

Reflections on the Neva debate

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This is a doubly right time for a further FIRST report on Russia. The interviews and comment in the pages which follow are recorded for the G8 St Petersburg Summit – a remarkable event in its own right, which even a decade ago was beyond confident prediction. The second reason for a fresh look is less cheerful. Russia and its friends in the developed world are once again beginning in some ways to talk past each other. That demands that we all learn again how to listen properly. This report is a contribution to that.

It ought to be a surprising statement that we need to nurture our dialogue. The level of interaction between Russia and OECD countries is perhaps higher than it has ever been. Thousands of Russians visit Britain every year for example. Thousands more live in London and other UK cities. The same goes for Paris, Berlin and elsewhere. Foreign businessmen and women come in increasing numbers to work in Russia, whether for Russian or foreign firms. I have met very few who have remained indifferent to the warm welcome they get from the individual Russians they meet and learn from. Russian entrepreneurs buy up enterprises in other G8 countries, and foreign direct investment in the Russian economy has continued to build up, profitably for the investors, and for Russia too.

The Russian economy continues to grow at a more than respectable pace. While the price of oil and other commodities has of course played a major part in that, so too have the reforms of the first years of this decade, including in particular tax reform and the prudent management of the Russian budget. The latter achievement is particularly striking and important, given the temptations inherent in the build-up of substantial and increasing reserves coupled with the continuing need for investment in basic infrastructure. Those foreigners working in the Russian economy have told survey after survey that they are happy with what they have done, and that they make more money than in some other countries which attract a far higher level of foreign direct investment.

Russian society is changing fast. That fact is not always sufficiently understood in the outside world. What we are witnessing is to some extent generational change, coupled with the enthusiasm with which Russians have seized the chance to make so much more of the potential for common social, intellectual

and business interaction with the rest of the world than was possible in Soviet times. But the main drivers of this change are internal – and that is the crucial and encouraging point. The evolution of a dynamic society and a growing economy depends on the energy and drive of individuals, not top-down pressures. The reality of such energy and drive is palpable in many parts of Russia.

The sea change from the long years when the USSR cherished autarchy is a welcome reality. However short of the ideal it may be, a process of political interaction between Russia and the developed world has gone forward in recent years. In practice, therefore, collaboration between Russia and its European fellow countries, and the G8 as a whole, is in real and continuing evolution.

And yet, the tone is scratchier than it was. Recent Russian polls have clearly shown an increased distrust in Russia of the West and its institutions. That may have something to do with the way that the changes of the 1990s have come to be viewed, as the collapse of the Soviet system fades in public memory in favour of a misty (and disputable) recollection of social reliability in Brezhnev times. And of course, as the quarrels inherent in the divisions of the Yeltsin era as Russia struggled to recover from that collapse are represented as having been misguided, rather than recognised as contributory to the recovery that has been under way since 1998. If democracy is seen as a doubtful word then some of the disrepute rubs off on Russia's democratic G8 partners.

If disillusion inside Russia is one of the factors, it is only one such cause. Historians will no doubt argue as to what should have been done differently, and how Russia's particular choices have been affected by her own history and attitudes. There is however a widespread feeling that after all that Russia is felt to have done for the West, the West should have done more for Russia. While one can argue such a case, there are it seems to me two habits of mind behind this apprehension that bear examination. First, the idea that the West is an entity, a collective body, is not entirely convincing. If you live in the West, it does not feel like that, for you are in the first place aware of the differing points of view of the individual countries, including about Russia. Not everyone would agree which countries are part of this 'West'. For all that the Western members of G8 are also members of common institutions, they make up their

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own minds as to policy – and Japan does too. So while it is convenient and sometimes justifiable for analysts to refer to ‘the West’ as doing this or that, with such and such a set of motives, this can be misleading too. The G8 process, by including Russia, should help to break down this habit of mind.

Second, there are dangers in seeing international affairs in terms of exchanges of favours. What the G8, and other such bodies, are for is to look for mutual advantage, not sort out winners and losers. We have, in fact, been pretty successful together in doing just that, despite times of tension, for instance over Kosovo in 1999.

The Russian Presidency chose themes for this year’s G8 which manifestly call for common examination. President Putin has made health one of the main areas for special action within Russia, and he highlighted his country’s demographic problems in his recent message to the Russian Assembly. We all have an interest in a common and effective approach to these issues and are generally, it seems to me, ready to learn from each other.

But it is the question of energy security which has attracted the most attention. Readers of FIRST will find insights in this edition into Russian thinking. Russia is a major energy producer, and all its G8 partners, not least the Europeans, want a close and well understood relationship with it. At the same time, Russia has made it plain that it sees energy exports as a source of political influence, not just a straightforward commercial matter. Moscow’s contention that customers should enter into a long term contractual compact with Russia as a supplier nation also treads new ground. To the EU, and to other members of G8, it has not been easy to see why a more liberal approach would not work in the future, as it has done well enough in the past. It is not surprising that it has been difficult to achieve full understanding on what the long term relationship may be like. But at least it is reasonable to suppose that some of the underbrush will have been cleared away: after all, this is a relationship which will continue, and therefore, no doubt, a discussion that will have to be pursued.

Energy questions are central to a whole range of wider issues. Russia intends a gas transport monopoly to Gazprom, a company which has benefited from a shift within the management of the Russian economy towards a much greater role for the State. Oil pipelines are under the control of Transneft, another state enterprise. Gazprom has sought a dominant position in the transport networks of independent countries, and its pricing policies were at the heart of a dispute at the beginning of the year with Ukraine. The investment needed to increase, even maintain, Russia’s oil and gas production is vast. Even with high energy prices, the sums needed will not be easy to raise. Laws on sub-soil use and strategic investment, have been under extensive debate. The outcome was not clear by mid-June, but the

tenor has been to restrict the possibilities for the foreign investor the more the debate has proceeded. At the same time, the International Energy Agency has cast doubt on the extent to which Russia will be able, without investing in new fields, to meet existing commitments to Europe, and proposed supply to the East.

I noted above that what Russia and her G8 partners need and want is a relationship that is not just close but also well understood. The St Petersburg Summit should help in the search for that better understanding. Energy is in prime focus, but is not the only point to be touched upon. What is the overarching shape that is foreseen for the State in the management of the Russian economy? What sort of bureaucracy will evolve to meet that requirement? What is the nature of the democratic future that Russia sees for herself? How can the growth in GDP achieved so largely through the energy and commodities sectors be translated into a wider development pattern? How will the financial sector develop? What is the true role for foreign investment to be – not least in the light of the enthusiastic welcome for it elsewhere, and the comparatively low proportion of GDP devoted to investment in Russia? How will property rights and legal protection for them be reinforced, so as further to encourage Russian as well as foreign investment?

None of these questions are new. President Putin has spoken of the need to combat corruption, and to thin out the regulatory thicket which hampers both Russian and foreign enterprise. Nor are such questions exclusive to Russia. Variations of many of them could be posed to other members of G8. They reflect the importance of Russia to the future of Europe, and the wider world. They also, I believe, reflect a desire for Russia to be still more closely involved in that world. If autarchy is not a good option for Russia, neither is it for the rest of us. Although the political pressures may increase – for the 2007/8 electoral cycle is there not just in Russia but in several other G8 countries too, and the EU is engaged in remapping its future – it is reasonable to hope that Russian entry into the World Trade Organisation will be achieved before too long. That will be a major step towards binding us closer together.

It is easy to get discouraged, and we have all read enough Jeremiads in the press to know how to enjoy that melancholy pleasure. But the plain fact is that we have no right to come to a gloomy conclusion about each other and what any of us, G8 or not, may intend. To avoid that, it is best to study the facts, and to put aside the unexamined assumptions that lurk to trap us into thinking that the impressions we may have of Russia, the West, Japan or Italy are a true guide. The St Petersburg Summit comes at a time of achievement, for all the discontents that are there too. We hope that what follows will contribute to building on that progress. **F**