russian Federation”, *Kremlin*, 25 April 2005, available at: http://archive.kremlin.ru/eng/speeches/2005/04/25/2031_type70029type82912_87086.shtml.

6. Policy Recommendations

In considering the implications of Russia's growing influence in the Balkans, the EU and its member states need an active policy response, to stop the region becoming a source of geopolitical rivalry and to prevent the methods of 'Putinism' being imported into Europe via the back door. Existing approaches fail to take account of the scale and sophistication of Russia's strategy, or the extent to which it consciously aims to undermine agreed EU objectives across a wide range of policy areas.

While Russia's annexation of Crimea undoubtedly represents a return to a 19th- or 20th-century form of power politics, its policy towards the Balkans is more modern and nuanced in recognising the importance of soft power.⁸⁴ This makes it all the more important for European policymakers to understand Russia's approach in the region. Although, when framing common external policies, the EU often makes value judgements about the behaviour of third countries, those judgements are rarely reflected in the way that the EU adapts its internal policies. It therefore has no real defence against large and powerful countries that seek to exploit the EU's relative openness by turning it into a source of vulnerability.

Another risk concerns the enlargement process and whether new member states and candidate countries share the political outlook and standards of governance required of EU membership. Specific areas where the EU should consider adapting and strengthening its policy framework, in order to mitigate these risks, include the following:

i) There should be enhanced scrutiny of energy deals involving third countries to ensure full compliance with European law. The temptation to reach a back-room political deal with the Bulgarian government over South Stream, for example, should be firmly resisted. EU regulations also need to be adapted to take account of the way in which Russia 'instrumentalises' finance and investment to serve political goals. State-owned enterprises such as *Gazprom*, *Rosneft*, *Zarubezhneft*, and *Sberbank* need to be

treated as a single entity – the Russian state – for the purposes of EU competition policy. Even the activities of private companies closely linked to the Kremlin, like *Lukoil*, should be scrutinised, to ensure that they behave commercially rather than politically. Making this change would reveal the extent to which Russia has secured a grip on the Balkans' oil-refining capacity, for example. It would also have implications for a potential *Rosneft / Gazprom* takeover of INA.

ii) The EU should apply a common-interest test for all future transnational energy projects.

At the moment, the EU's role in approving new energy projects is limited to ensuring compliance with competition rules and environmental standards; it has no real authority to ensure that they meet other important, strategic objectives agreed by EU heads of government, like contributing to the security and diversification of the European energy supply. This is the main reason why South Stream was able to squeeze out Nabucco-West. The European Commission has designated 248 energy projects as Projects of Common Interest (PCI); it also needs to be clearer about which projects do not serve the common interest and be much more proactive in mobilising political pressure within the European Council to ensure that PCIs are given priority. The Krk LNG project, for example, must not be allowed to share the fate of Nabucco-West.

iii) Enforcement of the Copenhagen Criteria needs to be made more rigorous, stipulating the standards of governance and other conditions of membership, for all existing EU member states and candidates in the region. Formal democratic standards, in the sense of holding free and fair multi-party elections, are high, but many of the underpinnings that define a functioning democracy, such as the rule of law, judicial independence and the lack of corruption, are sometimes lacking. The growth of opaque networks of power and money, often linked to Russian interests, are at the heart of concerns about the "creeping oligarchisation" of the Balkans.⁸⁵ Areas

⁸⁴ On 'soft power', see: Nye, J. (2004) *Soft power: the means to success in world politics* (USA, public Affairs).

⁸⁵ Oliver, C. and Kiran Stacey, 'William Hague warns against "creeping oligarchisation" of Balkans', *The Financial Times*, 15 April 2014, available at: <http://www.ft.com/cms/s/0/aa455136-c4b1-11e3-8dd4-00144feabdc0.html>.

of scrutiny should include the Bulgarian and Croatian energy sectors. Early and sustained attention also needs to be given to concerns about the rule of law, as part of Serbia's accession negotiations.

iv) The requirement for EU applicants to align their foreign policies with the EU's Common Foreign and Security Policy (CFSP) should be strengthened and clarified. The absence of clear benchmarks means that Serbia, for example, has been able to break with the European consensus over Crimea without consequence. The requirement should be for applicant countries to implement the CFSP, in full, for a specified period of perhaps five years prior to joining. Repeated failure should be met with a firm response, including the suspension of accession negotiations for a fixed period. More generally, the EU should give consideration to the adoption of **a new test for EU applicants based on their willingness to uphold the common European interest.**

v) All democratic political parties in EU member and candidate countries should be encouraged to sever political ties with United Russia. United Russia is an instrument of authoritarian control and should not be accorded the status of a legitimate democratic party. Its members in the Russian parliament have been among the most vocal advocates of aggression against Ukraine and of measures to persecute Russia's gay community. Groups like the European People's Party and the Party of European Socialists should include a ban on formal relations with United Russia, in their rules of membership.

vi) The EU and NATO should consider launching a new arms-control initiative to limit the scope of future rearmament in the Balkans. Countries in the region should be encouraged to frame their defence policies and doctrines in the interests of collective security. Serbia's developing military relationship with Russia should be treated as a matter of concern, especially in the light of events in Ukraine; the intelligence-sharing aspects of their defence-co-operation agreement are particularly worrying, given Serbia's possible accession to the EU. Clear limits need to be set in order to ensure the agreement's compatibility with the spirit and letter of the EU's Common Security and Defence Policy structures.



Russia's Role in the Balkans – Cause for Concern?

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First published in June 2014 by The Henry Jackson Society

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