Looking at Relations between Countries: Russia's Relationship with former Warsaw Pact countries – Examples of Bulgaria and Hungary

Chairman: Robert Reilly
Discussion Leaders: Geza Jeszensky & Krassen Stanchev

Bob Reilly: Ladies and Gentlemen, welcome to the next panel, which is looking at Russia's relations with former Warsaw Pact countries, examples of Bulgaria and Hungary. I am neither a historian nor an economist so I am looking forward to learn a great deal from our two distinguished speakers. Shall we begin with Geza Jeszensky, who has served as the Hungarian ambassador to the US and is a former foreign minister as well as a professor of history, who will talk about Hungary's relations with Russia.

Geza Jeszensky: The previous session was very inspiring, for a historian it was interesting to start with strategy, then energy and ending with philosophy. I have to make one remark, I have never been a Marxist and I have never accepted this ideology. I think the conclusion of the previous session was that history is unique and although there is sufficient information about the past, you can really use lessons by only understanding the past. It does not give a guide for the future or perhaps it would, if people were ready to learn from them, but certainly it is commonplace among historians that there is a long Russian tradition going back probably to the Tartar-Mongol invasion and Asiatic despotism. We argue that in the 17th century Russia was pluralistic or not, but certainly we in Central Europe and other countries closer to Russia, have felt in the last hundred years that Russia was an expansionist country. But I have listed in the paper, which I am happy to hear some of you have read, that paper was written for an American audience last year, which I have called "Russia's New Offensive in Central Europe".

Western observers tend to think that Central Europeans, and particularly those nations who in history stood up to Russia's encroachments (particularly Poles and Hungarians), entertain an exaggerated fear, one may say prejudice towards Russia. Notwithstanding memories of their 19th century wars of independence suppressed by Russia, or more recent Soviet applications of the Brezhnev Doctrine, in the bliss of 1989/90, impressed by Gorbachev's renunciation of force to be applied against his unwilling satellites, most Central Europeans felt no animosity towards their former masters. In fact quite a few Hungarians remember fondly that in the last decade before their 1991 departure the soldiers of the occupying forces sold gasoline and many other products rather cheaply on the black market. With the peaceful break-up of the Soviet Union any residue of ill-feeling disappeared, in fact we felt very sorry for the Russian people, who suffered so much under Communism. We, Central Europeans, welcomed that the desire for freedom apparently did not disappear among Russians under the permafrost of Communism, and were ready to establish a new relationship with Yeltsin's Russia, based on mutual interests. We signed treaties and concluded various agreements with the Russian Federation, which appeared to have made a genuine break with the past, both with Communism and with the much older imperialistic policies towards the peoples living west of the Russians. I often said: "How lucky the world was that Yeltsin did not follow the example of Milosevic by

saying: all Russians must live in one state." For twenty-five million Russians, Russia overnight became abroad, a foreign country. Indeed fourteen independent states and nations re-emerged on the map of Europe and Central Asia. Diplomacy became a growth industry, as the current joke went. Whereas eleven former Soviet republics established the Commonwealth of Independent States, apparently seeking a better future for themselves through continued close co-operation with each other, the former members of the by now dissolved Warsaw Pact turned toward Western Europe and the United States, to the western integration structures, hoping to find there both security and prosperity. That held out the hope that history would not be repeated, that domination and misrule represented by a Russian Great Power would never come back, that the bear would cease to be a menace.

The first qualms appeared in December, 1992, with the famous speech by Foreign Minister Kozyrev in Stockholm, but he reassured his audience that it was just a joke, a warning that different policies might prevail in Russia if, in response to unfriendly or just unhelpful policies by the West, the red-brown forces would triumph over the Russian democrats. I started to have doubts about the future course of Russian policy when a few of their politicians and observers started to speak out in support of the conduct of Yugoslavia when even the oldest sympathizers of the Serbs (the British and the French) were turning against them on account of the war crimes committed in Croatia and Bosnia. Neither did I like the term near abroad applied to independent states which had earlier been under Soviet domination. Then Minister Kozyrev, so far the most pro-West Russian politician, stated in January 1994: "The countries of the CIS and the Baltic are the region where Russia's primary vital interests are concentrated. They are also the source of fundamental threats to those interests... We must not abandon these regions, which have been Russian spheres of interest for centuries. And we must not be afraid of saying this."[1] On an official visit to Hungary in March 1994 Kozyrev, with whom I had an excellent personal relationship, said that even Sarajevo was within the Russian sphere of interest. Voices like that, and much stronger ones coming from the Russian Duma only increased the drive of the Visegrad countries towards NATO membership. The more Russia opposed that endeavour, the more the Central Europeans felt the need to join an alliance which guaranteed the independence of its members. Following the first round of enlargement in 1999 (three Visegrad states), the Vilnius Seven (the remaining former members of the erstwhile Warsaw Pact plus Slovenia) intensified their campaign for membership of the Atlantic Alliance, and reached that goal in 2002. Russia apparently acquiesced in this Big Bang, and NATO indeed projected stability into a region which once was full of mutual tensions and territorial squabbles.

Whereas Russia never ceased to show a firm interest in its immediate western neighbourhood: the Baltic States, Belarus, Ukraine and Moldavia, with Putin's presidency a new Central European policy soon emerged. The tanks were to be replaced by shares in companies, especially in those related to the supply and processing of hydrocarbons. In the energy sector the dependence of Central Europe on Russia did not change much, and as the demand for natural gas grew it increased rather than decreased. Janusz Bugajski demonstrated both what looks like a Putin Plan

[1] Quoted by Mark Almond, *Russia's Outer Rim. Integration or Disintegration?* London: Institute for European Defence and Strategic Studies, 1995. p. 7.

and its execution in his admirable book, *Cold Peace.*[2] According to him long-term Russian objectives include "to gain increasing economic benefits and monopolistic positions through targeted foreign investments and strategic infrastructure buyouts in Eastern Europe. This can supply Moscow with substantial influence over any country's economic, financial, trade, and investment policies." (p. 31.) This web of commercial and financial ties buttress political penetration. Nowhere is that more evident than in the energy sector: "Putin has focused on energy as an important factor in foreign policy and the energy companies have become tools of the state leadership. […] The Kremlin calculates that it would be more profitable and politically advantageous not only to control energy supplies but also to refine and sell the final products. Russian company buyouts and ownership of key oil and gas infrastructure in Eastern Europe, such as pipelines, refineries, and storage sites, enables Moscow to uphold additional leverage. Control of energy transport systems has become one of the major elements in Russia's strategy toward former satellites. The energy industry became awash in cash during the last decade and could use these resources to purchase infrastructure and other assets." (p. 37.) In Hungary takeover attempts by Russian companies started already in 2000. For a while the Hungarian chemical firm BorsodChem and others resisted the efforts of little-known Irish, Austrian and various off-shore companies, all having a Russian management, to gain a majority in shares, but with the Socialist Party winning the elections in 2002 the Russian bids, with Gazprom behind them, became successful. What at first appeared to be only a plan in the imagination of nervous Central Europeans who had a long memory, a Russian economic penetration into the former Soviet empire, became an accomplished fact by 2006.

Putin's visits to Budapest and Prague in March 2006 opened a new phase in this offensive. While less successful in Prague, the Socialist-led coalition in Budapest welcomed the chance to boost its trade with the Russians, in exchange for supporting the gas pipeline Blue Stream (later renamed South Stream) over the EU-backed Nabucco project. Malév, the Hungarian airlines, was sold to the Russian Air Bridge Company in February 2007, despite an offer, backed by the EU, which appeared to be better. A year later the Hungarian government hastily signed a contract about a very expensive gas pipeline under the Black Sea through Bulgaria and Serbia, to sidetrack Ukraine and Romania. The terms of the contract do not look advantageous for Hungary, they increase our dependence on Russia without guarantees to have a say over the use of the pipeline. The details have not been made public and it is not going to be submitted to Parliament for approval, although it would determine Hungary's energy supply for 30 years. In the last year we also witnessed several attempts by Gazprom (usually in the guise of other companies, most notably OMV, nominally an Austrian company) to take over MOL, the large oil company, presumably still having a Hungarian majority among the shareholders.

Hungary is the central piece in the Russian buildup. Our northern neighbor, Slovakia, has a tradition of Pan-Slavist proclivities, going back to the 19th century. During World War II Slovak communists were entertaining the idea of joining the Soviet Union as a member republic. The present Slovak government led by Robert Fico has just approved the construction of an extension of the wide-gauge Russian railway to Bratislava, with the likelihood of ending it in Vienna. The political opposition

[2] Janus Bugajski, *Cold Peace. Russia's New Imperialism* (Praeger, 2004)

considers the project totally superfluous. Slovak support for Putin's foreign policies was manifest recently in vehemently opposing Kosovo's independence, and also in denouncing a missile defence system to be deployed in Poland and the Czech Republic. Rather than attending the NATO summit in Bucharest, the Slovak Prime Minister stayed at home to welcome his Russian counterpart.

South of Hungary there are two other old Russian *protégée*s, Serbia and Bulgaria. Russia's stand over Kosovo raised its popularity in Belgrade to a fever pitch, some even advocating Serbia's incorporation into Russia. Bulgaria, too, started to realize its plans, announced earlier, to boost its economic ties with Russia. That goes beyond the recently signed agreement over South Stream, which was described by the *International Herald Tribune* as Putin's redrawing of the energy map of Europe. (January 18, 2008.) On January 23, 2008 the *New York Times* reported: "Four days after signing a major pipeline deal with Bulgaria, the Russian state-owned energy giant Gazprom agreed to buy a 51 percent stake in NIS, the Serbian state-owned oil company. The deal was yet another blow to the European Union's ambitions to build its own 2,000-mile pipeline to bring gas to Europe from Iran and Azerbaijan via Turkey, analysts said." Critics of the government said the deal was bad both politically and economically.

Bulgaria, Hungary and Slovakia are members of NATO and the EU, which makes them more attractive for the new Russian economic offensive. The results, and even more the perspectives, have serious political connotations. Deplorable are the special agreements Germany, France and Italy have concluded with Russia in the energy front, but they do not jeopardize the economic, let alone political independence of those countries. Former Communists, with important family and business connections to Russia, hold important political, military and media positions in those three countries. Lip service being paid to western values should not be taken at face value.

George Schöpflin, a Hungarian member of the European Parliament who grew up and spent the larger part of his life in the U.K., calls Putin's Russia a "consensual authoritarian state, [which] can act more aggressively than a traditional authoritarian system." He recently warned that apart from the capacity of its large state-owned companies to outbid their foreign competitors "the chances are high that *the authoritarian assumptions of the state of origin will be transmitted to the democratic economic space abroad in which it is seeking to operate*." (My italics.) Most vulnerable are the former communist states, where the rule of law is not trusted and the habits of mind of seeing the law as a political device live on still. Here Russia has another advantage, the networks of influence from the communist period may have been neglected during the Yeltsin period, but are being reactivated currently.[3] A young Hungarian analyst, Anita Orbán[4], wrote in a recent essay: "After its diplomatic failures to contain NATO's spread in the mid-1990s, the Kremlin has developed a new strategy, laid out in a 1997 study, calling for economic expansion in the region to counterbalance Western influence. It was a strategy that in a few years would lead President Vladimir Putin to call *Gazprom* an essential tool of foreign policy. In the last eight years, Russian companies entrenched their monopolies over the region's

[3] György Schöpflin, 'Authoritarian capitalism and sovereign economic actors', *Diplomaatia* (Tallinn), Spring 2008.

[4] Author of *Power, Energy and the New Russian Imperialism* (Praeger, 2008 forthcoming)

energy supply, acquiring key energy infrastructure in Slovakia, Hungary, and Bulgaria. Their motives are obvious: a foreign power that controls both the supply and distribution of energy in a country will be able to control or at least strongly influence its domestic and foreign policies. […] Russia's creeping economic expansion threatens the democracies and their market economies of these relatively new NATO members from the Baltics to the Balkans. It is a well-known fact that Russia is encouraging non-transparent business practices that evade the rule of law. If Russia succeeds and controls these strategic industries in Central and Eastern European countries, it will have a spillover affect on their overall economies. Investments of this scale also serve to 'cover or mask' other activities in the region. The Hungarian secret services noted in its annual report in 2006 that Russian intelligence activity had visibly increased in the Hungarian bureaucracy and business circles."

The tools employed by Russia in Central Europe are not restricted to business and high-level contacts. As Bugajski pointed out: "An additional measure for influencing public and political opinion is the purchase of major media outlets in targeted states, especially television stations and popular newspapers with a wide audience. Russian businessmen with ties to the Moscow authorities have endeavored to acquire majority shares or outright ownership of media outlets in a number of countries." (p. 33.) What has not been noted, however, that such Russian influence often appears in the guise of right-wing radicalism. For example it is more than likely that in several seemingly rightist Hungarian, Romanian, Slovak, Serb etc. press organs there is a heavy Russian hand. I am familiar with some which are suspiciously friendly to Putin and his policies (had only praise for the recent Russian elections), while viciously hostile towards the U.S. They also have a love affair with Hugo Chaves and Evo Morales, and also with radical Arab movements. Their line serves two purposes: compromises the centre-right in the eyes of the U.S., and misleads the conservative-leaning public by suggesting that "globalization" symbolized by the U.S. is what threatens Central Europe, not a more active Russia.

Despite the obvious attempt by Russia to drive a wedge into NATO and into the EU, despite the language Putin used not long ago at Munich, and now at Bucharest, despite the resumption of the military parades at Red Square, I do not want to ring the alarm bells that "Putin *ante portas,*" that Russia is back as the adversary of the free world. I only want to warn: *vigilant consules*, the leaders of the western democracies should be watchful of the potential dangers. A famous, shrewd aggressor once put it: "there had never been spaces without a master." Central Europe today is no longer a no-man's land, but in my opinion aggressive tendencies in Russia should not be given a chance to try turning back the wheel of history. Scoring even a small success just wets the appetite of ambitious politicians. If they see openings and opportunities they would not hesitate to use and try to expand them. Despite its unequivocal position on dangerous powers like Iran, Russia is not a security threat today. But it is characterized by widespread corruption; it is notorious for turning away from democracy and press freedom, and for the close relationship between criminals and business. Russia represents also many health hazards; it shows a bad example in its intolerance of political criticism, its attitude towards its non-Russian citizens, its negligence of the environment. Many of those tendencies exist in Central Europe, too. Closer association with Russia would certainly strengthen those tendencies.

At the end of World War II Central Europe was left to the tender mercy of the Soviet Union, mainly as an unforeseen consequence of flawed Allied strategy, because Central Europe was considered to be of no great importance for the U.S. Eighteen years ago, thanks mainly to American leadership, and by making use of a favourable moment in Soviet policy, we managed to liberate ourselves. But the fear persist that Central Europe may be regarded by the U.S. as dependable. As an ally we cannot be abandoned again, but may be neglected. As Ryan Miller, a research analyst at the Center for European Policy Analysis in Washington, D.C., wrote recently: "From Moscow's perspective, Central Europe sits at the center of the chessboard, because the area between the Baltic States and the Black Sea are vital for Russia to re-establish its sphere of influence. Overstretched and confronted with a host of challenges requiring the Kremlin's cooperation, Washington may, under the right circumstances, find itself tempted to trade away Central Europe's security interests to win Russian co-operation on issues it considers more pressing. Besides Georgia and Ukraine, the issue of Iran's nuclear program could provide another opportunity for a trade-off with the Kremlin."[5]

There are suggestions that the Central Europeans should not put blind faith in American support against Russian ambitions, taking it for granted. They should rather try to increase their value by flirting with Russia. Denis P. Cosgrove, a CEPA Associate Scholar based in Washington, DC recently suggested: "A few successful summits with Medvedev's Russia would send a clear sign that Central Europe is no longer to be taken for granted by the United States or EU heavyweights."[6] I do not think that such play would bring any benefit; it would only undermine U.S. confidence in the new allies and would strengthen those who might advocate deals over the heads of the Central Europeans. If Central Europe sticks together, stand up jointly to aggressive tendencies, and present a common platform in Allied discussions, they have no reason to be worried. That is what makes attempts to divide them so dangerous, and that's why the public, the electorate in Central Europe should repudiate those leaders who are ready to play out, foolishly, the Russian card.

The European Union and NATO, led by the U.S., can jointly tackle the new Russia, by re-affirming the alliance and not entering into separate, egotist deals with Putin. At a German Marshall Fund conference on November 27, 2006 in Riga, Latvia Senator Lugar proposed to make the supply of energy an Article Five commitment in NATO. "We are used to thinking in terms of conventional warfare between nations, but energy could become the weapon of choice for those who possess it. It may seem to be a less lethal weapon than military force, but a natural gas shutdown to a European country in the middle of winter could cause death and economic loss on the scale of a military attack. Moreover, in such circumstances, nations would become desperate, increasing the chances of armed conflict and terrorism. […] The Alliance must commit itself to preparing for and responding to attempts to use the energy weapon against its fellow members. NATO must become a reliable refuge for members against threats stemming from their energy insecurity." The Senator belongs to a generation who drew lessons from history. The younger ones should not be oblivious of the price the world had to play for appeasing first Hitler and then Stalin.

[5] *Moscow Times*, March 28, 2008
[6] http://www.cepa.org/digest/central-europes-next-transition.php

The new members, who still remember those lessons, now strengthen the transatlantic link. They should not be considered for any bargain with Russia. Such a policy would eventually lead to the renewal of the confrontation between East and West. Eighteen years ago victory was achieved not by the West but by democracy, by respect for the law and for human rights, and by the chance for prosperity spreading to the poorer half of Europe. That victory should not be jeopardized by shortsighted policies pursued either by the Central Europeans or by their western partners.

Bob Reilly: Thank you Professor Jeszensky, I shall now pass on to Krassen Stanchev, who is the founder and former of the Institute for Market Economy, the first independent Bulgarian, free-market think tank.

Krassen Stanchev: I would like to ask how much time have I got?

Bob Reilly: Twelve and a half minutes.

Krassen Stanchev: I will start from the present day and go back to earlier times.

Bob Reilly: And I will stop you in the 13th century.

Krassen Stanchev: In November 2006 the Russian Ambassador to Brussels announced in an interview, quite widely reported in the international press, that Bulgaria will be Russia's Trojan Horse in NATO and the EU, and he had reason to say so, and at that time I agreed with him.

Today this is not the case, although it was the reality until the recent general elections in July (2009). Perhaps not everyone knows about this, but between 2005 and 2009, Bulgaria was run by a tripartite coalition, of socialists (ex-communists), monarchists and a party representing Bulgarian Muslims. This brought about a peculiar arrangement, with a division of labour, sectors and responsibilities. The Turkish appointees in the executive distributed the EU subsidies, and the socialists dealt with the foreign affairs, energy and military sectors, as well as internal affairs.
A very important factor during this time is that the President was, and still is, Georgi Parvanov, who, as voters learnt in 2006, is a former agent of the Bulgarian equivalent of the KGB. But it was too late to change the election results and Parvanov was elected for a second term. He is staunchly pro-Russian, although I would not call him a Rusophile, he is basically playing the Russians' game and promotes the Russian interest. The Prime Minister of this coalition, Sergey Stanishev, was doing the same thing, with very similar ideas for managing the country. Before that, between 2001 and 2005 the country was led by a coalition of the monarchists and the Turkish party, and the Prime Minister was King Simeon.

What the last government did and how this idea of Bulgaria as a Russian Trojan Horse in NATO appeared, is as follows. Between the end of 2008 and the first half of 2009, the Bulgarian Government spent almost 7% of GDP and basically drained the country's reserves during the crisis (due to tax reductions and the flat tax system Bulgaria experienced fiscal surpluses of 2% of GDP on average since 2000). Half – almost 3.5% of GDP - went to support different Russian projects; some utterly ridiculous, and others of a controversial nature. The most ridiculous project and totally in the Russian interests, on which most of these resources (€ 1 billion) were

spent, although nothing was built, was the planned construction of a second nuclear power plant in Bulgaria, on the Danube at the most dangerous seismological point, near the town of Belene.
While there are many cheaper and more reliable nuclear, conventional and renewable alternatives in Bulgaria, it was a government-supported project, with a government guaranteed credit from *Gazprom bank*. The Belene nuclear power plant was supposed to be built on Bulgarian territory by the Russian company *Atomstryexport* (54% owned by *Gazprom bank*), which was scheduled to control 51% of the plant. The last two prime ministers, King Simeon and Mr. Stanishev, plus the President advocated (contrary to any reliable economic analysis) that the project was in line with Bulgaria's economic and national security interests.

The plan was that Russia would supply the finance, the nuclear fuel, and would recycle the waste, while Bulgarian taxpayers would pay the Russians (*Gazprom bank*). It should be noted also that a) in 2009, according to the energy regulator, Bulgaria's dependency on Russia is 100% of nuclear fuel, 99.5% of oil, 90% of gas, and 50% of coal supplies; b) the Belene project suppresses the alternatives such as domestic lignite power plants (scheduled to start operation in 2010 at comparable electricity prices and environment standards as the existing nuclear plant in Kozloduy), hydro, photovoltaic and wind power; c) the Belene plant will constitute an extra capacity that will be impossible to consume domestically and is unlikely to be exported at a profit. The second most important Russian interest achieved by this Bulgarian Government was the signing and changing the terms of the so-called Bourgas-Alexandropulos pipeline, with Russian companies owning the land and the pipelines (an option that was never on the table before the tri-party executive was elected in September 2005). By then, the negotiations between Greece, Bulgaria and Russia were proceeding normally, with the distribution of ownership on relatively economic grounds, but this policy changed completely in 2005: 51% Russian ownership, 100% land ownership and 30% of the pipeline (thus, presuming almost full Bulgaria responsibility for the maintenance), and the remaining services and fees were divided: 51% Russian and 49% equally between Greece and Bulgaria.

The next controversial project is the South Stream pipeline, which appeared recently, as some sort of a vision by the Bulgarian President and Prime Minister that 'accidentally' coincided with that of Putin. In early 2009 it was announced that Bulgaria fully supports all the Russian projects regarding South Stream, but nobody has ever seen these projects and there was no elementary attempt to assess the costs. But, again the idea was basically the same as the Belene project: Bulgarian taxpayers would support the construction of the necessary pipelines and infrastructure on Bulgarian territory, with finance from Russian banks.

Returning to recent history, I must underline that this government managed to achieve all these services in the Russian interests, because the previous government of King Simeon had laid the foundations. His government did introduce a few interesting policy changes that were not immediately visible in the Russian interests. In 2001, during their second month in office, they restructured Russia's debt to Bulgaria, which roughly constituted 1 billion dollars, to 180 million dollars. The second 'achievement' was to close the Bulgarian KGB archives, eliminating the risk to many a reputation. The third was, under the banner of national unity and moral enhancement led by the former monarch, to include the socialists as the third coalition

member. The next 'achievements' of that cabinet was the earlier (than negotiated with the EU) closure of two old nuclear reactors at the Kozloduy nuclear plant, thus, opening the doors for the construction of a second nuclear power station (presumably to fill the production gap). The background of that policy was the history of Bulgaria between 1989 and 2001. Between 1990 and 2005, Russian custom duties on Bulgarian products were on average three times higher than on imports from other countries in the region. This special treatment was in the expectation of treating Bulgaria as a friendly political regime.

In the early 1990s, I was a member and committee chairman of the Constitutional Assembly. We managed to replace the 1990 pro-Russian, almost puppet government of Andrey Lukhanov (assassinated in October 1996), with a coalition government, that was neutral towards Russia, but very much Western-oriented. On the day after the new executive's election, the then Soviet Union increased the price of nuclear fuel by four and a half times (on 31st December 1990), without giving any notice. (At that time, it meant that for 1991 Bulgaria should pay Soviet nuclear fuel suppliers 52 million dollars, but on 31st November, the Treasury had only 20 million dollars, so the government would collapse, due to a total blackout because of the lack of energy.) The energy dependence of the Bulgarian economy on Russia was then much the same as in 2009. From 1991 until 2005 Bulgarian exports were constantly penalized by high tariffs. Bulgarian officials were expected to prove loyal to Russian interests, as the above story demonstrates. But there are other details in between.

When Parvanov was elected President in 2001, and then in 2002 when King Simeon's government gradually started restoring Russian interests in Bulgaria, the process of proving loyal infiltrated deeply into the structures of the economy. Also affected were claims on the restitution of Soviet properties in Bulgaria (claims were due to Comecon integration as a legacy for the Russian Federation), irrespectively of the afore-mentioned peculiarity of the debt restructuring. When King Simeon restored the public status of the ex-communists, who were responsible for the deepest crisis in Bulgarian history between 1995 and 1997, it was relatively easy to observe, from a Russian perspective, that Bulgaria would be moving, in the next political cycle, towards closer ties with Russia. That is how the famous statement about Bulgaria being Russia's Trojan Horse in NATO and the EU came about.

This is a peculiar Bulgarian story, but should allow for some lessons of international significance. Currently, all these interest slowly erode into government losses and budget deficits, and it is not Russia that should be blamed but the corrupt Bulgarian government leaders at the time.

There are, however, other — often forgotten or not sufficiently deliberated upon — explanations of the Russian political ways. I wish to add few points that come from my professional experience and my work in the Russian Federation, in the countries of the former Soviet Union.

Firstly, economies based on mineral resources are very peculiar, especially when mineral rights come into play – Russia, by the way, is not totally dependent on resources, unlike Kazakhstan, for example. When mineral rights are in state ownership, it leads to a very singular political structure. But what is more important, or probably equally important, are the business ethics that state ownership of mineral

rights typically leads to. In such conditions it is rational for businesses to try and serve those sectors of the economy that generate higher income. So, with the change of natural resources and oil prices at the beginning of this century, different interest groups and businesses in Russia instinctively channelled their services in order to obtain some of the income from the oil industry. Among other things, this created a competition for relationship with those government structures and leaders controlling the mineral rights. And in turn, Russian leaders, to retain control and stay in charge, had a rational response – to obtain stakes in respective industries and enterprises. This created a very special business ethic, which had not existed at the beginning of the 1990s, but it was, perhaps, due more to remnants, mindsets of central planning rather than a conscious behaviour of business groups.

Also important for Russia and Soviet Union successor-jurisdictions are the natural costs of doing business. It is very simple; if you are in Sofia and nobody buys your tomatoes, you hit the road and in 46km you are in Serbia, 100km to Macedonia, 200km to Romania and 100km you reach Greece, and you attempt to sell your tomatoes. In Russia, Kazakhstan, Uzbekistan you cannot do this. You cannot go anywhere. Due to the natural resources, geography and population density most of Russia's ways of doing business are very different from how we do it in our countries. For these reasons, for factors like mineral rights, peculiar business ethics associated with economies based on mineral rights and the size and natural cost of doing business, a peculiar political structure emerges. These factors also increase the level of public ignorance, which explains to some extent the behaviour of the electorate.

In addition, there are some symbolic and perhaps historic attitudes. Even Andrei Illarionov describes 1991 as 'the collapse' of the Soviet Union. In my view it was a natural 'development' of the USSR, and a much better alternative than keeping the Soviet Union at any cost, which could have ended in disaster. I have never met anyone in Russia, from any background or social status, who refers to that period in other words than 'collapse'; everybody calls it *razval*, which in Russian sounds nastier than 'collapse'. It was rather a dismissal of a certain era and a most fortunate event for all, but people do not understand this. Part of the reason for not understanding lies in the origins of the political structures of the former Soviet Union and Russia itself. There was a period when those in charge of the different republics' communist party structures took power. There was nothing similar in New Europe, where we had treaties, political negotiations, round tables, changes of constitutions along old national or more contemporary examples with respect to business and political frameworks, government machinery, etc.

The constitutions of the former republics copied the Russian Constitution with very dubious presidential powers and complicated divisions of control. Moreover, they had a most inefficient government machine, unable to move to smooth transition of power, especially in times of political crisis, and unable to support a peaceful transfer of government duties. Then, there was no restitution of anything, probably due to the very long period since 1917. In 1991 there was no restitution either of property rights or political parties. (In some cases, the restitution of political parties took the form of a farce later, around 1994 and 1995.) I think this also explains the peculiarity of the Russian political system and its conflict with market reforms and the establishment of property rights after the collapse of the Soviet Union. This also explains what Jan says about private business. It is private business, but until the next order, so to say.

Bob Reilly: Thank you Krassen, we will try to follow Silvana's rules of order here and Andrei had the first question.

Andrei Illarionov: It is not a question, but two small comments. The first concerns terminology: saying the Soviet Union collapsed, crashed, decomposed or whatever you like, seems to me that people using these terms do not consider whether it is good or bad, it is just a term. But some people, like Mr Putin, think it is unfortunate, but many people think it is fortunate and use the word 'collapsed'. One more important observation I would like to draw your attention to is that we always use the term Russians and Russia and I think this is not always correct. We have to distinguish between Russia and Russian leadership, Russia and Russian authorities, Russia and the Russian secret police and so. When you think of Russians, remember that many Russian are opposing exactly what you are describing; Andrei Sakharov, Galina Staravoitova, Anna Politkovskaya, Alexander Litvinenko and many more. They were all Russians but they did not have anything in common with those people and were actually slaughtered by the secret police. When you are talking about Gerhard Schroeder, is he actually Russian? No. We have to differentiate between Russians and the secret police.

Geza Jeszensky: In all my statements when I was the Foreign Minister, I always said that the first victims of Communism were the Russian people.

Krassen Stanchev: When I mentioned Russians, I meant the clique around Putin.

Geza Jeszensky: Very few people, if any, believed in Marxism in Hungary in the 1970s and 80s, but today, on all sides in politics we hear Marxist slogans; that we are being colonised by America, Israel, France, Germany and so on. But actually this criticism was not very audible in the 1990s. When Viktor Orban was seen as the leader of the Right, he was well known as being unreliable and had a small number of followers. This kind of attitude is louder today, particularly with the government's bad policies, because ten years ago Hungary was seen as a frontrunner, a leading country in transition. Today, however, in almost all economic data, Hungary is lagging behind all the former Communist countries, and the public feels it through the standard of living. They either blame the government, which is correct, or find foreign scapegoats, which is dangerous and I very much oppose it. I am pretty sure that when we have a better government pursuing sensible policies and not against progress, criticism will subside, unless it is given a lot of financial propaganda support. Some of these ideas used by the radical Right are put on the Internet, and must have been invented by non-Hungarians, and not by ordinary people. Some things are so foolish a sensible person cannot believe in them, but someone us inventing them. I do not necessarily mean Russian, but I simply suggest Russia has some interest and activity in Hungary that surpasses what we feel is normal and acceptable.

Silvana Malle: I think both speakers mentioned the important issue of the near abroad and also the question of Russians investing in important sectors, like energy. So, I was asking myself, what do we make of these relations and this doctrine of 'privileged interests, that has just been recently formulated. When this doctrine was introduced there were different reactions. I think most in the near abroad were

preoccupied and I think rightly so. Then I was also surprised in a book I read recently[7] that Kuchins says that the doctrine is not a big deal. So Russia is speaking of protecting interests, but not of a zone of influence. There are some differences in language, like saying interest in their own former Soviet territory, but that is not a big deal. So I would like to hear the opinion of the speakers here, because I think we should take it seriously. The presence of ordinary Russians abroad is considered as Russian interests. So I wonder if the presence of Russian investment is also considered as a Russian interest, giving Russia the right to intervene, because what we see in the world is a very weakened international economy. The American administration is perceived here as very weak. Several actions have been taken by the US recently, but this administration cannot show that America is the country that it was before. So I ask the question.

Krassen Stanchev: In terms of privileged interests, I think this is a concept that allows use of force and pressure, without a clear definition of what the term means. The first field where privileged interests are to be applied is the so called 'near abroad', and I believe it includes European neighbours plus a few Central Asian countries and China. In my view, these are Russian investments abroad: a nuclear power station in Bulgaria or the pipeline in Hungary. That is my understanding of privileged interests and I believe that the very fact that this policy was announced an opportunity of sorts. In fact I think that tomorrow in the Bulgarian Parliament, they are discussing the possible Russian investment. This concept will be brought to public attention as an argument, not to make any concessions but rather the opposite. I think it will backfire sooner or later.

What I meant, it is rational behaviour to serve the sectors of the economy which produce high income and what is the peculiar constellation in Russia, but also in Kazakhstan, and to a certain extent in Azerbaijan – foreign ownership is much better defined there – rational behaviour occurs during the government's allocation of mineral rights. This was well proven for Russia through Khodorkovsky's case and is proven by the contracts *Gazprom* and oil companies have exploited in Central Asia; and not only the pipelines, but also the railways. So you cannot export a drop of gasoline from any of the Central Asian republics to Brest and perceptively Poland and the EU, without explicit consent of those who control the railways and pipelines. In order to get it right you must undergo a very complicated procedure. I have one simple point to make; Russia's aggressiveness only produces results if people like Stanishev or Parvanov are in power. I would not make any distinction between Russians themselves. In this case it is the fault of the Bulgarian Government: its background and behaviour. I think we can call it a natural disaster for the Bulgarians man-made by their own elected officials.

Steve Pejovich: I have a question for Geza. If I remember correctly, Hungary has huge ethnic minorities: Romanians, Slovakians and Serbians. Has it been possible or maybe necessary for your government to negotiate political and civil rights for these ethnic minorities?

Geza Jeszensky: This is a very long story and I will give a very short answer. Hungary has recently made two commitments; we are very determined to maintain

[7] "The Russia Balance Sheet", Anders Aslund and Andrew Kuchins, 2009

friendly relations with all our neighbours, including giving up any hope of regaining territory we lost. Hungary lost two thirds of its territory, but the condition of accepting this situation, is that we cannot give up the interests of Hungarian communities outside its territory, which are diminishing in numbers. There is an assimilation process that can and should be stopped. We would like to follow the example of South Tyrol and there are many other positive examples. So we should like to see self-government on a territorial or personal basis, but unfortunately our neighbours are not very much in favour. Actually Serbia is a very interesting example at the moment. A few weeks ago they passed a new law offering self-government on a personal basis for all their ethnic minorities. This is the first and only case in the post-Communist world. Hungary continues to be attached to Hungarians outside Hungary, but at the same time tries to have the best relations with neighbours. And the Visegrad Group, which consists of former Czechoslovakia, Poland and Hungary, was really a kind of expression of this dedication that Central Europe wants to co-operate.

Steve Pejovich: Russians have purchased a significant percentage of property in Montenegro. Now I want to offer you two answers to this and what I expect from you, you can guess. I will give you two extreme answers. The first is that this is the money Russian businessmen want to take out of Russia in order to avoid Putin's interest. The second answer will be that this is the money Putin and his friends want to invest to gain access to the Adriatic.

Geza Jeszensky: Well both of the answers are possible and that is why I said that secret services are essential today. Although I do not know if the Montenegrin or any other secret services are able to give this answer.

Steve Pejovich: But can you try to guess?

Geza Jeszensky: I am one who believes in rationality. Therefore, I think that property is a good business and it is obvious for everybody that flats and land are cheap in Montenegro. So if I had to access the money I would be very happy to invest in Montenegro. There are a lot of rich Russians who have a lot of money and may want to take this money out of the country. So they buy a lot of property in Montenegro. That is my explanation. Well, I would not exclude Russian plans to have flats in Adriatic and so on, but anyway it is going a bit too far.

Silvana Malle: I do not know if it is a good or a bad news but Russians managed to buy half of the *Canale Grande* in Venice.

Geza Jeszensky: I just want to say that if Russia were a normal democracy: freedom of speech, rule of law in Russia etc. and also, if Hungary's energy supply was not dependent on Russia's energy supply, I would be much less worried about Russian investment in Hungary. It is good to have a balanced investment in a small country. If the Russians, even with good intentions, buy up Montenegro I would not be so happy.

Krassen Stanchev: One additional point on so-called culture. When you visit not Moscow or St. Petersburg, but go to South Federal *Okrug*, which is Northern Caucasus, Chechnya, Sochi and that part of the country, people celebrate 23rd February as Men's Day. Do you know what the date commemorates? It is the day when Trotsky and Dzerzhinsky signed a law to create the Red Army. I was absolutely

sincere when pointing this out to my female colleagues who congratulated me on that day. I asked them if they knew this? They vaguely knew that the Red Army was founded that day but not by whom. Knowledge of the fact does not change the tradition, plus there is Women's Day too, it was natural to have a Men's Day. Another interesting point is a celebration of 9th of May. Staff with a Soviet USSR background would sincerely congratulate the 200 or so foreigners in my American company, on 9th May. This happened even after we, people from Europe, explained to our Russian colleagues that 9th May was actually the first day of occupation for a good half of Europe, and this occupation gave us 45 very unpleasant years until communism disappeared. Many people are simply do not know these facts and there is no freedom of opinion to change the situation.

Bob Reilly: I would like to thank our panellists and to close the session with the rhetorical question. It is what Krassen has just said, as well as remarks made earlier about the sealing of the KGB archives. Truly there is no answer to this question the economist would exactly give, but I am wondering to which extent has this reform succeeded or have been impeded in any of the former communist countries in line of the title of this entire conference *European Conscience and Communism*, to the extent that which these countries have faced up to the nature of their communist past.