

THE NEW COLD WAR: PUTIN'S RUSSIA AND THE THREAT TO THE WEST



FEBRUARY 20, 2008

**Briefing of the
Commission on Security and Cooperation in Europe**

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The Helsinki process, formally titled the Conference on Security and Cooperation in Europe, traces its origin to the signing of the Helsinki Final Act in Finland on August 1, 1975, by the leaders of 33 European countries, the United States and Canada. As of January 1, 1995, the Helsinki process was renamed the Organization for Security and Cooperation in Europe (OSCE). The membership of the OSCE has expanded to 56 participating States, reflecting the breakup of the Soviet Union, Czechoslovakia, and Yugoslavia.

The OSCE Secretariat is in Vienna, Austria, where weekly meetings of the participating States' permanent representatives are held. In addition, specialized seminars and meetings are convened in various locations. Periodic consultations are held among Senior Officials, Ministers and Heads of State or Government.

Although the OSCE continues to engage in standard setting in the fields of military security, economic and environmental cooperation, and human rights and humanitarian concerns, the Organization is primarily focused on initiatives designed to prevent, manage and resolve conflict within and among the participating States. The Organization deploys numerous missions and field activities located in Southeastern and Eastern Europe, the Caucasus, and Central Asia. The website of the OSCE is: <www.osce.org>.

ABOUT THE COMMISSION ON SECURITY AND COOPERATION IN EUROPE

The Commission on Security and Cooperation in Europe, also known as the Helsinki Commission, is a U.S. Government agency created in 1976 to monitor and encourage compliance by the participating States with their OSCE commitments, with a particular emphasis on human rights.

The Commission consists of nine members from the United States Senate, nine members from the House of Representatives, and one member each from the Departments of State, Defense and Commerce. The positions of Chair and Co-Chair rotate between the Senate and House every two years, when a new Congress convenes. A professional staff assists the Commissioners in their work.

In fulfilling its mandate, the Commission gathers and disseminates relevant information to the U.S. Congress and the public by convening hearings, issuing reports that reflect the views of Members of the Commission and/or its staff, and providing details about the activities of the Helsinki process and developments in OSCE participating States.

The Commission also contributes to the formulation and execution of U.S. policy regarding the OSCE, including through Member and staff participation on U.S. Delegations to OSCE meetings. Members of the Commission have regular contact with parliamentarians, government officials, representatives of non-governmental organizations, and private individuals from participating States. The website of the Commission is: <www.csce.gov>.

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FEBRUARY 20, 2008

Commission on Security and Cooperation in Europe Washington, DC

The briefing was held at 10 a.m. in room B-318, Rayburn House Office Building, Washington, DC, Clifford Bond, Senior Adviser, moderating.

Panalists present: Clifford Bond, Senior State Department Advisor, Commission on Security and Cooperation in Europe and Edward Lucas, Central and Eastern Europe Correspondent and Former Moscow Bureau Chief, The Economist.

Amb. BOND. Before I begin, let me just mention there are background materials for the briefing on the table to my left, if you didn't pick them up on your way in.

It's my pleasure to welcome you all here today on behalf of Chairman Hastings and Co-Chairman Cardin and other members of the Helsinki Commission to our briefing today. Congressman Hastings and the Co-Chairman, Senator Cardin, would very much have liked to join us today, but they're both attending the OSCE's Parliamentary Assembly, it's winter session of it's Parliamentary Assembly, in Vienna now.

We've invited today Edward Lucas to brief us and give us his analysis of current political developments in Russia. This is a very timely briefing, in view of the upcoming Presidential elections on March 2 in Russia and in view of the current strained relations between Russia and the West, including over Kosovo's recent declaration of independence from Serbia.

Developments in Russia have been very much a focus of the Commission's work, and we're very pleased to have Mr. Lucas here. He has unique experience to provide this briefing. He is currently the Central and East European correspondent to The Economist magazine. He's also the author of a recently published book, "The New Cold War: How the Kremlin Menaces Russia and the West," and he's now in Washington to promote this book.

He has a long and distinguished career as a journalist in Eastern Europe and the Baltics and also in Russia itself. Our paths actually first crossed back in the late 1980s when I was the political counselor at our embassy in Prague, and I remember Ed as being a very energetic and perhaps one of the best connected correspondents in terms of his connections with independent and dissident figures in Prague at that time.

We both found ourselves, in fact, on the night of November 17th, 1989, on Narodni Trida in the heart of Prague, when the riot police dispersed a peaceful student demonstration. And it was that action that sparked the Velvet Revolution in Czechoslovakia and the fall of Communism in that country.

I recall, Ed, that the police handled you a little bit more roughly that night than they did me.

Mr. LUCAS. It still has, sometimes.

Amb. BOND. The 1990s were a period of hope in Eastern Europe, and in Russia itself and for the people of Russia. Unfortunately, in the memorable words of that former Russian Prime Minister about the Yeltsin era, “We all hoped for the best, but things turned out as usual.”

Let me ask Ed Lucas now to share with us his thinking and observation about how things have turned out on political developments in Russia and what they mean to the international community and the Russians themselves. Thank you.

Mr. LUCAS. Well, thank you very much indeed, Cliff, for that introduction and the invitation. As a reporter in Washington, I very often sat in these seats. I didn’t think I’d ever in my wildest dreams actually be sitting on this side of the table, and so I put on my NFC tie to show that this is a really serious and important occasion.

Thank you very much for inviting me.

It’s a provocative title—“The New Cold War”—and it’s particularly provocative for those of us—and I guess there are many here—who remember the last one. Cliff and I were both in our different ways involved in the struggle for freedom in Eastern Europe and to try and undermine Communist rule there. And when we remember how bad it was then, it’s not a comparison to draw lightly.

We had a complication that was military—military and existential threat. We had missile-to-missile crises and other misunderstandings, which could have very easily meant the end of civilization on the planet. And it was global. It stretched to every corner—planets don’t have corners—every corner of the map. There was this issue of complication.

And it was very sharply ideological. Totalitarian Communism, the dictation for the proletariat on the one side—although it was increasing confidence, as it proved less and less possible to make it work—and the different brands of welfare, capitalism, democracy on the other. And I’d make it absolutely clear, even if you only read into the first few pages of this book, you will see I’m not saying that this old Cold War is coming back again. Our relations with Russia are profoundly different.

Russia is culturally integrated into the world in a way that would have seemed inconceivable in Soviet times. There are hundreds of thousands of Russians living in cities such as New York, London, and other western capitals, and tens—maybe even hundreds of thousands—of westerners living in Russia. You can travel back and forth relatively freely. A select few of us sometimes can’t get visas for Russia. And incidentally, very few Russians can’t get visas to the United States. Perhaps there should be more. But anyway, these are the exceptions, not the rule.

Russia is a partner for the West in issues about nukes, not only the old Cold War nuclear bargain, but also nuclear safety, new forms of nuclear talks. It’s a partner on North Korea. It’s a partner on all sorts of big global issues. It’s a big country, and we talk to big countries with respect.

The ideological confrontation is gone, because Russia, at least on the surface, tends to be a democracy. There are multi-party elections of a kind. There is free media of a sort—maybe not television, but certainly on the margins, newspapers, a radio station, quite a bit on the Internet. So Russia is not a closed society in that way. And I think that's the first big starting point I want to make.

The second point I want to make is that I'm not saying in this book that everything Putin has done is bad and everything that Yeltsin did was good. There is a kind of naive tendency in the West to rewrite history and say during the 1990s Russia was a democracy and it was going in the right direction. It was a friend, and then Vladimir Putin came along, and he mystified the Russians and re-introduced a semi-totalitarian system. That is not what I'm arguing.

It is very important for Russia's friends from outside to understand the trauma of the 1990s and perhaps the delayed action trauma. We used to sometimes say it was just amazing that Russians are so stoical and cheerful and that these incredible changes, which were a culmination of if you imagine the American Civil War and the Great Depression combined, yet life goes on and people seem to be coping. But actually the aftershock from that has been a great desire for stability and an appreciation for it.

It's also important to recognize that some of the criticism of Russia is highly self-interested and not to be taken seriously. If you are a Russia expert, or even a rather amateurish Russia expert, but if you have some influence in writing about Russia, you need never pay for your own lunch, because on the one hand you have the PR companies that work for Gazprom, Rosneft, Rusal, all the others, very keen to improve their image and entertain lavishly.

And on the other hand, you have an oligarch whose name begins with "B." He lives in London, an oligarch—no, not that one, because he's dead—another oligarch whose name begins with "B" and who lives in London, and another oligarch whose name begins with "K," who lives in Russia in rather confined circumstances, but he has a lot of money in the West.

And some of the kind of demonization of what's going on in Russia is just paid-for propaganda from the other side. And I make it very clear in this book—I was at pains to point out—that I do not regard Mr. Khodorkovsky as a political prisoner. I didn't want anyone to think this is part of a pro-Khodorkovsky campaign.

And I had many attempts to describe Mr. Berezovsky in a way that was both true and would get past the British libel-mongers. And sadly, even the First Amendment in this country does not protect me from being sued in London for something I published here. And so you have to read between the lines. And every time I say, "And vehemently denies all wrongdoing," you can see that was the bit the lawyer put in, and you just have to guess what the sentence was that might have gone there in its place.

So with these provisos, let's move on to what has happened under Putin. There have been huge losses of transparency, of freedom and of legality. And the way I like to look at this is it's constraint and redress. These are fundamentals of a law-governed society.

I've tried in the book not to use the word "democracy" at all, because it's such a stretchy label. I lived in the Soviet zone, the Soviet occupied zone of Germany, which called itself the Germany Democratic Republic. Some people here have had dealings with the Democratic Peoples Republic of Korea. I don't like the word "democracy." It's been

overused. I stick to political freedom and the rule of law, which are much punchier concepts.

And these have been hollowed out and crushed in Russia, and constraint and redress for the system have been almost completely removed. If something goes wrong in Russia, you cannot expect the electoral process and your elected representatives to help you.

We have the extraordinary situation of this Presidential election, which is both completely predictable and totally mystifying. It's completely predictable, because we know who's going to win, and it's totally mystifying, because we have no idea what it means.

Is Mr. Medvedev a liberal, as he has suddenly started talking this liberal talk? Is he just keeping the seat warm for Mr. Putin to come back maybe after a few months, maybe after a few years? Is he going to play soft cop to Mr. Putin's hard cop?

We don't know. But the political system is now no longer something that reflects the interests, the wishes, the complaints, the process. It's become part of the Kremlin power machine. And Kremlinology, which some of us here used to practice in the 1970s and 1980s, has seemed to become so out of date it was like it was as obsolete as knowing how to use a Telex machine.

Some of you here might not know. A Telex machine was kind of low bandwidth, point-to-point electronic messaging system that predated e-mail. And people like me, and I suspect Cliff, used to know how to type on these Telex machines, and paper tape would come out, and you'd feed it in, and then you'd send your message. Kremlinologists seem to have gone the way of that.

Now Kremlinology is back. We are using techniques of Kremlinology to try and understand the political system.

The legal system is in shambles. Now, it's easy to say, "Oh, that's just Western ignorant criticism, and it's actually working fine." Well, who was it who said that Russia had a stated, unparalleled legal nihilism? That wasn't a Communist leader. That wasn't Garry Kasparov. That wasn't Mikhail Kasianov. That was Dmitry Medvedev.

And it's astonishing to me that the critique that Medvedev makes of the Putin years is so powerful. I don't quite understand the strategy behind it, but he's complaining about all the right things—extraordinary corruption, grotesque levels of state interference in the economy, the legal nihilism and lack of recently found freedom.

So these are not outlandish criticisms. These are ones that are made at the heart of power in Russia.

What are the forms of constraint and redress? Well, most certainly, the outside world doesn't have much purchase. There used to be a time when the IMF would say, "You can have some more money, but you have to do this." But others always were unhappy about that kind of leadership and argued against it strongly in *The Economist*.

It seems to me that if things are good to do, then you should do them anyway. And if you view, as outsiders, as bribery to do them, then that's some less likely to stake. But certainly, the outside capital markets have no ability to discipline Russian companies at the moment, and the international financial community has none, because Russia has paid off all its debts.

And even the international legal order doesn't have much constraint now. And Russia has recently been signally contemptuous of the judgments of the European Court of Human Rights in Strasbourg from the few outside legal constraints.

So constraint and redress have gone. We are left with this hollowed out fiscal system and mystifying political processes we don't understand, and at the top, the feuding clans of Chekists or Siloviki as they are sometimes called, sometimes with one ascendant, sometimes another. And every now and again, something remarkable leaks out into the paper, and we just get a glimpse of what's going on.

Now, why should we mind about that, because lots of countries are back in line? Zimbabwe is back in line. Burma is back in line. North Korea is back in line. China is back in line—Kazakhstan, which is a strategic ally of the United States in some senses, where an opposition leader committed suicide with three shots. Authorities said it was suicide. He had tried three times, and he succeeded in the end—that is, two in the head and one in the chest.

So why are we still worried about the bad things that seem to be happening in Russia, particularly when we seem to have the support of so much of the Russian population? And one is that it leaks, and the trajectory is worrying.

And if you speak Russian, I urge you to look at some of the propaganda that is produced by Nashi and the other pro-Kremlin youth movements, because they are really disgusting and scary—the xenophobia, the nationalism, the subliminal racism, the message that Russia is a besieged fortress surrounded by malevolent hypocrites. This is really bad.

Now, I don't know whether the people at the Kremlin really believe this or not. In my optimistic moments, I think they're just crooks. I think the whole thing has just been made up as a way to steal billions and billions and billions of dollars. And that's the optimistic scenario, because in a way we know how to deal with crooks.

But if they believe it—and I suspect that some of them do—this is taking on a momentum of its own. And you can see from all the opinion poll data this trajectory from the 1990s, where people pretend to get disillusioned with the West because of the failure, or the perceived failure, of economic policies discussed with the [inaudible], but now that's crystallized into solid data. Every poll seems to show a more anti-Western, more nationalist, more liberal, sometimes even more racist approach, and that is a consequence of Kremlin propaganda. We have to ask where that's going.

Just one small thing, which I think is quite illustrative. The history is central—and I have a lot about history in the book—and in the 1990s historiography was extremely diverse in Russia. There were lots of different interpretations. And under Putin in this strong cushion of very top [inaudible] history, not just demonizing the Yeltsin years, but also satirizing the Stalin ones, that if anybody can, he's reminded that Mr. Putin said that the collapse of the Soviet Union was perhaps the greatest geopolitical catastrophe of the century.

But I'm particularly interested in the Katyn massacre, because that's really emblematic. It was a classic bit of Stalinism to follow the crime with a lie—first of all, 30,000 Polish officers shot in cold blood by the NKVD, and then the lie, the idea that it was the Nazis that had done it. He blames it on the Nazis. He's going to complain.

And all through the '50s and '60s and '70s and '80s, that lie was enforced at gunpoint. I was a student in Poland in the mid-1980s, and I remember our Polish teacher trying to keep a straight face and saying, "Yes, I'm afraid that actually Western propaganda is quite wrong, and this was actually the Nazis who did that." And I thought, "How awful. This young woman is forced to spout these lies, because if she doesn't, she's going to lose her job."

And in 1990 the lie about Katyn was buried, and the documents came out. It was absolutely unambiguous. This had been done by the NKVD—all the forensic evidence, all the archival evidence, no question about it. And as far as the Poles were concerned, that issue was over.

And in the last 6 months, on no fewer than four occasions, mainstream Russian media have reprinted this lie that it was the Nazis, and not the NKVD. It started with Rossiiskaya Gazeta. It continued with Komsomolskaya Pravda, and it was on TV Tsentr, which is the Moscow municipal channel, and most recently in Nezavisimaya Gazeta.

And that's when I started getting really nervous, because that is going straight back to an era that we thought was gone forever. I might have done that—almost more I might have done the psychiatric incarceration district, which is another very ominous act out of the Stalinist past.

So that's one reason. This trajectory is really ominous. But the second is leakage. This leaks into Eastern Europe. It leaks into Western Europe. It leaks into Eastern Europe, where I think we needed another 10 years. If we had another 10 years, the countries, the former captive nations in Eastern Europe, would have been so much stronger.

A new generation of politicians would be in power, the old compromised. Sometimes eccentric, sometimes greedy politicians of the transition era would lose offstage, or at least had more competition. The institutions of state would have been stronger. The anchoring of these countries in the Euro-Atlantic community would have been complete. It has come a bit too early.

And it seems people at the State Department have coined the phrase “swing states.” They haven't used it publicly, because the states concerned would be upset, but it's no secret that people in this town and in Brussels are really worried about what's happening in Bulgaria. They're really worried about what's happening in Latvia.

They're really worried about the way in which Kremlin money and the offer of [inaudible] gas deals has been enough to take it politically, at least in terms of orientation around like that. These countries turned on a dime in our direction after 1991, and that was great. They can turn the other way, too. And we are in real danger of losing some of the gains we've taken really for granted.

I'm not talking about Moldova here. I'm talking about countries in the EU and in NATO and which Russia is buying—which gets us to Western Europe.

If I sat here as your guest 5, 6 years ago and said that the serving Chancellor of Germany in his final weeks in office would sign off on an energy deal which directly threatened not only Europe's collective energy security, but particularly the energy security of Germany's eastern neighbor, Poland, and of the Baltic states, it might have—and not only that, but after he left office, within weeks of leaving office, the same German chancellor would take on the lucrative job of the head of the consortium building this pipeline, of which the economics are totally untransparent.

We have no idea about the internal commercial structure. All we know is that it's being promoted by Gazprom, supported by their German partners. It's going to be immensely expensive. It's going to be guarded by Gazprom's own military forces, who have been authorized under Russian law to use military force as protection. It's going to extend to the Baltic Sea.

And you'd have said I was absolutely crazy. You would have called security. You would have said, “Take this madman out. Send him back to England or to the asylum

or somewhere.” This would have been completely impossible. You couldn’t imagine Helmut Schmidt doing that. You couldn’t imagine Konrad Adenauer doing that. You couldn’t imagine Helmut Kohl doing that. But that’s exactly what Gerhard Schroeder has done. And that’s just the tip of the iceberg.

It’s astonishing to me that the European Union’s ethos to have a collective energy policy, which is so important that everybody agree on paper that if Europe is going to be secure, it must bargain collectively with Russia, it must diversify its gas supplies, and the American government understands this, and it’s astonishing that actually it’s the Deputy Assistant Secretary, Matt Bryza, who’s doing more to defend my energy independence than my own government, and certainly more than the European Union in Brussels, because their efforts are systematically disrupted and humiliated by the very effect of gas diplomacy in Russia.

And so we see the Nabucco pipeline. I’m sorry I didn’t bring a map with me, but Nabucco was a logical, but far-fetched, but logical idea to bring gas from Central Asia through Turkey up through the Balkans and into Europe. It doesn’t need to carry much gas. Even the plan to build it was already showing that the east-west gas monopoly that it has is not absolute. It will give us leverage.

But at every stage of the way Nabucco has been sabotaged. The Russians have stitched up the Caspian, because the Kazakhs see no reason to expose themselves on our behalf, when we appear, they say, irresolute. The E.U. has managed to cold shoulder Turkey to the point that Turkey doesn’t want to help out. The Russians have managed to buy out Bulgaria and pretty much got the Romanians to give up on Nabucco as well. And worse, Austria—the country that was meant to be in charge of Nabucco—has now got a lucrative gas deal and is in bed with Gazprom. Game, set and match to Gazprom, and woe betide Europe.

So these are the threats, and weave cohorts. It’s not about tanks. It’s about banks. It’s about pipelines. The fifth column is not Communist trade unionists wearing suits. It’s people wearing body suits. It’s pinstripe capitalists, who are willing to betray the fundamental values of Western democracy and freedom in order to get a good fee.

And I’ll finish with an illustration. If I turned up in New York or in London or Frankfurt with a suitcase full of stolen Faberge eggs, and maybe some Kavinskys that I managed to swipe from Heritage or some other great Russian art gallery, and I said, “Look, this stuff is not strictly legal. I need a bank to help me sell it and I need a lawyer to make it look legal and I need a PR firm to kind of polish the image up,” they’d call security.

If I turn up with a stolen oil company, which has stolen the money—\$17 billion worth of Western shareholders’ money—that is absolutely fine, and nobody turns an eye.

And then, when the people trying to defend the interests of those Western shareholders in Moscow cite the audit from PricewaterhouseCoopers that says that in the years 2000, 2001, 2002, 2003, those companies’ books were kosher, and so you depend on the auditors—the office had given those orders, which Pricewaterhouse states now it is questionable they should ever got involved in Yukos in the beginning, when it was a very fledgling company, that was the time that Yukos was at the height of its transparency, and then the Kremlin comes calling and says, “Mm, you could lose a lot of business here in Russia if you stick by your client.”

And so what do those heroes do? They withdraw the audit with the weasely explanation, which I put here in the book, that they'd been forced to withdraw the audit, because people were relying on it. That's what audits are for.

And so the new Cold War is not really a confrontation just between a resurgent Russia and a weakened, divided West. It's a conflict inside Russia and inside the West. It's a conflict inside Russia between Russians who see that Putin is phony, that this fantastic windfall of oil and gas money, which could have been used so effectively to modernize Russia, is instead going into the pockets of the crooks and spooks in the Kremlin, and it's a conflict in the West between people who think that only money matters and who think that the three principles which we fought in the last Cold War still matter.

And while I'm delighted that the book is selling so well and I'm delighted to be here, I'm very sorry that it was necessary to write this book, because I didn't think in the early 1990s it would be necessary. And I really I'm wrong. That's annoying.

Amb. BOND. Thank you very much, Ed. It's a very sharp, very pointed analysis, and I'm sure we'll have a number of questions.

I believe the mike at the end of the dais there is working. If you'd like to pose a question, I'd ask that you just identify yourself and your affiliation. And I think we have a—

QUESTIONER. Thank you very much. I'm Zorin Keremozo (ph) of RGI (ph) Television.

You mentioned the lack of leverage from the West to present day Russia because of the changed economic situation from the 1990s. But probably the one remaining leverage that there is are the constant threats, coming from this town anyway, to suspend Russia's membership in G-8. And certainly it has been coming from Senator John McCain, who now seems to be the Republican national front-runner.

Do you think [inaudible] when he is elected as President and comes into office next year, do you think it's feasible that he might, for instance, refuse to invite Mr. Medvedev, someone who has been elected, quote-unquote, in a clearly illegitimate election, and how big an impact do you think this might have?

Mr. LUCAS. It's a really good question. I think we have to separate symbolic stuff based on values and perhaps good stuff based on interests. And we need to talk to Russia about nukes. There's no doubt Russia is a nuclear power. Russia is a space power. Russia has interests in the Middle East. Russia has interests with North Korea.

I'm not arguing that we should isolate Russia on things where we can talk in a heart and head and pragmatic way, just as we talk to the Communist dictatorship in China, Red China.

But I think we have to draw a line of values. And I argue in the book two things, apart from the G-8, which obviously are [inaudible]. One is the Council of Europe. We admitted Russia into the Council of Europe in a great sea of optimism in, I think, 1992, '93, perhaps before even the shelling of parliament and before the first rigged election. That's right.

And we suspended Belarus shortly afterwards on what almost looks like a technicality—one rigged election and a bit of intimidation of the opposition. Things are far worse in Russia now than they were when we suspended Belarus. Russia makes a mockery of its Council of Europe commitments.

It's not just a psychiatric incarceration of dissidents. It's not just the rigged elections. It's not just that you have people being woken from their beds in the middle of the night to be interrogated about the crime of working for foreign organizations.

It's so much. It's just the open contempt with which Mr. Putin speaks of Western values. He thinks it's [inaudible]—well, fine, OK. You cannot be a member of the Council of Europe if you think that way. So I think that would be my first tip.

The second thing is I think we have to make the OECD into a much more effective policeman for good governance of all kinds. The OECD is the Organization for Economic Cooperation and Development in Europe, and it is based in Paris. Economic Cooperation and Development—sorry, I'm going a bit fast, aren't I? You're right.

It's a rich country plum. Russia's just started to get membership negotiations. She's going to find it really difficult to meet the test of like-mindedness, which is the OECD's hallmark.

And the OECD used to be a very boring organization of statistics, but thanks to pressure from the American government's numbers, it's turned into the global policeman on money laundering. It's set up some financial action task force, which is actually really effective, because 30 years ago, you could go into a bank in a Western country with a suitcase full of high denomination bills and pay it in, and that was just normal.

And people said you'll [inaudible] understand between banks and money. It can't be done. Fine. We did. And that's made money laundering more difficult. I think we have to do the same with Western financial markets.

We should say to Russian companies, "If you have a real business, real shareholders, real costs, real customers, real competition, sure, list, sell bonds, that's great. If you are the gas division of Kremlin, Inc., or the oil division of Kremlin, Inc., and your related cost transactions are totally unfair and your beneficial ownership is totally unfair, and your business model is based on stealing assets from other companies, sorry. Try Minsk, but don't come to London. Don't come to New York. Don't come to Turkey."

We have to say there is some moral dimension, some smell test for getting into Western financial markets.

On the G-8 itself, I think the real answer is to drop the whole democracy thing and have a G-15, which talks about serious things, and then Russia can come. If we want to have a caucus beforehand of democratic countries, then let it be free, low governed countries. Then fine, Russia won't be invited.

But I think it's too important to engage Russia on these global issues, and it's important not to send a message that we're just snubbing Russia as a whole and snubbing the Russian people. But I think simply that on its own would be right.

I also think that if we're going to have these tough measures of the Council of Europe and elsewhere, that the United States should reopen serious talks on strategic nukes. I think this administration has been wrong on that.

Mr. KEREMOZO. If I could just ask you about the OSCE, another organization. Russia is a member of it, very critical of it. ODIHR is not going to be monitoring the Russian elections. What's the future here of OSCE? It's been based on consensus, and Russian opposition and demands for change in the organization may threaten its future.

Mr. LUCAS. I think they have not only threatened its future. I think they've doomed it. I think consensus based organizations are great among like-minded countries, and the OSCE was set up in an era when we thought the consensus was going to stretch from the West Coast of America to the eastern shores of Kazakhstan and Turkmenistan, let alone Vladivostok. And that premise has unfortunately proved [inaudible].

It's done some good things. I think that the right thing to do on the OSCE is say to the Russians, "Fine. You broke it; you fix it. We're going to have something else now. You've systematically tried to ruin everything we've done, so you want to share organization? You've got to show organization. When you want to talk seriously, let us know."

But I think we should sense this. I think we should just walk away from these confrontations, stop expending physical capital in trying to persuade Russia to do things it doesn't want to do. But I think ultimately we weaken our own credibility by going along with the pretense that there's anything to talk about.

So we should set up a new election monitoring organization of countries that believe in free and fair elections, and then say, "Anybody who wants to join has to have a complete electoral cycle before you join, and then when you're in, then you accept monitoring that everybody else does." But make it clear that this is based on real values, real habits, real attitudes, and if you don't show them, you can't be in the club.

Amb. BOND. I understand we also have a mic on the right side.

QUESTIONER. Yes, Voice of America, Inna Dubinski. You're writing a book that people who are in power in Russia now want to weaken and to harm the West. What makes you think that? And why do you think that Russia confirms to it?

Mr. LUCAS. Well, take energy security. It is in the West's interests to have a deep and liquid energy market inside Europe and have diversity of supply. That is of paramount interest for all of Western Europe that we should not be dependent on any one supply and any one means of—and that we should have a system that's robust.

I don't get too technical, because I know we're all fascinated by the structure of the European gas industry, but basically Europe is a series of energy islands. The natural thing, if you're managing a monopoly, is not to build lots of interconnectors with the next-door energy monopolies. It's to raise the funds in your own thing. And this is particularly true in Germany, where you have vertically integrated energy systems where the same people could use the power themselves.

Now, the E.U. quite rightly has been trying to liberalize that, and it has been trying to encourage a greater interconnection and has been trying to build the stockpile. Well, that is something that is very good for Europe. And being energy dependent is bad for Europe. And the Kremlin has very successfully sabotaged that.

And at Ukraine, you're seeing Germany coming along saying, "We don't want this. We're not having it." And you say, "Why?" "Our energy industry doesn't like it." If that happened to be [inaudible], they're in bed with Gazprom. Yes, fine. So the Kremlin has a direct voice in European decisionmaking on Europe's energy security.

Now, I don't see that the Kremlin wants to make Europe into a nuclear wasteland, but they want us to be in a position where we can't determine our own future.

QUESTIONER. Hi, Mr. Lucas. I'm Paul Marino with EIR News. I'd like to ask you why should the United States restart the Cold War with Russia? I think it's very dangerous to do that. Remember, Putin has offered us an updated version of Reagan's SDI. He's also offered us some interesting nation building projects in the Bering Straits.

With all their internal problems, we have something that's very similar. We have very similar strategic interests. So why should we begin another confrontation and encirclement with Russia, because, Mr. Lucas, most Americans remember how World War I and World War II were started by the British Empire, and we don't want to—

Mr. LUCAS. Sir, are you from EIR? Is that Mr. LaRouche's paper?

QUESTIONER. That's what I said when I introduced myself.

Mr. LUCAS. I thought—

QUESTIONER. So why should we take your analysis seriously and try to provoke a war with Russia? I think it's not in our strategic interests.

Mr. LUCAS. Right. Let me think how to answer this best. I always recommend to my British friends, if they're going to France, to go to the Normandy beaches. For a generation that doesn't remember the Second World War, it's really important to see the physical reminder of the American sacrifice for European freedom, and I take that tremendously seriously.

I lived in divided Berlin, with the memory of the airlift. My landlady was kept alive by those [inaudible] bombers that brought aid to Germany during the airlift. And despite all the blunders of American administrations and all the cynicism and shortsightedness and general wuffishness of European leaders, that is still a really important relationship.

I'm always profoundly grateful and awestruck by the fact that people in America care about European security. I wish we did more. We should do more of the heavy hitting ourselves, and I'm always arguing for *The Economist*, obviously, very strongly that battered and faded though it is, that relationship is still there. And we still need it. We need it now with Russia.

And it's completely preposterous—the way you framed your question is completely preposterous. We are not starting a new Cold War. The change has been in Russia. We have expanded NATO to countries that felt threatened by Russia. We were right to do so, and every case we've done it has been a success.

Is anybody going to stand up now and say it was a bad idea to bring Estonians into NATO—it was a bad idea to bring Latvians into NATO? If not bringing countries into NATO is such a great idea, wasn't Moldova doing better now? NATO expansion has been a great success.

Missile defense, while it is totally friendly, this is a system that has not yet been built and probably won't work. It's 10 interceptor rockets cannot possibly threaten a nuclear arsenal the size of Russia's. Russia doesn't care about the rockets. It doesn't actually care about NATO. All it cares about is sowing division within Europe and between European and America. And that's exactly what it's succeeding in doing.

Amb. BOND. Is that the way you'd interpret the very developments in the Balkans recently?

Mr. LUCAS. Yes. Russia doesn't care about Serbia. [Inaudible] Montenegro here. When Montenegro broke away, Russia didn't go, "Oh, no! This is a terrible violation of international law. How dare these Montenegrans upset Serbia's territorial integrity." They said, "Ooh, yummy. We should buy that." And boy, they did.

It was just totally hypocritical behavior by Russia. They don't really care about Serbia. What they do see, and what they're very good at, is this sort of opportunistic foreign policy. And they see that as a chance to sow division in Europe and make Europeans feel that they're being interfered with through America. And they're doing that very well.

The real chore is we have to try and make a success across them. A question I always ask the Russians is, "OK. We're going to bring the rule of law to Kosovo. We're going to send policemen, lawyers and prosecutors and judges and bureaucrats. And we'll train them to use government. And we're going to do this to try and make Kosovo work. What

are you doing to make Transnistria work—apart from selling them cheap gas and training their secret police?”

Where’s the Russian ethos in good governance amidst the world edict? We bring a lot to the table. You bring nothing. So why don’t you join us and try to make a success of Kosovo instead of stirring the pot and trying to get more and more people killed, or something like that?

Amb. BOND. That’s a good question.

QUESTIONER. I’m wondering how long you think the current behind-the-scenes coalition that’s running Russia is going to be able to hold together? As you indicated, there’s been an oil windfall. It won’t go on forever. There’s been kind of behind-the-scene seizure of companies. Do you think it will last another 10 years? Or is it something that’s brittle and may break apart?

Mr. LUCAS. It’s a great question. And I do think this whole idea that Putin has brought stability is very questionable, and there’s clearly tremendous frolics going on in the Kremlin all the time. And I lately have followed this closely, when one fascinating interview with a man called Schwartzman gave to Kommersant in November—I’m not quite sure of the timing—and he outlined what he called velvet reprivatization on behalf of his boss, Igor Sechin, a former GRU [inaudible].

And it basically went like this. First of all, we use administrative means to bankrupt companies. Then when they’re cheap, we buy them. And then we sell them off to our friends at a large profit so they can run them lucratively. And we just thought, “Hey, what about whose interest does this come out?” And so we get some fascinating glimpses.

Or the Cherkesov interview as well—again, very, very strange—and why does this guy suddenly speak up? Who’s on which side? And you can sit there with sheets and wade through paper and draw diagrams of FSB here, prosecutor’s office here, terror ministry here, Putin’s office here—who’s with who and who’s related to who? Who owes money to whom? Who owes favors to whom?

And it’s very hard to tell. And I suppose the best of way of looking at it is to say, “Are we watching ‘Casablanca’ or are we watching ‘Gone with the Wind?’” Because “Gone with the Wind”—the audience may be on the edge of their seats, but the actors know how it’s going to end. To box an idea, I don’t give a damn.

But if it’s “Casablanca,” that makes me substantively go along. And so sometimes I think they sat there and they said, “What? Now we need to achieve a goal. It’s A, B, and C, and we’re going to do it by this, that and that. And that means that you tune up against B, the President, for X amount of time. Fine. And then you have a big row with him, and we sell this to him, and that’s how it’s all going to be.”

And sometimes people just sat there in the balcony saying, “What do we do now? We can’t do this. We can’t do that. We can’t do that. I know. Beemer, you do it.” I just think in like mind—sometimes I think it’s not; sometimes I think it’s another, though it is clearly unstable.

I must ask you actually where it’s peace in Moscow at times. Do you think there’s going to be a *putsch*, because the Chekhists have lost out so badly? Maybe it’s yes. Maybe it’s right. There’s been no sign of it yet. But I think the best is if you speak Russian. I think the best way of putting this is to be saying, [untranslated]. We have no facts—only theories.

Mr. MCNAMARA [International Policy Director]. Ron McNamara with the Helsinki Commission. Perhaps “The Godfather” might be applicable in some instances.

Mr. LUCAS. Yes.

Mr. MCNAMARA. You refer to seeming support of the Russian people. And I guess I wonder if you could develop that a little bit more.

I know one of the researchers in town, Sarah Mendelson, has done quite a bit of research in terms of popular views of Russians of all ages. And it seems that Russian youth very much have bought into this notion of the collapse of the USSR being the most catastrophic event of the 20th century. So it doesn’t seem as though iPods necessarily translate into buying into Western ideologies, and so forth.

And this notion that the Russian people should be a bit more concerned about this perhaps shrinking space in terms of breathing room and so forth—so we’re in this odd situation of trying to convince them that it’s in their interest to be more concerned about the situation than they seemingly appear to be.

Mr. LUCAS. Yes. Well, I think this is a real paradox we see here which, coming from a kind of Western, law, government, physical freedom tradition, they’re really hard to understand.

One is that the majority of Russians don’t like democracy—the majority of Russia. And there are lots of polls on this, and you can find all sorts of polls that prove almost anything, but there’s consistent sign of Russians who want less media freedom and less physical freedom, who don’t think that the opposition should be allowed to contend for power.

The most troubling for me—and I mention this in the book; I haven’t mentioned it here—is there is a very powerful theory that in the autumn of 1999, the FSB murdered hundreds and hundreds of Russians in their beds in order to create a climate of fear the idea that Russia was under attack from Chechnyans, the Chechen terrorists, which would then send Putin from zero to hero in the space of a few months.

And that would just be a kind of way-out conspiracy theory, if it wasn’t for the fact that one of the bombs didn’t go off, and it was discovered in Ryazan. And the official explanation for it is preposterous. The fuse was placed by two FSB officers, who stole a car, drove from Austria in the middle of the night, bought some sacks of sugar in the market, put them in an unguarded basement with real detonators and timers. And this was somehow part of an anti-terrorism exercise to test security.

I’m trying to present the official version as honestly as I can. The alternative is this was a genuine attempt to blow up an apartment block, which didn’t succeed.

Now, this has been discussed before Putin goes to [inaudible]. It was discussed a lot since then. It’s been rumbling on. Most of the people who’ve tried to investigate it have been killed, as a matter of fact—Yushenkov, Shchekochikhin; later, Politkovskaya and Litvinenko.

Now, it’s very troubling for me, though. A plurality of Russians think that the authorities had a hand in those bombings, and yet they consent to support Putin, which is a bit like having a plurality of Americans thinking that 9/11 was an inside job, but at the same time Bush having an 80 percent approval rate. It’s almost baffling [inaudible].

And so we have to try and step outside this normal framework analysis and try to see what’s going on. I think to some extent it’s all a reaction to the 1990s. The 1990s were

so upsetting that people are prepared to cut the authorities an awful lot of slack just with the knowledge that tomorrow is going to be pretty much like yesterday, but a bit better.

But the effect of all this propaganda, whether or not it's sincere or not, has been really troubling. I think Sarah Mendelson and Ted Gerber's piece is excellent, except the footnote is wrong. Footnotes 44 and 45 are the wrong way around, I guess. She told me this last night. The study is still accurately named, and you can find it on the edwardlucas.com Web site.

But she showed the most anti-Western people in all the categories they surveyed were the young male university educated Muscovites, the upward generation, exactly the sort of people you would think would be the most liberal.

Amb. BOND. Just to followup on that one, you seem to be suggesting that it's intrinsic in the system. It isn't just the leadership. There is the legacy of Communism and the state of Russian society that contribute to all of this.

Mr. LUCAS. Yes.

Amb. BOND. What really are the prospects? First, is there something to date the resumption of the transition that is urgent or something that more resembles the Western system? Or are we looking at something that's a point of view that's long term.

Mr. LUCAS. I think it's taken some time to embed, and it may take some time to get out. I think that the good news—and it is good news—is that Russia's problems are pretty severe, and just with the Soviet Union, that it's the contradictions within the system, coupled with the relative amiability of the West that brought it down.

Certainly, the contradictions are there. They're not a demography—atrocious demography, just terrifying. We just got a blip up at the moment, because 20 years ago it was a blip, and lots of young women were born then, and they're having babies now. The gates go instant crash in the early '90s, and the women who should have been born to give birth to the next generation of Russians just don't exist, so we're going to see scary acceleration of the demographic collapse. Main life expectancy has actually dropped under Putin, despite everything.

There haven't been improvements in the infrastructure. Where are the motorways? Where are the power stations? Where is the new housing? All that money has come in. It's a trillion dollar investment program they're talking about and just first of all highly inflationary, and inflation is kept artificially under control for now because of the elections. Well, that's an event that has control, since inflation is already a big problem.

What a shame—their inability to spend large amounts of money on capital projects. It always tends to get stolen, as indeed none other than Mr. Medvedev has been complaining. So my hope is that these things, while tragic, not desirable for their own sake, will make Russians increasingly question the incompetent, authoritarian Chekhistocracy, which runs the country.

QUESTIONER. Hi. My name is Diana with EIR News. And I have a question on Kosovo. Do you think some of the advocates working on some of the forces in the United States and some in Europe, that their support for Kosovo independence is not one of a gesture of a concern for their sovereignty per se, but one to create division?

Mr. LUCAS. I don't understand. Sorry. I didn't catch you.

QUESTIONER. I was asking do you think that some of the avid support coming out of the United States and some forces in Europe for Kosovo independence is not one of a

concern for Kosovo's independence or their sovereignty per se, but if it is a move to create another destabilization against Russia.

Mr. LUCAS. No.

QUESTIONER. No. Can you elaborate?

Mr. LUCAS. I just don't know where to start. It's Russia that makes this into an issue. During the 1990s, Russia—I think at probably the high point of constructed Russian diplomacy—Chernomirdin went to Belgrade and got the opposition to stand down. And Russia's a constructive part of Balkan peacekeeping. And we haven't reached a chance of stitching the Balkans back together again—Bosnia, very fragile; Macedonia, fragile—but we are trying.

What will not work is keeping Kosovo in limbo. And what the Russians have done has been to say, "We'll accept the settlements, as long as Serbia agrees." Serbia won't agree, so nothing happens. And we've been round and round the track on that, trying to find something that will please everybody.

Now, I think the Russians could have gone to the Serbs and said, "Guys, this is the best deal you're going to get, and we'll be there. And we can send Russian peacekeepers to patrol the Serbian enclaves, and we can do this and this and that and the other."

But in the end, Russia prefers to see Kosovo as a continuing open wound with all the division in the open, which it implies. And I think the Russian support of Serbia is taken cynically. It's a great business opportunity for them. And they've bought Montenegro, and they have bought the energy industry in Serbia, and they'll buy more first.

I just think your framework approach is so different from mine. I'm not sure I can give you more decent an answer than that.

Amb. BOND. Any more questions?

Mr. LUCAS. Any Russians here who would like to ask a really confrontational question? Is there someone from the Russian Embassy who'd like to come tell me I'm talking nonsense?

Amb. BOND. Edward, thank you very much. Very interesting, very——

Mr. LUCAS. I'd be happy to take more questions informally afterwards. I have a few minutes. And the books are available on Amazon, blah, blah, blah.

Amb. BOND. Very good. Thank you very much. [Applause.]

[Whereupon, at 10:56 a.m., the briefing ended.]



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