



LSEE Research on South Eastern Europe &
SEESOX South East European Studies at Oxford

Russia in the Balkans

Conference report

The Balkans in Russia's Foreign Policy Strategy
Russia and Conflict Resolution in the Balkans
The Economic Dimension
Russian Soft Power

Friday, 13 March 2015
The Shaw Library
London School of Economics

This event was supported by NATO's Public Diplomacy Division



Conference Report

Russia in the Balkans

London School of Economics, 13 March 2015

Rapporteur: Dimitar Bechev, LSEE

Summary

LSEE-Research on South East Europe at the London School of Economics and South East European Studies at Oxford (SEESOX) convened a conference on 13 March 2015 with a focus on Russia's presence and policies in the Balkans. The event brought together leading experts from the UK, Russia and South East Europe to take stock of Moscow's strategy in the region, at a time of conflict with the West triggered by the annexation of Crimea and the ongoing crisis in Eastern Ukraine. Drawing on a rich variety of perspectives, it gauged the nature and extent of its influence across a variety of areas - from energy, to inter-ethnic relations in post-conflict countries, to society and political culture. Participants debated the interplay between Russia and the EU and the US, the dominant actors involved in the Balkans, the local perceptions and attitudes to Moscow's diplomatic overtures and foreign policy more broadly, and the impact on the region's economy.

Main conclusions

1. Russia is back to the Balkans in order to score points against the West by exploiting loopholes and blind spots in its policy. Unlike with Russia's "near abroad", the overarching goal is not to roll back NATO and EU enlargement but to build influence in countries that are either part of Western clubs, or are well on their way to joining them, and are therefore useful "door openers".

2. Russia may lack a long-term vision but is an accomplished tactical player and, unlike its competitors, takes swift decisions and acts flexibly. The Kremlin distrusts local elites but then it "does not trust in trust" in the first instance, preferring money and coercion. In a crisis-stricken Balkans, rife with clientelism and state-capture, it is mostly the money that comes into play. What is more, funds channelled into Southeast Europe find their way back to the Kremlin establishment, which both rules and owns Russia.

3. Starting from the late 1990s, Russian energy firms such as Lukoil and Gazprom have made inroads into Bulgaria, Romania, Serbia and Bosnia and Herzegovina. Over time, the Kremlin has harnessed economic interdependence. Yet, a leading position in the oil sector and a monopoly in gas does not always bring it political leverage. Montenegro, where a third of all registered companies are linked to Russia, joined EU sanctions on Russia. Furthermore, investment by Russia, including in such sectors as banking, real estate, tourism, is dwarfed by that of the EU. Also, gas plays a minor role in the region's energy consumption, so dependence on Russia should not be over-estimated. However, Balkan elites bet on the failed South Stream as a great commercial and political opportunity and took a hit when the pipeline was called off.

4. While few Russians in the 1990s followed closely Balkan affairs, Putin has turned Kosovo into a key part of the narrative concerning the West's humiliation of Russia. The Balkans is central to the Kremlin's narrative about the post-Cold War normative order being broken, which is deployed both

externally and inside Russia as part of the regime's quest for legitimacy. Any diplomatic and political breakthroughs in the Balkans win plaudits domestically and partly offset losses in the post-Soviet space.

5. Russia and President Vladimir Putin personally enjoy popularity in Serbia and other Balkan countries because of the resentment felt towards the West over the dissolution of Yugoslavia in the 1990s. Muscular foreign policy resonates with a deep-seated view that "might is right", only that this time around the West is on the receiving end. But, when the push comes to shove, elites and citizens in the region opt for the EU and the West – a fact well understood by Russian policymakers.

6. Russia has soft power in the Balkans but it is uneven. With the possible exception of Bulgaria, Russian is not widely read or spoken in the region. Yet, the rhetoric of brotherly ties coupled with a shared sense of victimhood bolsters Russia's moves and initiatives.

The day-long conference was divided into four panels:

I: the Balkans in Russia's foreign policy strategy;

II: Russia and conflict resolution;

III: the economic dimension, and

IV: Russian soft power.

What follows is a summary of each of the sessions.

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Panel I: The Balkans in Russia's Foreign Policy Strategy

Following an opening address by **Andrew Rasbash** (European External Action Service) which framed the key issues along the EU-Balkans-Russia axis, the conference moved into its first panel on Russia's foreign policy which was chaired by **Roy Allison** (Oxford University). Russian political commentator **Konstantin von Eggert** (Kommersant FM) kicked it off with an insightful overview of the historical development and the factors shaping Russia's policies in the Balkans. In the Yeltsin period Moscow maintained a delicate balance between domestic pressures to intervene in the Yugoslav conflict "waving the flag of Russian Orthodox, traditional historical presence in the region" and keeping good relations with the West. Along with setbacks, this experience inserted two significant nodes into public discourse: (1) that Russia was being "kicked around by the US and the West" and proven weak by failure to defend friends like Milošević and Karadžić, (2) that NATO's 1999 action against Yugoslavia left a scar. Vladimir Putin could have healed it but, as von Eggert observed, "the decision was to scratch the scar and make it a real wound". That was done for purely domestic purposes: the Balkan humiliation became an integral part of the Kremlin's story as well as a benchmark in foreign policy. If the average Russian could not tell once a Serb from Croat, now everyone knows who the Serbs are: fellow victims of the West. Putin had no interest in the Balkans at the outset and pulled out Russian troops but later on used the Kosovo precedent in asserting power in the ex-Soviet space. "You broke international law", his message to the West goes, "we have the right to break it ourselves". Von Eggert insisted that

warming ties with Serbia and others serve vested interests around the Kremlin (“people who rule Russia also own Russia”). For instance, the loan to Serbian Railways is of benefit to businessman Vladimir Yakunin, a close associate of Putin’s. At the same time, the Kremlin knows that Balkan elites are not to be fully trusted and would lean to the West if presented with a stark choice. Yet, as von Eggert put it, “[it] doesn’t trust in trust” but in coercion and bribes.

The talk by **Dimitar Bechev** (LSE) on the interplay between Russia and the EU argued that Moscow has gradually evolved from a difficult partner in the 1990s to an aspiring competitor by the end of the 2000s. 2008 marked a turning point: it was the year when Kosovo declared unilaterally independence, Russia invaded Georgia and the global financial meltdown shook the Western world. The ensuing economic crisis in Europe along with the democratic backsliding and institutional weakness besetting the region have all provided opportunities for Russia to build up influence. Accepting that the region is, one way or another, part of the EU, Russia nonetheless undercuts Brussels’ transformative agenda. There are two aspects to this challenge: the counter-narrative projected by Moscow and the collusion with rent-seeking elites in Balkan countries. In terms of narrative, Russia showcases the Balkans as an example of Europeanisation’s failures to both post-Soviet countries and domestic audiences. Moreover, the wrangling around South Stream helped Moscow expose the tensions between sovereignty and supranational law. It defended the view that the Intergovernmental Agreements (IGAs) signed with Bulgaria, Serbia, Hungary, Croatia and Austria took precedence over the EU’s *acquis*, while Gazprom refused to apply to the European Commission for an exception from the Third Energy Package. The Kremlin is empowered by finding and working with a variety of business associates across the Balkans. While Russia’s leadership stresses brotherly links with the South Slavs and Orthodox Christians, the relationship is fueled by overlapping interests, both political and economic, of key individuals and groups on both sides. Bechev noted that Moscow’s cultural influence should not be exaggerated, pointing out that Russian language is much more common in Brussels, where lots of officials from the “new member states” pursued studies in the old Soviet Union, than in ex-

Yugoslav capitals.

Spyros Economides (LSE) brought in the issue of Western perceptions of Russia's foreign policy. In contrast to commentators' "lingering feelings that there is a long-standing and continuing Russian cultural, historical and religious set of links with various peoples, nations and states [in the Balkans]", he saw Russia's moves as rooted in contemporary interests, crises, conflicts and relationships. The past is open to manipulation by various parties. Economides proposed three further notions to define Russia's role: those of *exploitative*, *disruptive* and *revisionist* power. Having lost influence since the early 1990s, Moscow exploits grievances in the international system, seeks leverage in Europe's "soft underbelly, the Balkans, including EU member states such as SYRIZA-led Greece and Cyprus. Lacking a grand strategic plan, Russia acts as a disruptive power that would not allow other actors in its perimeter "without putting up a fight". Its (potential) veto over Kosovo at the UN Security Council reflects the primary interests to conduct relations with the West as an equal, rather than to uphold Serbian priorities. Finally, as the land grab in Crimea shows, a revisionist power would "act according to rules it sees fit for its neighbourhood and may contravene all other rules that underpin international order." The bottomline is, Economides observed, that Russia's top concern is the survival of the state and the protection of a particular regime and the interests associated with the latter.

Panel II: Russia in Conflict Resolution in the Balkans

The second session chaired by **James Ker-Lindsay** (LSE) explored the nature, scope and impact of Russia's involvement in the Balkans' post-conflict areas. The leading political analyst **Nikolay Petrov**, formerly at Carnegie Moscow, pointed out that Russian policy reflects long-term domestic preferences, rather than Putin's choices only. Since the 1990s, the Balkans feature on the agenda thanks to the link made with conflicts in the Caucasus and further afield in the ex-USSR. (As in Yugoslavia, culture and ethnicity

often play a secondary role: in Eastern Ukraine divisions run within families, Petrov said). According to the speaker, the Kremlin has shifted from electoral to military legitimacy to slow down its “tailspin” fall by victories on the battleground. “Crimea is like a viagra for the ageing Putin regime”, he quipped, “ it increased its popularity but let to serious economic problems – the strategy cannot be used too often.” The recourse to hard power erodes Russia’s soft power in the “near abroad”. That is why breakthroughs in the Balkans could compensate for the lack of diplomatic victories against the EU in Ukraine, Moldova, Georgia etc. As others, Petrov argued that Moscow’s outreach is also a mechanism to distribute rents to the regime’s clients. His conclusion was that Russia would most likely try to expand its presence in the region.

Cvete Koneska (Control Risks), who focused on the perspective of Yugoslavia’s successor states, noted that Russia claimed a stake in conflicts in the region because it had the means (permanent membership in the UN Security Council) and the will to benefit from multilateral initiatives. In Koneska’s view, its presence at the diplomatic table let to balanced, if less efficient, post-conflict settlements reflective of multiple interests and viewpoints. At the same time, Moscow has not been influential in the reconstruction stage, failed to offer much assistance and did not obtain access to political systems in Bosnia, Kosovo or Macedonia, unlike the US and especially the EU. Though Putin is admired in the Balkans, limited economic traction and lack of extensive links at societal level (“ people leave for the EU, not Russia”) are likely to drive down Russian influence. Crimea’s annexation drew applause by some, especially those harbouring anti-Western grievances, but it also sent a warning message to the Balkans’ small states what happens if big powers start throwing their weight.

During Q&A session, in response to a question about the nature and consequences of Russia’s involvement in Kosovo, James Ker-Lindsay remarked that Moscow suffered setbacks because of the lack of consistency. As Russia referred to the 1999/2008 Kosovan precedent to justify its intervention in Abkhazia and South Ossetia (August 2008), Portugal extended

recognition to Kosovo, breaking ranks with Spain.

Panel III: The Economic Dimension

The session on the economic links between Russia and the Balkans, chaired by Dimitar Bechev, was launched by **Laza Kekić**, former head of the Central and Eastern Europe and Russia team at the Economist Intelligence Unit. Drawing on a richness of data on trade and FDI flows, Kekić argued that there is a dual danger to exaggerate Russia's influence but also to be overly dismissive. Dwarfed by the EU (see Figs 1&2), Russian economic presence, concentrated in Serbia, Bulgaria, Montenegro and Republika Srpska, is nowadays greater than at any point since 1990. As far as investment from the north-east is concerned, Montenegro is ahead of its neighbours in relative terms: one-third of companies are in Russian hands, one-quarter of tourists arrive from the Russian Federation, and up to 7000 of Russians are registered as permanent residents. Elsewhere Russia carries weight primarily in the energy sector. Lukoil accounts for 25% of tax revenues in Bulgaria, with Gazprom holding key assets too. Since 2000 Serbia has received USD 20bn in investment from the likes of Lukoil and Gazprom Neft, which acquired 51% of Naftena Industrija Srbije (NIS) in 2008 for EUR 400m ("Serbia's family silver", Kekić said) in a politically tinged deal, linked to the prospect of the South Stream gas pipeline. Yet Moscow-Belgrade Free Trade Agreement (FTA) signed in 2000 has not yet fulfilled its potential – and is still to be ratified by the Russian Duma. Bosnia has seen the refineries at Bosanski Brod and Modrić bought by Zarubezhneft in 2007. Kekić concluded that current economic crisis in Russia and the falling rouble will slash demand for their already limited exports from the Balkans and dampen the inflow of Russian investment.

Trade with Russia and EU, % of total, 2013

	Trade with Russia	Trade with EU
Albania	2.0	60.4
B&H	6.3	84.1
Bulgaria	11.2	60.6
Croatia	5.7	63.3
Macedonia	0.9	71.8
Montenegro	0.4	55.3
Romania	3.6	73.3
Serbia	8.5	62.4
Greece	9.4	46.9

Figure 1: Balkans countries trade with Russia and EU

Source: EIU

Exports to Russia and EU, % of GDP, 2013

	Exports to Russia	Exports to EU
Albania	0.4	8.0
B&H	0.3	21.7
Bulgaria	1.4	33.4
Croatia	0.7	12.2
Macedonia	0.7	27.4
Montenegro	0.1	3.8
Romania	1.0	24.3
Serbia	2.5	21.9
Greece	0.2	6.7

Figure 2: Exports to Russia and EU

Source: EIU

Nicolaus Petri (L1 Energy), a former employee at NIS, opened by noting the difficult economic conditions in the region: e.g. petrol sales decline by 5% a year in Serbia. In his view, NIS, accounting for roughly 17% of Serbia's GDP, fetched a fair price from Gazprom Neft, which was reconfirmed by the market once the company was floated. The new owner invested EUR 600m, revamping the Pančevo refinery and bringing it up to EU standards by a full switch to unleaded gasoline. Gazprom Neft entered Serbia because it felt

welcome and thought they understood the local context. Yet the majority stockholder had to deal with regulatory restrictions, old technology, a disparate set of assets (including Belgrade's Hyatt Regency, nowadays under legal dispute), the government requirement for extending subsidies to other companies through underpriced petrol products. In Petri's analysis "the government was trying to kill two birds with one stone" – filling up its pension funds and moving the oil industry to EU specifications. "The big fish in the water", he thought, "was South Stream". Serbia could have negotiated in a better fashion, obtaining external advice on the privatisation deal and "unbundling" NIS to create a "nimble oil sector". What went right, however, was the good cultural match between the government as minority shareholder and the Russian investor which delivered a technological upgrade and streamlined the operation, including by job cuts.

In his speech **Andrei Țărnea** (Aspen Institute, Romania) argued that within the Balkans Russia faces a context that is more sophisticated than many believe. Exposed to European and global influences, the region is seeking diversification of trade and investment links, courting new players such as China and Turkey which are, in fact, Russia's main competitors. In the EU, Netherlands, Cyprus and Austria are all channels of Russian FDI into South East Europe (e.g. Lukoil operating from Rotterdam). Țărnea noted that gas imports from Russia are not as significant in the overall energy consumption of the region. To him, Russia's growing economic leverage is conditioned by the austerity policies adopted at national and EU level as well as the anti-enlargement mood within EU which has spread from the fringes towards centrist parties.

The energy sector was the focus of the talk by **Adnan Vatansever** (King's College, London) who outlined successes and failures scored by Russia. He highlighted the Moscow's significant presence in the oil sector, starting with Lukoil's acquisition of refineries in Romania (1998) and Bulgaria (1999), and the near monopoly in gas. In Vatansever's view, the delay in development of unconventional gas in Bulgaria and Romania cemented Gazprom's advantage. He quoted NATO Secretary General Anders Fogh

Rasmussen's claim that Moscow had funded anti-fracking groups in Romania and Bulgaria. However, Russia has seen a series of grand projects failing too: the Burgas-Alexandroupolis oil pipeline, the Belene nuclear power plant, the takeover of gas facilities in Croatia and Greece, and, most recently, South Stream. What does Moscow pursue: maximization of profits or geopolitical gains? Vatansever argued that at the outset, in the late 1990s, Russian firms were driven by commercial motives, sought opportunities abroad and often competed against one another. They benefitted from old links (e.g. Bulgarian experts had been schooled in the Soviet Union) and the absence of interest by Western investors. Nowadays, by contrast, it is a "different Russia" where the state is much more present in decision-making while companies have to coordinate with authorities or even focus on politically significant countries to curry favour with the Kremlin (e.g. the case of NIS). In Vatansever's opinion, Russia's dominant position has implications as energy security is as much about affordable prices as reliability of supplies. Gazprom charges highest rates in the Balkans. South Stream, promising thousands of work places and hefty transit fees, delayed alternative projects, which could have delivered diversification of gas supply. In terms of foreign policy, however, "the impact is much less clear". No country has abandoned its goal to join the EU, Vatansever observed. But, as demonstrated recently by the announcement of the "Turkish Stream" pipeline, Turkey, pivoting away from Europe, has provided an alternative to Russia when the latter would face opposition in the Balkans. Yet, Vatansever concluded that the rapprochement, rooted in the personal rapport between Putin and Erdogan, is not sustainable.

One theme cropping up in the Q&A concerned the disconnect between Russia's economic presence and its diplomatic leverage. The case of Montenegro's support for the Western sanctions illustrates the point. The contrast between Turkey, a huge user of Russian gas, and the low levels of consumption of gas in the Western Balkans was also raised (see Fig 3 below).

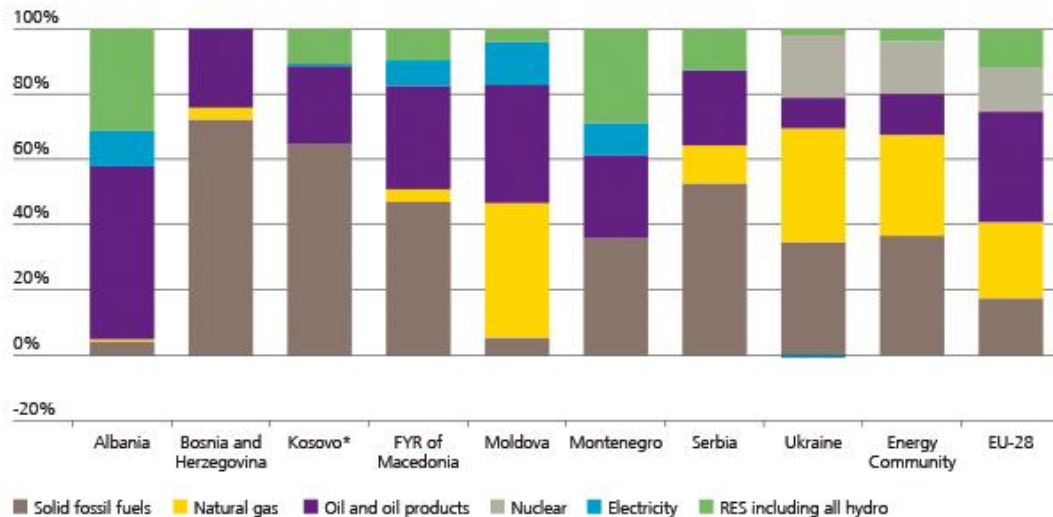


Fig 3: Energy consumption in the countries of the Energy Community, 2012
Source: www.energy-community.org

Panel IV: Russian Soft Power

In the closing session, chaired by **Tomila Lankina** (LSE), panelists discussed Russia's "soft power", that is the historical, cultural, political attraction, to Balkan peoples and societies, concentrating on the examples of Bulgaria and Serbia. **Kyрил Drezov** (Keele University) demonstrated that the themes of brotherhood, debt and treachery permeate and coexist in Russia's discourse on political relations Bulgaria. Powerful symbolic references to the 1877-8 War of Liberation, which is commemorated in a national holiday along with countless monuments, street names, toponyms etc.) have underwritten Putin's regular visits to Sofia in the 2000s. (No less lavishly memorialised, the Soviet involvement after September 1944 remains controversial.) Bulgaria was blamed for the cancellation of South Stream too. Putin remarked that EU and NATO did not allow it to behave as a sovereign country, while the Russian blogosphere burst out "Bulgaria has betrayed us once more as in the First and Second World War". The notion of debt is present, according to Drezov, on the other side too, with the constant reminder that Russia borrowed the Cyrillic alphabet and Old Slavonic literature from medieval Bulgaria. Drezov highlighted Bulgaria's long and variegated experience in dealing with Russia: the two countries have been both allies and enemies

(their armies fought in the First World War, for instance) as well as very closely integrated during the communist period. To his mind, the intimate knowledge of Russia explains Sofia's level-headed reaction to the cancellation of South Stream, in contrast to the emotional outpour in Belgrade (Drezov quoted President Tomislav Nikolić's statement that Russia "owed" Serbia).

The rapprochement, if not love affair, between Serbia and Russia was debated by **Jelena Milić** (Centre for Euro-Atlantic Studies) and **Dušan Spasojević** (former ambassador and deputy defence minister). Milić started off by reminding the audience how Russian journalists celebrated the assassination of Prime Minister Zoran Djindjić in 2003. She went on to mention the openly expressed sympathy for the Donetsk and Luhansk People's Republics among pro-government MPs, arguing the vested interests around the government use links to Russia to slow down EU-driven reforms in critical areas such as the security sector and business regulations. In her view, Serbia is undergoing "a process of putinisation", while EU and the West more generally has taken a lenient approach to Prime Minister Aleksandar Vučić and his cabinet and buy into the rhetoric of "traditional ties" with Russia. But the narrative of brotherhood is a "self-fulfilling prophecy" in a country that since Yugoslav times has looked mostly westwards. Milić noted that Russia is stepping up its influence in Serbia, North Kosovo and Republika Srpska – through channels such as media, educational institutions, the Serbian Orthodox Church - because it was Belgrade that sparked off "colour revolutions" from Georgia all the way to Tunisia and Egypt back in October 2000. In her opinion, the common denominator is the shared sense of being a "victim of the West".

For his part, Spasojević expressed the view that Russia's role and relations with Serbia went through multiple changes in the 19th and 20th century. There were moments of alignment but also of estrangement: e.g. no diplomatic relations in 1917-40 as the Soviets and the Comintern sought to undermine royal Yugoslavia, Tito breaking off ties in 1948. Serbs' high expectations in 1990s were frustrated as Russia did not deliver at the UN.

After 2001 Belgrade turned to the West, and even reached out to NATO by joining Partnership for Peace and sending troops to Afghanistan. But then came 2008 and Serbia “became obsessed” with Kosovo, turning into “a one-issue country”. Russia took the opportunity to enter Serbian politics. Western negotiators in the Vienna status talks, as well as the Serbian government, were surprised in 2007 when Russia threatened to use the veto in UN Security Council. Serbia’s democrats felt humiliated: in their eyes, Milošević had been treated better by the West – e.g. with UN Security Council resolution 1244 referring to Kosovo as part of rump Yugoslavia. Russia recognised and exploited the breach in relations with the West to obtain leverage - Serbian parliament adopted a declaration on neutrality, NIS was sold to Gazprom Neft. However, Spasojević argued that EU has no alternative, with all 250 MPs in Serbia’s current parliament supportive of membership. Russian soft power cannot be a spoiler or threat as Belgrade sees ties with Moscow as a supplement to the strategic orientation to the West. “It is a *ménage a trois*”, he concluded, “not everyone looks with the same eyes [at it] but the Serbian elite thinks it is possible and beneficial.”

During the Q&A it was observed that Russian soft power travels even further in the Balkans, with Nikola Gruevski’s government in the Republic of Macedonia being mentioned. In addition to historical legacies and lingering grievances, Putin’s popularity was linked to the “might is right” common in the region.

Videos from the conference panels are available on [LSEE’s YouTube channel](#)

You could also access the conversation on Twitter by following the [#LSERussiaBalkans](#) hashtag

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in alphabetical order

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The organising institutions are grateful to NATO for the partial conference support provided.