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YEARBOOK
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The *Lithuanian Political Science Yearbook* aims to provide a wide picture of the main fields of Political Science in Lithuania – Political Theory, Institutional Design, Electoral Process, Public Policy and Public Administration, International Relations and related disciplines. However, it is by no means limited to publications on Lithuania or by Lithuanian authors. Contributions are welcome both from Lithuania and abroad.

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PREFACE

We are happy to present the 8th volume of the *Lithuanian Political Science Yearbook*. The main topic of this volume is the energy security of the Baltic region.

Energy security has become an inseparable part of the European political agenda. Europe is facing new challenges in shaping the European energy landscape of the 21st century. Especially it is a big concern for the Baltic region. Russia's and Germany's decision of 2005 to build the pipeline across the Baltic Sea (the Nord Stream project) are widely debated. Although the Nord Stream project will prove beneficial in guaranteeing a more secure European access to Russian natural gas, it has also a potential to increase the dependence of the EU on Russia and will pose environmental and energy-political concerns.

Robert L. Larsson deals with the question: what does the Nord Stream project mean to the Baltic Sea Region? According to the author, one highly serious consequence which Russia takes advantage of is that the Nord Stream project will hamper the development of the common European energy strategy.

Dr. Dainius Žalimas discusses with the legal issues of international law related to the implementation of the Nord Stream project.

In addition, the reader of this *Yearbook* is invited to read two interesting contributions on political philosophy and theory. Prof. L. Donskis analyses the sociogenesis of corruption, a very topical problem of post-communist societies. Jūratė Kavaliauskaitė examines the limitations on relationships among politics, popular culture and the mass media, based on the seriocomic mode of communication.

The *Yearbook* continues analysing the public policy and public administration issues. This time, attention is focused on the formation of the party system in Lithuania. Sverre Arne Lie, a young researcher from Nor-

way, introduces the reversed cleavage model as a theoretical tool to study cleavages in the post-communist setting. Šarūnas Broga joins debates on efficiency measurement methodologies at public service institutions.

The papers on international relations and the Euroatlantic integration are rich in the diversity of academic insights. Their main problems deal with Russian issues. Dr. Nataliya Smorodinskaya concludes that the only true perspective for Kaliningrad is its export-oriented integration in the EU economic space.

Other contributors to the *Yearbook* analyse the dynamics of military integration between Russia and Belarus, and the idea of 'sovereign democracy' in the construction of the Russian-style democracy.

**ENERGY SECURITY
OF THE BALTIC REGION**

WHAT DOES THE NORD STREAM MEAN TO THE BALTIC SEA REGION?

Robert L. Larsson

Abstract. The Nord Stream, previously known as the North European Gas Pipeline, which later changed its name¹, received great attention when it was announced at a trade fair in Germany on 11 April 2005 that Russia and Germany had signed an agreement on constructing the pipeline. The official aim of the project is to bring Russian gas to the European consumer markets, especially Germany. While the environmental and energy-political concerns of the Nord Stream project are widely debated, this article aims to shed some light on the security political concerns of the project. The main objective is to analyse and discuss some of the key points that have been debated during 2006–2007 in order to tackle some common misinterpretations of the project. The point of departure is two-fold. Firstly, Russia is moving away from democracy, market economy and the rule of law and, secondly, the institutional stability and predictability of Russia is low today. It is against this development the Nord Stream project has to be seen.

Background

Discussions had been going on since 1993 and the initial feasibility studies were made during 1997, but after that the progress slowed down. However, In 2002 the idea was partially embraced by the EU and was even declared a priority, which boosted the project and even granted it support from the European Bank of Reconstruction and Development². Nord Stream has provided an extensive notification that should be consulted for the details of the project³.

It is important to stress that Nord Stream is a company that first and foremost exists on paper. It has only about 70 personnel, mainly working at the headquarters in Swiss Zug. Nord Stream does not have any constructors, pipes or staff itself, but will rely on both international and domestic

subcontractors. The *de facto* Russian gas monopoly Gazprom will be responsible for design, construction and operation, but many companies will be involved.

Gazprom owns 51 per cent of the Nord Stream while German BASF/Wintershall and E.ON/Ruhrgas have 24.5 per cent each. During April 2006, Gazprom also announced that another partner would be admitted. The short-listed candidates were Gas de France, BP, Transco and Gazuni. The rationale would be that the project needs additional companies to support its ambition to promoting Nord Stream gas on the European market⁴. As there is no problem of finding customers for Russian gas, this announcement could be interpreted as a new way of building popular support for the project and as an attempt to reduce the negative perceptions of European states. It is also essential to know that Russia sees security of demand as important as Europe sees security of supplies. It is clear that even if new partners will be admitted, Gazprom will keep its 51 per cent stake.

The actual gas for the pipeline is Russian, and the plan has been to feed the pipe from the gas fields in Western Siberia (specifically, from the Yuzhno-Russkoye deposit), although it has been said that gas might later come from the Yamal and Shtokmanskoe fields in the far north. There are, however, many unclear aspects of these assertions, and latest data show that the Shtokman gas is not earmarked for the Nord Stream⁵. There are yet reasons to assume that Shokman gas is necessary for providing enough amounts of gas. Russia has declared that it does not need foreign support for taking new fields into operation, and when it comes to the large Shtokman field Russia will do it alone⁶.

The planned route of the Nord Stream is from Russian Vyborg in the Gulf of Finland to Greifswald in Germany. For long, there was a possibility of a branch also to Kaliningrad, at least according to Alexei Miller, the CEO of Gazprom⁷, but there was also talk about whether a leg would be built to Sweden⁸. According to the official website at the time, there *would be* a spur to Sweden⁹, but Sweden has not officially approved of it and the company Peter Gaz, which is owned by Gazprom, has only raised the topic, but no formal request has been seen at the time of this report. Development under 2007 suggests that the planned route would be near the Dan-

ish island of Bornholm, south of Sweden, due to a border disagreement with Poland.

In contrast to the early plans, Finland has not been invited to join the project in its current form, but there are suggestions of legs to Denmark, Belgium, the Netherlands and the UK. Whether they will materialise remains to be seen, and it is not necessarily the Nord Stream that will push for such projects.

According to the Nord Stream's plans, there will be two parallel pipelines that together will supply 55 bcm/year of gas. Approximately at the middle of the route, there is supposed to be a riser, a service platform, for managing the flow of gas¹⁰. Most analysts agree that the Nord Stream's agenda is optimistic, and it can be questioned whether the pipeline will be in operation in 2010¹¹.

In August 2005, Gazprom started construction of a land-based leg in the Leningrad Oblast¹², which often has been shown on TV. This is, however, not really the Nord Stream proper as this pipeline lies outside the actual project, and is not managed by the same company. The land-based stretch is Gazprom's own project and the pipeline can be used for supplying the Leningrad Oblast with gas or for providing gas for LNG-terminals in the Gulf of Finland.

Apart from the political declarations and initial feasibility studies, the process was also boosted in November 2006 when the Nord Stream submitted a notification of intent to the littoral states of the Baltic Sea. It was basically a series of technical documents that outlined the project and stated that the Nord Stream has the intention to submit a formal application for the project in 2007.

In Sweden, the responsible governmental body for handling the issue is the Swedish Environmental Protection Agency (*Naturvårdsverket*)¹³. It does not make any decisions but merely administers the Environmental Impact Assessment (EIA) process. In the same way as other affected states, Sweden asked relevant national agencies, NGO's and institutions to comment on the notification until the 26 of January 2007. During the following weeks, the reviews / comments from all countries were compiled and distributed to Nord Stream and on the 16 February 2007 to other affected states¹⁴. It

is not unusual that processes of this kind take one to two years; in some countries, for example Germany, it can take up to three years¹⁵.

Legitimacy Concerns

There are three official claims to legitimacy by the Nord Stream. Firstly, the project has been awarded the TEN-status; secondly, there is a need for increased supplies of gas to Europe, and thirdly, spokespersons for the EU and other prominent persons have embraced the project.

Firstly, the Nord Stream emphasises that the project is a *common European project* as it has been blessed with the so-called Trans-European Network-Energy (TEN-E) status¹⁶. In reality, the TEN-E status is not as important as it may seem. The intention is to provide financial support in the initial phase of the project in order to explore multiple options. Projects are also meant to contribute to the liberalisation of the European energy markets¹⁷.

A TEN-E project may be important in several ways, but not necessarily for the whole of Europe. For example, in 2001 Sweden received support for increasing the power transmission capacity in central Sweden, which was important to Sweden but unlikely to benefit any other state. It is also worth underscoring that receiving TEN status is neither a *carte blanche* to the project *per se* nor *vis-à-vis* other projects. This is important, as TEN-E support also has been given to land-based pipeline routes through the Baltic states.

Secondly, the principal position of the EU is that diversification of imports is necessary. Spokesmen for EU, including the EU Commissioner for Energy, Andries Piebalgs, has therefore been positive about the project, but the EU does not advocate the Nord Stream over other options. Basically, any additional supply route would be welcomed. If other voices have to be considered, and there some criticism has been voiced some information suggests that the majority in the European parliament is opposed to it¹⁸.

Quotes by EU representatives or other advocates of the project are often used by the Nord Stream to build further legitimacy, a practice that sometimes is too enthusiastic and the affiliations of the spokespersons are not always revealed. To mention but one example, the former Swedish Am-

bassador to Moscow, Sven Hirdman, gives public presentations, speeches and interviews on the positive aspects of Russia's development¹⁹ and how the Nord Stream would benefit Sweden and Europe²⁰. Hirdman enjoys great respect due to his career, and the Nord Stream posts interviews with Hirdman on its website in order to show the large international appraisal for the project²¹. However, even if his current affiliation does not necessarily affect his agenda, it may also be interesting to know that Hirdman works as a business consultant and is a board member of the company Varyag Resources, a company that deals with investments in Russian commodities²².

Thirdly, there is the issue of the future need for natural gas in Europe²³. While an increased demand for gas is undisputable, it is worth stressing that the level can be questioned, and that the presented figures ought to be scrutinised. In general, energy statistics are always subject to questioning and the case of Russia is particularly problematic as its resources are covered by the law on state secrets and are thus not disclosed in full. When it comes to prognoses of demand, the Nord Stream, however, relies on data from the IEA. When the IEA speaks about meeting the demand and security of supply, focus is usually on diversification of imports rather than on energy conservation. A careful reading of Nord Stream's material reveals that its analysis is based on IEA's so-called reference scenario²⁴. This means that the prognosis is made on certain assumptions on sustained parameters of the energy sector. Basically, this is a 'business-as-usual scenario'.

However, if Europe makes a modest effort to save energy and use energy more efficiently by using existing technology, the IEA's "alternative scenario" reveals that around 90 bcm/year less is needed until the year 2030²⁵. Thus, there are arguments that the need for the additional 55 bcm/year is not as urgent as the Nord Stream claims it is.

If European ambitions to save energy are less serious than what the IEA deems possible, reduction in demand would perhaps reach a level of 30 bcm. If so, it is not impossible that the second Nord Stream pipeline would be superfluous or that an increased capacity of the existing pipelines would be sufficient to meet the demand. Drawing such a conclusion might be stretching things a bit far, but the key point is that demand prognoses are not deterministic and taking them at face value may impede ambitions to conserve energy and invest properly.

Defence, Intelligence and Security Concerns

It would be somewhat bizarre to claim that the projected pipeline constitutes a military threat against the states of the Baltic Sea Region (BSR). However, there are multiple military and military-political aspects and consequences that may be problematic to tackle. One example is that the pipeline is supposed to be protected, both during construction and during the operation phase. Putin has therefore promised that the Russian Baltic Sea Navy will carry out this task that includes protection against terrorism. The fact that naval vessels and submarines are unsuitable for this assignment is not really relevant as Russia frequently practices anti-terrorism by utilising systems of this kind. A consequence will be that Russia's military presence in the Baltic Sea will grow, and possibly other states will follow in order to show flag. Naturally, there is already legal room for this, but the pipeline will give Russia a reason to step up its efforts. If the nationalistic development of today's Russia continues, a future situation of regional frictions with increased attention to power projections cannot be excluded. Any armed hostilities are unlikely, augmenting tension may be seen.

Should a service riser be constructed and staffed according to plan outside the island of Gotland, there will likely be Russian demands of protection. Legally speaking, this would fall under the jurisdiction of Sweden, but as states such as Latvia and Estonia are well aware of, Russia's outspoken intention of protecting its citizens is sometimes blunt. Russia has further declared that it is prepared to carry out preventive and pre-emptive strikes anywhere in the world where Russia's vital interests are threatened by terrorism. This is the task of the Armed Forces and Security Services, especially the FSB.

Moreover, it has been claimed that the planned service platform will become a 'spy base'. Obviously, the service platform will not be a spy base; it is not even for certain that it will be permanently staffed. The tower and pipeline are, however, excellent platforms for sensors of various kinds, for example, radars, magnetometers, hydro acoustic systems and sonars, i.e. electronic eyes and ears that can be used for both monitoring the system and intelligence purposes. It is not a matter of invasion planning, but it will give Russia an intelligence edge in the Baltic Sea concerning all aerial,

surface and subsurface activities – especially around Estonia, Finland and Sweden. This is a situation no state would ask for, if not for integrity reasons. Russia would hardly appreciate this kind of infrastructure near Kaliningrad or Murmansk. Technology exists today, and the fact that surveillance satellites exist is highly irrelevant. The fact that Germany is part of the project is no guarantee against misuse as Russia has a tradition of holding the reins itself.

Confidence and Energy Security Concerns

From the security political point of view, confidence and confidence building are paramount. The Nord Stream consortium speaks about integrating effects of the pipeline and that this creates interdependence and security. This is, however, a European notion. The Russian notion, in contrast, illustrates a standpoint where independence is pivotal at the same time as others should be dependent on Russia. Russia's development thus shows signs of a neo-mercantile posture, although its pragmatic stand puts limitations on this posture. The rationale of Nord Stream is to decrease dependence on third states, which makes it rather awkward to speak about the greatness of interdependence. In short, it hinders confidence building in the region.

An aggravating factor is the complete lack of transparency. Russian energy policy is plagued by corruption, secrecy, and closure of key information and data. This includes the law on state secrets, but also a non-transparent business culture where secret contract clauses are included also in relations with western counterparts, something that upsets shareholders. As the evolving Russian business culture fosters these practices, foreign firms have a decreasing room for manoeuvrability on the Russian market. Therefore, German participation is no guarantee for transparency.

One example of the confidence problem can be underscored. The Head of Dresdner Bank's Russia Operations, Matthias Warnig, is the CEO of "The Nord Stream" project. It is interesting to note that Warnig and Putin, according to some sources of „The Wall Street Journal“, have been acquainted even since Putin's time in Dresden in the 1980s. Warnig was then an officer of the Stasi, the East German Secret Police, and Putin was a repre-

sentative of the KGB in Dresden. Warnig and Putin claim today that they first met in St. Petersburg in the 1990s.

Dresdner was the bank that took care of the assessment of Yukos core assets (Yuganskneftegaz) before it was sold to Rosneft in an assets transfer scheme with shady undertones²⁶. More specifically, the Dresdner Kleinwort Wasserstein, the investment branch of Dresdner bank, valued Yuganskneftegaz to between \$14.7 and \$17.3 billion (after liabilities), but Rosneft in 2004 only paid \$9.4 billion for it. In December 2005, Dresdner also bought one-third of Gazprombank for \$800 million and acted as advisor to Gazprom when it acquired Sibneft for \$13 billion²⁷. There are reasons to believe that there is more to these connections than merely increased bilateral integration of the banking and energy sectors, although that lies beyond the scope of this report to assess. It does, however, show how close the official and commercial ties between Germany and Russia have become²⁸.

For long, there were speculations on both Putin and Schröder taking positions at Gazprom or the NEGP/Nord Stream²⁹. There is no evidence to suggest that Putin would do so, but Schröder was nonetheless awarded the position of head of the 'shareholders committee' of the Nord Stream (which is similar to a board of directors)³⁰. He accepted the position on 9 November 2005 after Putin personally persuaded him³¹, but the official announcement came in March 2006³².

More criticism followed when it was disclosed that Schröder would receive US\$300,100/year for holding this position³³. Moreover, there could also be even larger rewards in undisclosed deals. In April 2006, it was also revealed that Schröder, four weeks before leaving office, had agreed to a financial guarantee of one billion Euros by Deutsche Bank and KfW (the state-owned development bank) to Gazprom. The Merkel government found no irregularities, and the government did not comment on Schröder's position or financial deals³⁴. Criticism from other actors was, however, harsh and the EU Commission has launched an investigation on the suspicion that it may constitute illegal state subsidies.

The case also raises questions about how appropriate it is for a prominent politician to take a job that is closely connected to previous responsibilities after leaving office. The current situation means that Schröder's

successor, Angela Merkel, faces a tougher challenge in improving relations to the Baltic countries and Poland as Schröder's heritage continuously colours relations with these countries. However, during Merkel's first time in office, she took the opportunity to show Russia, the EU and the former Soviet states that it was possible to cooperate with Russia without sacrificing a firm stand on human rights and criticism of Russia's human rights violations in Chechnya. She made it clear that even though Germany retained its position on the Nord Stream project, the relation to Russia was, unlike the relation to the US, not based on common values³⁵. In addition, Merkel raised concerns of becoming too dependent on Russian energy and called for diversification and promoted energy efficiency³⁶. Germany also became annoyed when Russia did not inform it of the actions against Belarus, despite being its preferred customer. The bottom line is thus that the confidence that Nord Stream could have built by having Schröder on the board has been reduced and could even be seen as a liability.

The fact that the Nord Stream, legally speaking, is a Swiss company exacerbates transparency problems, as the insight into the Swiss corporate sector is limited. In conclusion, a situation is at hand where most things can be criticized, but it is highly likely that most of these things should prove to be unproblematic if the insight into the project was better.

Furthermore, the Nord Stream is meant to secure gas supplies from Russia to continental Europe, and the major receiver, Germany, has declared that this is a matter of security. As is all too familiar to Estonia, Latvia, Lithuania, Belarus, Ukraine, Moldova and Georgia, Russia has a heavy-handed approach to its energy policy and has tampered with gas and oil flows at numerous occasions. That this would also happen to Germany is indeed doubtful; the Nord Stream is constructed with Germany in mind. A few things should yet be noted.

Firstly, Russia has severe problems of supplying sufficient amounts of gas due to its nationalistic approach to the upstream sector where investments are turned down and the national champions' outdated extraction models are applied. Simultaneously, domestic demand for gas is increasing. As a result, at least half of the Nord Stream's gas will be rather expensive, which will affect importers of this gas.

Secondly, Germany should not exaggerate its special role vis-à-vis Moscow. During the latest gas and oil row between Belarus and Russia, Russia cut some of the supplies and eventually affected also Germany. Russia had its reasons for cutting supplies, but it is noteworthy that Germany had not been informed beforehand. No wonder Angela Merkel was upset.

Thirdly, Russia is currently forming something like a gas-OPEC together with Algeria, Iran, Qatar and Venezuela. This will be a producer cartel that will have substantial political and economic clout over the EU and its members. In the context of the Nord Stream, the smaller states of the BSR will in their negotiations be faced with an even tougher producer than today. Price hikes and other frictions can be expected.

Strategic Concerns

Whether the strategic pattern is changed or rocked as a result of the Nord Stream is a matter of definition. In the light of NATO enlargement and the fall of the Soviet Union, naturally the Nord Stream is of little importance, although a few aspects should be underlined.

Since Russia will be able to bypass transit states and send gas straight to Germany, the regional balance is somewhat rocked. Russian depletion, increased domestic usage or inability to extract enough gas make the amounts of gas available for exports limited. The Nord Stream will add surplus export capacity in terms of pipelines, and as a result Russia will be able to choose whether its limited amounts of gas should be sold to Germany and the Netherlands or to Estonia and Latvia. This decreases the bargaining position of Estonia, Latvia, Lithuania, Poland, Belarus and Ukraine vis-à-vis Russia. It will also, to some extent, allow Russia to meddle with gas flows without affecting the most important customers, in Moscow's view, namely Germany. Further consequences are that when the level of sensitivity and vulnerability of states such as Estonia and Poland increases, their interest in seeking alternative fuel sources are boosted. Practically, this means renewed interests in shale oil and nuclear power, something that are not always appreciated among the neighbours of the BSR.

In some ways, the increased dependencies of the new EU members force them, in the EU context, to be rather outspoken about Russia's arbitrary

energy policy. In combination with a keen interest in transit fees and the power of the tap that transit states possessed, there is a clear risk that even well-grounded scepticism will be taken as paranoia in Brussels. Thus, if concerns are voiced in a less than diplomatic way, they may well be counterproductive.

Furthermore, the Nord Stream and other advocates of the project claim that the pipeline is a common European and not only a Russo-German project. Nothing could be more wrong. Germany is the only European owner, although Dutch Gasunie may be allowed to take part of the German share in the future. Russia calls most of the shots, and the bulk of the gas is earmarked for Germany. The fact that certain EU Commissionaires have embraced the project is insignificant, and the majority of the European Parliament members actually seem to be against it. Its so-called TEN-status is a support neither for the exact stretch nor for this option vis-à-vis other projects. These aspects can merely be seen as a support for new import routes in general.

Most importantly, the pipeline divides the EU and the BSR into two parts. Of the EU states in the region, only Germany and possibly Denmark have a positive view of the project. Sweden and Finland have been somewhat sceptical, and Poland, Estonia, Latvia and Lithuania are openly hostile for various reasons. It would thus be absurd to see it as a common project that unites the EU and the BSR. One highly serious consequence, which Russia takes advantage of, is that this project will hamper the development of the common European energy strategy. When some members carry out projects without acknowledging the priorities and interests of smaller members, it is a serious blow to the forces of integration and solidarity in Europe.

Conclusions

In conclusion, there is no real military and security threat to speak about. However, there are numerous and highly serious security concerns and consequences that must be dealt with. Most of these do not stem from the steel pipes at the bottom of the sea, but instead from Russia's development away from democracy, market practices as we know them, and the rule of law.

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Parts of this paper are based on the report: *Nord Stream, Sweden and Baltic Sea Security*, Stockholm: FOI, FOI-R–2251-SE and the article “Kas gaasijuhe Läänemere põhjas ohustab meie julgeolekut?” *Postimees*, 14 April 2007, Internet. <http://www.postimees.ee/040507/esileht/arvamus/255124.php>.

- ¹ It has also been labelled the Baltic Undersea Gas Pipeline or abbreviated NEG or even NEP.
- ² Sinijärv, Riivo (2006), ‘The NEGP: Estonian Perspective’, in: Kazin (ed.) *Baltic Mosaic 2006* (St. Petersburg: Baltic Research Center).
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- ⁷ RosBusinessConsulting (2005), ‘Gas Pipeline to Secure Kaliningrad Supply’, *RosBusinessConsulting*, Last accessed: 6 July 2005, Internet: http://top.rbc.ru/english/index.shtml?/news/english/2005/07/04/04133414_bod.shtml.
- ⁸ Moscow News (2005), ‘Russia’s Gazprom Begins Construction of a North European Gas Pipeline’, *Moscow News*, Last accessed: 28 November 2005, Internet: <http://www.mosnews.com/money/2005/08/22/gazprompipeline.shtml>.
- ⁹ NEPG (2006b), ‘Importance’, *The NEGP*, Last accessed: 29 March 2006, Internet: <http://negp.info/>. The early official map also showed that the Nord Stream will run over the island of Gotland – this is not the case.
- ¹⁰ See Nord Stream *Nord Stream Project Information Document...*
- ¹¹ Nord Stream *Säker gasförsörjning...*, p. 22.
- ¹² Moscow News ‘Russia’s Gazprom Begins Construction of a North European Gas Pipeline’.
- ¹³ According to its web site: “The Swedish Environmental Protection Agency is a national authority answering to the Swedish Government. The Agency has a staff of 550, and

- performs a pro-active, co-ordinating role in efforts to strengthen and broaden responsibility for the environment in society at large”.
- ¹⁴ See for example: Naturvårdsverket (2007), ‘Comments on Nord Stream AG’s Planned Gas Pipeline’, *The Swedish Environmental Protection Agency*, Last accessed: 28 February 2007, Internet: <http://www.internat.naturvardsverket.se/>.
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- ¹⁶ Nord Stream *Nord Stream Project Information Document...*
- ¹⁷ See documents at: EU Commission (2007), ‘Trans-European Energy Networks’, *EU Commission*, Last accessed: 28 February 2007, Internet: http://ec.europa.eu/ten/energy/documentation/index_en.htm.
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THE NORD STREAM GAS PIPELINE PROJECT IN THE CONTEXT OF INTERNATIONAL AND EU LAW*

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Abstract. This article deals with the main legal issues of international law related to the implementation of the Nord Stream project, as well as with the possible legal issues that could arise under the EU law if the project will be implemented. The focus of the article is whether the Nord Stream project has been launched in compliance with customary rules of international law, in particular the precautionary principle as reflected in the 1991 Espoo Convention and other applicable treaties. The main conclusion is that both Germany and Russia promoting the Nord Stream project have failed to comply with the precautionary principle, including the Espoo Convention, as well as with other related duties because the existing realistic alternatives to the project have not been assessed; on the contrary, the project has been actually launched even before the necessary assessment of its impact thus trying to leave no alternatives to its implementation. This means also that the parties concerned have not fulfilled their legal obligations in good faith as required by international law. However, no effective legal measures to redress the situation exist under international law, therefore only concerted political actions of all the third parties concerned, including the Baltic States, could help in preventing continuation of the Nord Stream project until an objective assessment of its impact is carried out.

The goal of this article is to briefly review the main international legal and the EU law provisions applicable to the Nord Stream gas pipeline project and to raise problematic questions related to possible infringements of these standards and their improper or unfair implementation. I would like to remind that the Nord Stream, or the Northern Europe gas pipeline (hereafter referred to as the Nord Stream project or Project), is a projected and

* The article is based on the report the author made on 12 February 2007 in Vilnius at the international conference “*Nord Stream* gas pipeline project: economic, political, legal and ecological after-effects to the Baltic Sea region”.

already started to be built natural gas transmission system from Russia to Germany that has to be joint with coastal gas pipes in the said countries. Construction works inland in Russia were started in the fall of 2005, and it is scheduled to finish the project completely by 2010. The project is based on the agreement signed by OAO *Gazprom*, Russia and BASF and E.ON (Germany), and for the successful project implementation these three parties established the joint corporation Nord Stream AG incorporated in Switzerland (the corporation is responsible for the development and building of the sea part, and later it will become a gas transit system operator).

It should be noted that neither the terms of this agreement nor the exact gas pipe path had been publicly known for a long time, therefore, they were reasonably doubted regarding their compliance with the environment control and other requirements. These questions remain open, and only partially and for the first time some clearness was brought in October–November 2006 when the Nord Stream AG provided Lithuania¹ and other Baltic Sea countries with the Project Information Paper (hereafter referred to as the Nord Stream AG Project Information Paper). According to this information, the gas pipeline will go exclusively through the economic zones of five countries – Russia, Finland, Sweden, Denmark, and Germany. It is important to note that, finally, Lithuania and other countries of the Baltic Sea coast are clearly named as affected parties.

Thus, I will start with the provisions of international law applicable to the Nord Stream project, the majority of them being related to the Project implementation stage. Then, I will shortly review the relative EU law rules most of which would be applied after the Project implementation.

Nord Stream project in the context of international law

Assessing the Nord Stream project in the context of the international law, in the first instance the most important norms of international law applicable to its implementation should be specified. These are customary rules reflected in the applicable treaties. The customary rules of international law relevant to the Project are codified by the UN International Law Commission in its 2001 Draft Articles on Prevention of Transboundary Harm from

Hazardous Activities². The content of the customary international legal principles codified in this document of the International Law Commission is developed by the applicable treaties. For the Nord Stream project, the United Nations Convention on the Law of the Sea, 1982³ (also called the Montego Bay Convention) is of a particular importance, and it is a universal treaty incorporating most rules of the law of the sea; also, one more universal treaty – the 1991 Convention on Environmental Impact Assessment in a Transboundary Context⁴ (the Espoo Convention) – establishes specific rules by regulating properly the prior assessment of the impact on the environment, and from this viewpoint developing the provisions of Articles 204–206 of the UN Law of the Sea Convention. Therefore, the basis of this article will comprise mostly provisions of the Espoo Convention applicable to the initial stage of the Nord Stream project because they set the requirements to be met properly before the projects of similar activity are implemented. Moreover, one regional treaty is significant to the Project – the 1992 Helsinki Convention on the Protection of the Marine Environment of the Baltic Sea Area⁵ (hereinafter the 1992 Helsinki Convention), especially provisions of Articles 3 and 7 reiterating the main principles of the marine environment protection and environment impact assessment.

Initially, it should be noted that neither customary international law nor the aforesaid treaties prohibit, in general, gas pipeline or other pipe laying through waters of the exclusive economic zones and continental shelf (such right of states is established in, for example, Article 79 of the UN Convention on the Law of the Sea). However, international law sets particular requirements that the states laying pipes, including gas pipelines, and the persons under their jurisdiction are obligated to fulfil. These requirements are related to environment protection and environment damage prevention, also to the rights and legal interests of the coastal state (the exclusive economic zone and continental shelf of which is being piped).

Thus, taking this into account, I will discuss three main international legal issues related to the Nord Stream project implementation: the precautionary principle and relative duties of states, the principle of states' cooperation and their sequential duties, and the obligation to observe the rights and legal interests of the coastal states. Actually, both states (Russia and Germany) endangering the environment (they are also referred as states of ori-

gin) do not deny their obligations under international law and recognize them; and the Nord Stream AG distributed the said Project Information Document (this way the duty to provide the affected states with information and assess the impact on the environment in advance was observed). Exactly on this document I will ground my assumptions concerning possible breaches of international law during the implementation of the project.

***Precautionary principle and obligation to perform
a prior assessment of the impact on the environment***

The most important principle of international law related to the Nord Stream project and its implementation is *the precautionary principle*, i.e. that customary and other rules of international law related to the environment control are developed on its grounds. Such nature of the precautionary principle and overall recognition is expressed by the provisions of the aforementioned treaties and the UN International Law Commission. As the latter stresses, prevention should be the leading principle of State policy because the damage to the environment is very often inextirpable and its compensation cannot restore the former situation⁶. More specific duties of the parties (states) of origin follow from the general precautionary principle (according to Article 3 of the UN International Law Commission Draft Articles on Prevention of Transboundary Harm from Hazardous Activities it is obligatory to take all necessary measures to prevent damage). In the case of the Nord Stream project, the most important duty is to make a prior assessment of the impact on the environment (Article 7 of UN International Law Commission Draft Articles on Prevention of Transboundary Harm from Hazardous Activities stipulates that decisions regarding dangerous activity must be based on assessment of the possible damage, including the impact on the environment). A more comprehensive regulation of this duty is given *inter alia* by the Espoo Convention.

Considering the actual circumstances related to the preparation and implementation of the Nord Stream project, I would nevertheless state that the states of origin (Russia and Germany) only formally demonstrate that they observe the precautionary principle and the duty it imposes – to perform a prior assessment of the impact on the environment, whereas in essence they infringe this principle of international law and their obligations. I ground my conclusion, first of all, on the fact that it happened

contrary to what should happen according to the precautionary principle, i.e. instead of first performing the assessment of impact on the environment and then making the decision regarding the beginning of the Northern Europe gas pipeline construction based exactly on this assessment, initially the decision was made and construction works were started, and only then they began the assessment of its impact on the environment which in this case is intended only for grounding the already made decision. Thus, in general, it can be said that Russia and Germany infringe international obligations arising from the rules of customary international law fixed by the said Article 7 of the UN International Law Commission's Draft Articles on Prevention of Transboundary Harm from Hazardous Activities. We can also see breaches of obligations under the Espoo convention or their improper and unfair performance. Particularly, I mean Article 2 (3) of the Espoo convention that the state of origin must ensure that the assessment of the impact on the environment shall be performed *before making the decision* to authorise or start the planned activity, i.e. exactly in *the initial stage of making the decision*. Here I will repeat myself that the decision concerning the Nord Stream project is already made and its implementation has already started by laying the inland part of the Northern Europe gas pipeline in Russia, meanwhile the assessment of its impact on the environment is being started only now. I would not consider such assessment as prior. Thus, the assessment of the impact on the environment is delayed, the Project Information Document of the Nord Stream AG does not reflect the real state of the Project implementation because it is stated here that at present the stage of preliminary Project planning is being performed, and in this way the Project is narrowed to its sea part only.

Obviously, the opponents could say that the prior assessment of the impact on the environment is related exactly with the beginning of the gas pipeline construction in the sea, and the Nord Stream gas pipeline project is intended for pipeline construction in the sea, therefore, the prior impact assessment is not delayed and performed before authorising the works in the sea and thus the compliance with the Espoo Convention is formally observed. With such division of the entire Northern Europe gas pipeline project into separate projects of its inland and sea parts, actually the provisions of the Espoo convention, related to the prior assessment of the impact on the environment, are kind of observed. However, in essence, looking not

only formally, with respect not only to the Convention letter but also to its essence, goal and object (for example, explaining the duties of states established by the Convention considering the provisions of its preamble, according to which states should pursue such policy seeking to prevent the basic unfavourable impact on the environment and pay attention to environmental factors in the initial process of decision making), it becomes obvious that the obligations under the Convention to make a prior assessment of the impact on the environment were not fulfilled or, if any, were improper and unfair. The Convention requires to perform the impact assessment before the decision is sanctioned, while the entire Northern Europe gas pipeline project (covering the inland part as well as the sea part) has been actually already blessed, including also the sea part of the Nord Stream project, and the preliminary gas pipeline in the sea and the works necessary for this project implementation have already started in the territory of Russia. So, the principal decision has been made and started to be implemented, therefore, during the evaluation of the states' obligations, the attempt to artificially divide the entire Northern Europe gas pipeline project into its inland and sea parts should not be accepted.

Second, the doubts that the obligations related to the precautionary principle and prior assessment of the effect on the environment are not infringed and performed duly and fairly are fortified by another circumstance of the Nord Stream project preparation and implementation, witnessing an improper and unfair cooperation with the affected states. For example, according to Article 2 (4) of the Espoo convention, the state of origin must in due time inform the affected states about the planned activities. It was mentioned that in the Project Information Document of the Nord Stream AG, Lithuania is named as an affected state, therefore, in general, it had to be well informed about the Project before it had been started; however, this did not happen. Attention to the delayed prior assessment of the impact on environment performance and in general to the lack of information regarding the Project was paid at the end of 2005 at the meetings of the Helsinki Commission (Environment Protection and Biological Variety Group); moreover, approximately at the same time the Baltic Assembly showed its concern regarding the threats of the Project, and on 26 November 2005 this Assembly applied to the Parliaments of the Baltic Sea states, Baltic Council of Ministers and other international orga-

nizations with the request to pay a particular attention to the current situation and take measures that the prior assessment of the impact on the environment is performed properly.

From this viewpoint, the further possible behaviour of Lithuania and other affected states is rather important. The appearance of the Project Information Document of the Nord Stream AG basically started the procedure of consultations with the affected states, i.e. actually performing the impact assessment. The rules of international law, including Article 3 of the Espoo Convention, provides the affected states with the opportunity to participate in the assessment procedure and give their remarks, proposals and objections. Therefore, it is extremely important whether the affected states will be able, and how solidly, to use these rights. In my opinion, attention of Lithuania and other affected states should be focused on the part of the assessment related to the threats of the Project and on available realistic alternatives, especially the Amber gas pipeline alternative. It should be taken into account that according to Article 2 (2) of the Espoo Convention, documents regarding the impact on the environment should comply with the requirements for the content set in Annex II of the Convention, and Article II of the Convention specifies that, if required, the document of the environmental impact assessment should describe the planned activity alternatives, including possibilities to withdraw such activities at all. Since giving the alternatives is formulated as a non-imperative norm (it is not authoritatively required for the analysis of reasonable alternatives and is performed “where appropriate”), all the efforts of Lithuania and other affected countries should be initially directed to convince the Project participants of the need of the alternative analysis. Therefore, a unanimous political pressure of the affected states to perform such analysis is extremely important. The European Commission should not stand off on this issue.

There could be also legal arguments found why during the study of the Nord Stream project’s effect on the environment a comprehensive analysis of the alternatives cannot be considered only as a matter of the Project participants’ discretion and the non-imperative request of the affected states, but it should be obligatory in this particular case. After all, the provisions of the Espoo Convention should be interpreted and applied, systematically, considering the related norms of international law. That is why attention should be paid, for example, to Article 9 (2) of UN International

Law Commission's Draft Articles on Prevention of Transboundary Harm from Hazardous Activities under which all the concerned states (the states of origin and affected states) should look for the decisions based on the equitable balance of interests. In Article 10 of the same Draft Articles on Prevention of Transboundary Harm from Hazardous Activities, there are the factors that should be also taken into account while setting the equitable balance of interests. From these factors defining the different adjusted interests, in the case analysed, the most important are the risk rate of significant damage and the existence of its effective prevention measures, the importance of the planned activities to the states of origin and the possible damage to the affected states, costs of the planned activity considering prevention costs and other possible activity alternatives. Obviously, an objective and thorough evaluation of the Nord Stream project should be performed while analysing the aforementioned factors as well as trying to define the equitable balance of interests. Therefore, it is the equitable balance of interests that could be the main argument of the affected states in proving the necessity to analyse the reasonable alternatives of the Project.

Additionally, such necessity of reasonable alternatives could also be grounded by spotlighting the threats of the Project. For example, the threats, mentioned already from the very beginning by many affected states, are not eliminated in the Project Information Paper of the Nord Stream AG, either. It is worth mentioning that the gas pipeline runs through the areas protected by *Natura 2000*, with more than 100 unallowable spaces between the gas pipeline supports due to which the pipes going on the sea bottom can slip from the supports, be too much pressed, incurved at the middle and deformed and thus cause a threat of huge pollution, also that the planned gas pipeline will cross lots of underwater cables, and finally that the pipe will be definitely laid through places expected to hide conventional and chemical weapons buried in the sea (such possibility is confirmed in the Project Information Paper of the Nord Stream AG which only stresses the necessity of preventive measures). While stressing the mentioned threats, one would logically tend to avoid these threats and to have an adequate interest balance. It is clear that having in mind the mentioned threats and the costs of the Nord Stream project, it would be possible to prove that the Project is not grounded on the equitable balance of interests due to the lack of effective damage prevention measures, that it is

likely to damage the affected states, and in general the Baltic Sea environment is incongruent with the Project and the Project is economically inefficient if compared with its possible alternatives. Here, as an alternative that reflects the equitable balance of interests best, the Amber gas pipeline project could be regarded especially favourably because it would eliminate many threats of the Nord Stream project and be less expensive.

***The principle of states' cooperation
and obligation to protect the environment***

The obligation of the states to cooperate in environment protection arises from the general principle of states' cooperation under international law and from prevention as a special environment control principle. Keeping to this obligation is especially relevant when the efforts of several or more states are needed for a problem to be solved, and almost always when it implies a threat to the sea environment. The obligation of the states is not only of a moral or political but also of a legal nature; it is initially established by the rules of customary international law (for example, Article 4 of the UN International Law Commission's Draft Articles on Prevention of Transboundary Harm from Hazardous Activities establishes that for the damage prevention purposes the states must cooperate in good faith and invoke the competent international institutions, if necessary), it is also consolidated in treaties (for example, Article 197 of the UN Convention on the Law of the Sea, Articles 3–8 of the Espoo Convention, Article 7 of the Helsinki Convention, 1992). This obligation is closely related to the precautionary principle; it is intended for the implementation of this and other environment protection principles. The principle of cooperation and the ensuing obligations complement the precautionary principle. Its essential role in the implementation of the policy of the effective damage prevention is stressed by the UN International Law Commission⁷. Only fair cooperation of the states of origin and affected states can ensure an effective environmental protection, which is one of the most important objectives of international law.

Two main obligations of the states of origin, emerging from the cooperation principle, are to inform the affected states about the planned activity and submit the information related to the assessment of its impact on the environment, also to have consultations regarding the damage preven-

tion measures seeking for the equitable balance of interests. Since the cooperation of states must be fair, the related obligations must be also performed in good faith, without abuse of rights and economic or political power, duly performing other international obligations and with regard of the rights and legal interests of other states. Considering what was stated while analysing the performance of the obligations of the precautionary principle and the prior assessment of the impact on the environment, it can be concluded that the cooperation of Russia and Germany with the affected states till now cannot be treated as fair: neither can it be stated that the states of origin have performed the mentioned obligations emerging from the cooperation principle (for example, there was a delay in submitting the information regarding the Nord Stream project as well unwillingness to seek alternatives of the Project and a solution based on the equitable balance of interests).

That is why Lithuania and other affected states, with the help of their united efforts (if needed, involving the EU institutions and the Helsinki Commission) should seek a fair cooperation between them and the states of origin. Following international law (for example, Article 9 (1) of the UN International Law Commission's Draft Articles on Prevention of Transboundary Harm from Hazardous Activities and Article 7 (2) of the Helsinki Convention, 1992), the affected states shall be entitled the right to initiate mandatory consultations regarding damage prevention and seek a solution based on equitable balance of interests. It is essential to use this right effectively. Also, it is necessary to prepare for the consultations on the basis of the assessment of the impact on the environment, what is mandatory under Article 5 of the Espoo Convention (they must be initiated by the state of origin). During these consultations, it is essential to achieve that the opportunity foreseen in Article 5 of the Convention to discuss the reasonable alternatives of the planned activity shall be implemented.

***Obligation to respect the rights of a coastal state
and comply with its requirements***

The UN Convention on the Law of the Sea (Articles 56 and 77) entitles a coastal state the sovereign rights to explore and exploit, conserve and manage living and non-living natural resources and in waters superjacent to the seabed, on the sea bed and in its depths, and otherwise explore and exploit its exclusive economic zone and the continental shelf. Additionally, according

to Articles 60 and 80 of the UN Convention on the Law of the Sea, a coastal state has an exclusive right to build artificial islands, installations and structures in the exclusive economic zone and continental shelf in connection with the implementation of its rights in these sea areas, also allow and regulate building of such equipment and structures, managing and exploitation, including installations and structures that can interfere with the coastal state's rights in the exclusive economic zone and continental shelf. Though other states are entitled to lay and exploit pipes in the exclusive economic zone and continental shelf, the implementation of this right is limited by the Convention provisions. Particularly, other states have these most important obligations emerging from the respect of coastal states's rights and legal interests (Article 79 of the Convention): it is obligatory to get consent from a coastal state for the laid gas pipeline, comply with the requirements to the pipes set by the legal acts of the coastal state harmonized with the Convention provisions, in connection with the continental shelf exploration, exploitation and pollution prevention and control. So, beginning with the gas pipeline indication and up to setting the environmental requirements, a coastal state has to take legal measures to protect its rights and legal interests in the exclusive economic zone and continental shelf in order they are not infringed and considered when other countries lay and exploit pipes, build other installations and structures. In this way the coastal states, if through their continental shelf the Nord Stream gas pipeline is being laid, can influence its location and building. Considering the mentioned threats to the environment, the coastal states have an opportunity, in general, to disagree with laying the gas pipeline, of course, if they would succeed in a proper grounding of such threats and provide the alternatives of the Nord Stream gas pipeline that would be less dangerous. It is understandable that such possibility would be more realistic, if all the affected Baltic Sea coast states agreed on it.

Besides the ecological considerations, the exclusive rights of the coastal states related to the natural resources, especially oil and gas, are also important due to the opportunities of the Baltic Sea exploration and extraction. Such opportunities can be limited after the implementation of the Nord Stream project, as to some degree the rights of the coastal states related to carrying scientific researches would be limited. A gas pipeline should have a security zone (100 meters to 1.5 kilometers on both sides), and a coastal country could not explore and exploit natural resources in this zone.

Certainly, the majority of these aspects related to the rights and legal interests of coastal state protection are not relevant to Lithuania because the Nord Stream gas pipeline would pass by its exclusive economic zone and continental shelf. However, it may happen that one of the platforms that support the gas pipeline construction will be built in the exclusive economic zone of Lithuania. In such an event, the protection of Lithuanian rights and legal interests could be problematic because the laws on the Republic of Lithuania do not establish requirements for such structures. Therefore, Lithuania should eliminate this gap: respective state institutions should implement act No 1597 of the Government of the Republic of Lithuania, dt. 6 December 2004 “On the approval of the limits of the territorial sea, contiguous zone, exclusive economic zone and continental shelf of the Republic of Lithuania and the assignment of ministries and governmental institutions to prepare the required legal acts”⁸, by which various ministries were assigned *to determine the need* and, where appropriate, *to prepare the laws and regulations* necessary to comply with the international rules on the contiguous zone, the exclusive economic zone and the continental shelf of the Republic of Lithuania and to compile a uniform legal system covering the infringement prevention and the civil or criminal responsibility before 31 March 2005. Finally, Lithuania, like any other state, should perform its international obligations to take all necessary legal, administrative or other measures to ensure the effective pollution prevention, monitoring and control mechanism (such obligations of the countries are established, for example, in Article 5 of the UN International Law Commission’s Draft Articles on Prevention of Transboundary Harm from Hazardous Activities and Article 3 (1) of the Helsinki Convention).

The responsibility of countries for the possible damage

Although responsibility for a possible damage and questions of its compensation are not the main subject of this article, I would like to mention one more work of the UN International Law Commission, pretending to the codification of customary international law – the Draft Principles on the Allocation of Loss in the Case of Transboundary Harm Arising out of Hazardous Activities (2006)⁹. While formulating these principles it was strained to ensure a quick and adequate damage reimbursement to natural and legal persons, including states, when damage is of a transboundary effect (i.e.

arising from activity performed beyond the state borders of the affected state), including damage to the environment (under Article 3 (4) of the Helsinki Convention 1992; in such a case the principle “the polluter pays” should be ensured). It is worth noting that according to the principle of prompt and adequate compensation (Principle 4) established in the Draft Principles of the International Law Commission, every state must take all measures to ensure that the transboundary damage would be promptly and adequately compensated to the persons that suffered from it when the damage occurred due to the activity performed in the territory of this state or because of other reasons belonging to its jurisdiction or activity controlled by this country. It proves once more the state’s responsibility for the activity of the persons under its jurisdiction and under its control and for the consequences of such activity. Most interestingly, in the case of the Nord Stream project it seems that even not Russia and Germany, but also Switzerland where the Nord Stream AG is incorporated would have a respective obligation to ensure damage reimbursement to other countries and their natural persons (therefore the activity of this company belongs, for instance, to Switzerland’s jurisdiction and Switzerland should control this activity). By the way, this fact forces to think whether the Nord Stream AG is incorporated in Switzerland not because this country is not a party to the Helsinki Convention 1992 and is not bound by the provisions regarding the warranty of environmental damage reimbursement.

In some cases, the question of Russia’s and Germany’s responsibility could be discussed. Article 235 (1) of the UN Convention on the Law of the Sea says that states are responsible for the performance of international obligations regarding sea environment protection and preservation. They are responsible under international law. A state is responsible under the international law for any of its breaches. It should be noted that such a breach can be made not only by an action but also by an omission to act, whereas, laying the gas pipeline with no compliance with the sea protection requirements and, for example, breaching the duty to perform a prior assessment evaluation of the impact on the environment or performing it improperly could mean breaches of international law and allow discussing the questions of the responsibility of the states that authorised the Nord Stream project. The fact that for the Project implementation there was a

corporation established and that the Project agreement was made by the companies of Russia and Germany does not eliminate the possibilities to invoke responsibility of respective states: there are criteria in international law, under which the activity of persons acting on behalf of the country or effectively controlled by it can be attributed to the state, and the state becomes responsible.

Possible ways to protect the interests of the third countries

The ways to protect the state rights and the measures of solving conflicts are also beyond the main subject of this article. I will only shortly mention the possible measures that the third countries (including Lithuania) could take in case they decide to protect by legal means their possibly infringed rights. Obviously, the more third countries propose such measures, the better their proposals will be heard.

So, except for negotiations and possible hearing at the international (including the Baltic Sea region) institutions, the third countries have no especially effective measures to protect their rights, in case it is determined that the Project implementation breaches the rules of international law, i.e. the aforesaid legal obligations arising from the precautionary principle and principle of cooperation. The situation is like that because the approval of dispute settlement measures by both disputing parties is necessary. This applies to the international dispute settlement institutions, for example, international legal institutions under the UN Convention on the Law of the Sea and the Espoo Convention – International Court of Justice, International Tribunal for the Law of the Sea, arbitration or special arbitration (for these measures the approval of disputing parties is needed, i.e. they should recognize the jurisdiction of these institutions) – or to the Permanent Court of Arbitration (dispute with the Nord Stream AG according to the regulations of this Arbitration could also be settled only with the consent of this company).

The Nord Stream project in the context of the EU law

The question regarding energy falls into the field of the EU shared competence where the Member States can regulate certain questions as long as they are not regulated by the EU institutions. Therefore, from the point of

view of the EU law, the Nord Stream project is first of all attributable to the field of a particular EU state competence and regulations.

However, because of the Project's effect on and importance to the market, the possibility and necessity of a wider interference of the EU institutions (of course, the range of its implementation depends on the good will of the Member States) cannot be eliminated. The reliability of the transportation of energy resources is one of their conditions of the stable and permanent supply to the EU countries. Without any doubt, the construction of the EU energetics infrastructure and its maintenance must be organized so as the local energetics market could operate effectively and remain close to the strategic and in some cases to universal service criteria. However, while preparing and implementing each particular project, protection of either national or EU economic and other interests (including security) should be ensured. So, speaking about the Nord Stream project, first, it is discussed whether the EU economics will not become dependent on the decision of a country located beyond the EU borders (which, by the way, as regards the universal values recedes more and more from the EU), also whether the energetic security provided by the Project will not become a dependence. Similarly, the threats of the Nord Stream project to the ecological situation in the Baltic Sea region can be linked with the security of the EU States. Considerations of this kind could be a good pretext to encourage the EU institutions (including the European Commission) to interfere while spotlighting the possible alternatives of the Project, evaluating them and undertaking the regulation of the Nord Stream project-related questions to ensure the general interests of the energetic and ecological security of all EU members.

As for the applicable EU legal rules, it should be noted that the Project is mostly related to the competition law. First, it should be considered whether the agreements on implementing the Project could not be attributed to the agreements limiting the competition. Article 81 of the EC Treaty¹⁰ foresees that, as incompatible with the general market, all agreements of corporations, decisions of the company associations and coordinated actions that can influence trade among the Member States and the objective or result of which is the competition interference, limitation or corruption in the general market are prohibited. Attention should be paid to the fact that in this case there are possible several levels basing on which

and considering the details it would be possible to evaluate whether Article 81 of the EC Treaty could not be infringed: (1) agreement between E.ON and BASF (companies that will own 24.5 per cent of shares each in the Project company) and (2) agreement between the E.ON and BASF consortium and the Gazprom OAO.

Nevertheless, the main and most important problem related to the Project and the EU competition law is the possible dominant position abuse in the market due to economic and political interests, and in order to implement the latter to use the economic power of Russia, state aid and price regulation measures.

Prohibition to use the dominant position is established by Article 82 of the EC Treaty. The main index of the dominance in the market is the market share. Though there is no strict definition what share is already a large market share, the Court of Justice of the European Communities in 1991, in the AKZO case¹¹, determined that 50 per cent of the market share is already large. Russia is the main supplier of energetic products to 27 countries of the EU, and half of the natural gas consumed in the EU is imported from Russia. The question arises whether the Russian gas supplier at present (actually the monopolist Gazprom owned by the State and used in its interests) does not approach and whether it has not reached the limit when it will be considered as dominant in the EU market. There is no doubt that the implementation of the Nord Stream project would only contribute to the Gazprom dominance in the market. It is most likely that in this case Russia, through its company Gazprom, could abuse its dominant position by decreasing the number of competitors. This can be confirmed by its economic potential and state aid and the possibility of price fixing. Moreover, the Project would allow to avoid transit countries (first of all the Baltic States and Poland), and this would lower the need to coordinate the gas prices, supply terms and volumes with other countries and would allow Russia and Gazprom to solve these questions even more independently.

In conclusion, it should be noted that nevertheless the bigger part of the after-effects related to the implementation of the Nord Stream project may come out only later; moreover, the information about the Project is far from enough to formulate the more comprehensive assumptions, to confirm them and, especially, to make more categorical conclusions regarding the possible breaches of the EU law.

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**POLITICAL PHILOSOPHY
AND THEORY**

CONFLICTS OF LOYALTY, OR THE SOCIOGENESIS OF CORRUPTION

Leonidas Donskis

Abstract. What are the origins of political consciousness? How does our understanding of political power and its exercise originate in literature? What do we reveal about the nature of corruption and the rule of law rethinking Machiavelli and Shakespeare? In this article, focus will be on conflicts of loyalty and the sociogenesis of corruption, as depicted in early modern literature. In addition, corruption will be analysed as a watershed between premodern and modern political and moral sensibilities.

In William Shakespeare's tragedy *Romeo and Juliet*, the character of Escalus, the prince of Verona, appears infrequently but is nevertheless an extremely important figure. He represents a new type of authority and power structure, profoundly different from the Montague and Capulet clans' essentially traditional kinship-tribal structure of authority and power that is based on family and blood relations. The Montague and Capulet clans divide Verona and all of the social reality it represents into two warring clans, two completely separate zones, and two spheres of loyalty; but Escalus chooses a radically opposing model of symbolic authority and order. In Verona, he creates and embodies a modern structure of authority and power, at the same time laying the foundations for the supremacy of law.

Escalus compels himself to forget his tribesman, relative, and family member in order to be fair to Verona and to the law. Tybalt kills Romeo's friend Mercutio, and at the end of the play Romeo kills Paris in the crypt of the Capulets. Yet both Mercutio and Paris are relatives of Escalus. While the death of Tybalt creates an irresistible urge on the part of the Capulet family to seek lethal vengeance (Juliet's mother speaks of the poison that she herself will find to murder Romeo), the murder of Escalus's beloved cousin Mercutio

only strengthens Escalus's determination to learn the truth and to restore the order and authority of law in Verona. Consequently, when Romeo kills Tybalt in a duel and not only avenges Mercutio's death but also puts to death Mercutio's murderer, Escalus feel no gratitude toward Romeo, but feels the obligation to punish Romeo and to banish him from Verona.

In this work by Shakespeare, the elder Capulet's restless and bellicose nephew Tybalt, who even hates yet unborn Montagues, very accurately represents traditional morality, the vendetta, the metaphysics of family and kinship, and the clannish-tribal structure of authority. Escalus, on the other hand, creates and supports a modern structure of power and authority. He seeks truth and justice. (After the deaths of Mercutio and Tybalt, Escalus, arriving on the scene, asks Benvolio, as an honorable young man of untarnished reputation, to tell him the whole truth – exactly what had transpired.)

In a pre-modern, hierarchical society, family, blood relations, tribe, relatives, and clan become the sole social building blocks, also the sole space for the construction of social ties, loyalty, and solidarity. In a modern society where initial equality becomes increasingly clear, the main elements of social ties, loyalty, and solidarity become love, friendship, and patriotism. Here, of course, we consider modern patriotism in a wider sense and not only as a tie to one's native town, native language or country, but also as love and respect for the place where it is possible to seek truth, justice, and a reliable social and moral order, together with authentic authority.

In falling in love with Romeo, Juliet is choosing someone distant; she understands that her family and friends hate the Montague name and have long forced her to hate it also. She is choosing an unknown person, but not this person's name and her family's hate for that name. She is choosing a person, not words. The friendship between Romeo and Mercutio also transcends the boundaries of clannishness; each is ready to sacrifice his life for the other, even though they are not related by blood. Finally, the prince Escalus chooses not revenge and the unconditional defense of his relatives, but justice and the rule of law. If we consider love and friendship to be the primary forms and expressions of modern society, i.e. modern social ties, loyalty, fidelity, sacrifice, and consciousness embodied by action, then we will have to acknowledge that Shakespeare reveals the birth of the modern person and the structure of modern authority.

Thus, what does Shakespeare's *Romeo and Juliet* reveal? First, this work reveals modern feelings – love and friendship – and their sociogenesis. Love and friendship emerge here as the feelings of a modern person. In fact, we could simply call them modern feelings. When thinking sociologically, one is always drawn to oppose law to family – these two principles that have battled each other fiercely for many centuries in Western and other civilizations¹.

In the 20th century, the challenge of La Cosa Nostra to the modern state and its institutions of power is nothing else than the struggle between kin and law – between the family and the rule of law, also a confrontation between pre-modern and modern forms of social organization. But clan and relatives we can also confront with friends and loved ones. For a member of a clan, friendship or love for someone who is outside of the family's interests, its power and control, may lead only to the disapproval of the family or even great misfortune.

The conflicting objects of loyalty and fidelity sooner or later will force an individual to choose either family (clan, relatives, blood) or freedom and the responsibility for one's own person and identity (love and friendship). In the metaphysical world of tradition and blood, one does not have the freedom to choose the object of loyalty and at the same time be responsible for one's identity; one can only be inserted, as both the object of loyalty and the structure of identity exist beforehand. Therefore, love in the modern sense does not exist in the pre-modern world.

Not only Romeo and Juliet experience unbearable and mortal conflicts of loyalty. As already mentioned, Romeo's friend Mercutio is a relative of Escalus, the prince of Verona. Mercutio's loyalty to his friend, however, clearly becomes more important than loyalty to the clan, natural in that era. The prince strictly forbids the settling of quarrels and disputes by duel or armed combat, but his relative Mercutio, who is related neither to the Montagues nor the Capulets, is the first to violate the prince's order by defending his friend's injured honor.

In the modern world, a person is always faced with the basic choice: one can abandon a blood relative whom one never has had the opportunity to choose, and freely pick a person not related by blood but dear to the heart and to the mind, i.e. a loved one or a friend, or renounce the intimidating

principle of freedom and return to one's origins – family, relatives, and clan. Whether we like it or not, freedom inevitably takes us farther away from these things. In fact, in the life of a free and modern person, a loved one, a wife, and a friend are immeasurably more important than relatives and clan. A traditional, pre-modern person (and even modern society is full of pre-modern persons) chooses forms of inherited social ties and identity. A modern person, on the other hand, has the courage to choose them himself.

In this regard, a fundamental conflict between pre-modern and modern ways of thinking and structures of loyalty occurs in the tragedy *Romeo and Juliet*. Romeo, Juliet, and Mercutio are truly modern beings, while the Montagues, the Capulets, and especially the belligerent nephew Tybalt represent the consciousness of relatives and the clan. Shakespeare's greatness stems from the revelation of this great social transformation; reading *Romeo and Juliet* one starts to discern a modern person of the metaphysics of freedom and choice, who is not recognized by the pre-modern person of the metaphysics of tradition and blood, who feels unbridled hate for the modern person. This is Tybalt's hate for Romeo. This is also Tybalt's anguish and despair that for incomprehensible reasons and silly circumstances he ends up clashing swords not with his hated Romeo but with Mercutio, whom he respects and whose aristocratic, free, and fearless disposition he secretly admires.

Classical literature often does a better job of revealing the organized world's forms of power and authority structures than do works of political philosophy. For example, the true meaning and purpose of Niccolò Machiavelli's work of political philosophy *The Prince* cannot be understood without reading his comedy *Mandragola* which depicts the incredible corruption and immorality of Florence. The young Callimaco, returning to his native Florence after having lived in Paris (there is an obvious autobiographical element here – Machiavelli had lived in Paris as ambassador of Florence), becomes enraptured by the young but married Lucrezia and seeks her favour by all the means at his disposal.

Callimaco, having duped Lucrezia's rich, old, and foolish husband Nicia, who wants to father a child and believes that a portion from the root of the mandrake plant will help him have a child with Lucrezia, succeeds in his efforts and begins an affair with beautiful Lucrezia. Nicia believes Callimaco's story that a woman who has drunk a potion from the root of the mandrake

plant inevitably would conceive, but, unfortunately, the man who has impregnated her will die immediately thereafter. Therefore, they must find a pickpocket or some other vagrant, make him drink the potion and let him into Lucrezia's bedroom. She will then be able to be impregnated by her real husband, while the dead vagrant will not be missed by anyone. Not surprisingly, Callimaco disguises himself as the vagrant and ends up with Lucrezia. They truly fall in love and decide to never part.

For our purposes, however, that is not the point. Callimaco easily bribes all the Florentines whom he needs, regardless of social class – not only the crooked Ligurio, but also Lucrezia's mother Sostrata who for money sings to her married and decent daughter the praises of a stranger and explains to her that an affair with another man is in no way a sin. Lucrezia's confessor, Fra Timoteo, also receives a large sum of money and echoes Sostrata enthusiastically.

This is where everything becomes clear – no brutal military force is needed to conquer the immoral and corrupt Florence. The city has almost completely degenerated. Thus, it was not only the fragmentation of Italy and the fierce struggles between the city-states, but also the lack of a reliable social and moral order and an utter demoralization that allowed well-organized and centralized powers (such as France or Spain) to conquer easily the Florence that Machiavelli loved so much.

Here is the thematic and problematic bridge to *The Prince* – in this medium of such corruption and contract murders only a leader who has mastered the technology of power can survive; a leader whose goal is not to be power itself, but to restore the order and rule of law of the Roman republic. After all, Machiavelli himself was a humanist of the Renaissance (in spite of the unusual nature of his proposed link between honesty and political power), who was satirized or even demonized by 16th century Elizabethan poets and playwrights, such as William Shakespeare, Ben Jonson, and Christopher Marlowe as well as political thinkers of the 18th and 19th centuries².

We would be naïve to think that pre-modern structures and forms have become extinct in the modern world. They have not gone anywhere. We are continually balancing and choosing between them. The conflict between the pre-modern and modern forms of power, loyalty, and authority is constant in modern society. La Cosa Nostra, the mafia in general, and

even corruption often illustrate not the abstract faults, the cruelty, the evil, etc. of people, but the conflict of loyalties, when family (or relatives or the clan) come into conflict with the state, the blood, and the law. In essence, the mafia is a symbol of the struggle of the family and clan against the modern state and its cold, faceless institutions.

The psychogenesis and sociogenesis of corruption lead us to the structure of blood-tribal loyalty or simply to the morality of the clan, transplanted to modern society, to the modern state and its institutions. This is frequently the drama of conflicting loyalties, which entails solidarity and adherence to a moral code at one level, and violation of the law at another level, e.g., exalting the interests of the clan, family, kin, and friends above the law and civic loyalty. This is almost the paradigmatic model of modern corruption; we know it as nepotism, favoritism, and clientism.

In other words, every modern society and modern culture incorporates a remnant of a tradition or custom, which, even if it has been significantly transformed and has vaulted over modern social ritual and mentality, can still influence public life. Let us suppose that such a remnant of a tradition or collective behavior is the toleration of bribery of officials – this is the source of the “culture of corruption” or “culture of bribery.”

There can be various sociocultural and sociopolitical combinations here; this can be the encounter of Western rule of law and the Western model of social and moral order with the legacy of another, non-Western civilization (e.g., the bribing of officials). In this case, we should recall many of the former Soviet republics, and not only Central Asia or the Caucasus, but also Russia itself. Perhaps we see not the consolidation of Western expert bureaucracy but more likely the consolidation of Eastern – procedural and ritual – bureaucracy according to the Western model in a more or less modern society that has undergone the intense social change and transformation. Examples here could be Russia and many other states of the CIS, partially also Lithuania, where endemic corruption is spoken of increasingly frequently.

The Soviet Union safeguarded and even reinforced the Eastern type of omnipotent bureaucracy – procedural and ritual – by creating in the Soviet Union and in the “people’s democracies” a *nomenklatura* or, in the words of Milovan Djilas, the Montenegrin-born Yugoslav political writer

and thinker, a new ruling class. In 1955 Djilas published an insightful and revealing book, *The New Class: An Analysis of the Communist System*. In this book, Djilas wrote that Communism in Eastern Europe was not the egalitarian society that it claimed to be. Instead, he argued, the Communist Party had established privileges enjoyed by a small group of party members (the New Class). Djilas's ideas about the new ruling class were an ambitious effort to comprehend the sociogenesis and psychogenesis of the Communist nomenklatura. His ideas harked back to what George Orwell in 1984 had described as the Inner Party in the theory and practice of oligarchic collectivism.

Djilas's ideas were also reminiscent of the 1940 book *The Managerial Revolution* by James Burnham, now almost forgotten but influential at the time (and which also inspired George Orwell), which warned the world about the dangerous consolidation of the new political-economic managerial class that was causing a revolution in the modern world³. To be sure, Djilas, unlike the former Trotskyite Burnham, understood that a new type of political bureaucracy had formed in the Soviet Union, which had all the levers of power in its hands and had almost nothing in common with the Western type of bureaucracy which was rationalizing the role of the state in a modern economy and participating in the redistribution of economic and political power.

The nomenklatura in the Soviet Union – in a state that during the era of Leonid Brezhnev reached perhaps a never-before-seen level of corruption which was officially tolerated even by the top leadership of the Communist Party – reveals perfectly yet one more mechanism for the blossoming of modern corruption. We have in mind the omnipotence of bureaucracy. In the Soviet Union, the great power of bureaucrats to a great extent caused endemic corruption; e.g., desiring to have a flat and waiting in a special queue for this purpose, it was simply not possible to bribe officials who did not have the power to make decisions in this process.

It was not the mid- or low-level bureaucracy but the upper layers of the Communist Party that distributed privileges and benefits directly; therefore, the attendant corruption automatically made its way up to the very top of the party and its layer of functionaries. Arbitrary power, together with the nomenklatura's service to its own group, with unconditional loy-

alty to its own clique, with nepotism and clientism, created a corrupt system legitimized by the Soviet nomenklatura.

As we have already mentioned, however, it would be inaccurate and wrong to put the blame for the entire phenomenon of modern corruption on the dramatic conflict between tradition and modernity or on the conflict of values in societies that are less developed than Western Europe and North America and are undergoing change or intense economic and political transformation. It is clear that in our day corruption exists also in liberal democratic countries that have long traditions of the rule of law, freedom, democracy, equality before the law, and coordination of different group interests.

Today's societies face challenges such as these:

- (1) the opaque links between the corporate and political worlds;
- (2) the relativity and flexibility of the demarcation line between politics and business;
- (3) the creation and consolidation of the politician-businessman model in countries having weak traditions of democracy and civic society; e.g., in Lithuania and in other countries of Eastern and Central Europe this unsettling tendency is accompanied by the consolidation of populism and other new forms of manipulation of mass consciousness and public opinion;
- (4) the lack of transparency and clear criteria for the support and financing of academic, artistic, scientific, and in general creative projects;
- (5) the disregard for criteria of creative achievement and quality, using instead rhetoric beneficial to bureaucracy, politically beneficial phraseology and simulation of values;
- (6) the direct and growing dependence of scholars and artists on funds and their bureaucracies, and the respective continuous growth of the power of scholarly and cultural functionaries;
- (7) the merger of the media, the corporate world, and politics.

Corruption can take root wherever the criteria for evaluation and the rule of fair play are wobbly, also where society and culture are institutionally "rationalizing," and the mediators performing the distribution of power gain more influence and prestige than those whose creativity and ideas

they support and foster. At the same time corruption in modern society encourages one of the most destructive trends of modernism – the instrumental mind and the dominant role of the instrumental morality it creates (as Zygmunt Bauman would say, “morality without ethics”), accompanied by the fragmentation and waning of the public space.

Nevertheless, the problem of corruption reminds us in one way or another of the tension among loyalty, arbitrariness, fairness, and accountability. We are forced to combine and apply our moral and political sensibilities as well as our codes of behavior, as their separation or even conflict create sources of corruption in ourselves and in our society.

NOTES

- ¹ For more on the myth in love, love and death, and the history of love in the Western world, see Denis de Rougemont, *Love in the Western World* (Princeton, N. J.: Princeton University Press, 1995).
- ² For more on how Niccolò Machiavelli was miscast and even demonized by English poets and writers in the Elizabethan age, and how he was treated by philosophers of the Enlightenment in a rather ambivalent fashion, see Ernst Cassirer, *The Myth of the State* (London & New Haven, Conn.: Yale University Press, 1974), pp. 116–128.
- ³ For more on James Burnham’s influence on George Orwell, see Leonidas Donskis, *Forms of Hatred: The Troubled Imagination in Modern Philosophy and Literature* (Amsterdam & New York: Rodopi, 2003), pp. 111–112; Leszek Kolakowski, *Main Currents of Marxism: Its Origins, Growth and Disolution*. Vol. III: *The Breakdown*. Trans. P. S. Falla (Oxford & New York: Oxford University Press, 1990), pp. 165–166.

SERIOCOMIC TELEVISION: THE PUBLIC SPHERE À LA *COLBERT REPORT*

Jūratė Kavaliauskaitė

Abstract. The article examines limitations of the predominant theorizing on the relationship among politics, popular culture and the mass media. It aims to set up landmarks for the meaningful extension of the idea of the public sphere by mapping political relevance of hybrid entertainment media genres based on the seriocomic mode of communication. Ambivalences of such communication are discussed to raise the argument that aesthetic elements do not preclude the cognitive and political value of seriocomic television discourse on the side of the viewers as citizens, and the issue asks for further research.

Introduction

In autumn 2005, the American cable television *Comedy Central* presented a new satirical programme, *Colbert Report*.¹ On the inaugural episode, the comedian Stephen Colbert coined the neologism *truthiness* which was soon to become a buzzword to define the state of journalism and politics in the United States.² It is a challenge to find a proper equivalent of the word in the Lithuanian language. Attempts of linguists to derive *truthiness* from the English anachronism *truthy* and imply the word meant *truth*, *truthfulness*, *faithfulness* missed intentions and ironies of its authors. *Truthiness* represents neither truth nor a pack of lies, it means things that “a person claims to know intuitively or “from the guts” without regard to evidence, logic, intellectual examination, or actual facts”³. An overt declaration of loyalty to this paradoxical way of communication with audiences implied *Colbert Report*'s intent to lampoon televised political pundit debates, to question the credibility of the communicative strategies of “serious” American political programming as well as its contribution to the quality of civic life.

One might argue that *Colbert Report* is a pure expression of mass media decadence. However, it gives evidence that the present public spheres are open to new, extraordinary political vocabularies which engage and gain popular appreciation but remain at the outskirts of mainstream academic debates or meet a one-sided critique. Considering the tendency, the article responds to the following argument: “political science continues to expend energy focusing on the formal political arena with minimal attention to the cultural factors that often precede political action. The traditional bounded nature of politics (culturally *and* academically) has transformed into a more porous position in media and culture, and our methods, approaches, and targets of analysis should reflect those changes”⁴. The article examines limitations of the predominant theorizing of the relationship between politics, popular culture and the mass media in political communication, culture, and media studies. It aims to pave the way for a meaningful expansion of political analysis by taking to the forefront particular styles of communication and practices of the cultural sphere that are normally considered politically irrelevant or incompatible with liberal democracy values.

The article scrutinizes the intellectual critique of culture industries, consumerism and commodification of the mass media that prevail in critical social theory, as well as normative concerns of public sphere theorists about the decline of civic communication. Alternative insights and results of media sociology, anthropology, television ethnography and audience research are analysed to reveal the volatile and multifaceted nature of the present mediated social and political life. Special attention is given to hybrid television practices, a mixture of documentary and fiction genres, civic enlightenment and entertainment, as well as humour strategies in public communication that are still poorly covered by mainstream approaches to the media in political science. Exclusively negative effects of hybrid television are questioned, and guidelines for future research of the constructive political potential of “non-seriously serious” television discourse are mapped in the context of traditional modes of civic communication.

Alter ego of the political?

The phenomenology of our daily experience suggests that postmodernist ideas on implosion of reality and fantasy, the dusk of hyper-reality⁵ is a

sort of intellectual extravagance. However, this is not to deny that our present urban life as well as everyday of province looms in the media-saturated environment that assaults and seduces us with colourful “cocktails” of fact and fiction on television, internet, in advertisement, and public relation campaigns. The Canadian writer Douglas Coupland notes that this environment is integral to the identity of our “Generation X”.⁶ Important distinctions of social experience erase, and the boundaries of the real turn vague for “Generation X”, children of the baby-boomers after WWII:

Mom didn't turn off the TV set in the bedroom behind the wall. CNN announced that the Superman is doomed to death in the sky above Minneapolis this week, and I suddenly got over. [...] According to the television, the Superman was to perish above the city in the battle with the higher forces of evil, and though I realised that this was only a cheap promotional trick to sell more comic, and I *haven't read* a single comic about the Superman over twenty years, – the thought itself made me sick.⁷

Popular literature, commercial cinema, public broadcasting, universal cultural myths and authentic anxiety about the faith of the children's Superhero blend into a surreal flow of daily life, a reality of popular culture. The artistic imagination and irony of Coupland does not devalue the insight that people at twenties-thirties are no longer aware of life without a consumption cult, the present – without an empty nostalgia for the past, they do not imagine their home, leisure time and politics without television, though at the same time they feel contempt for it. This is the first generation free of faith, living “after the God”⁸. However, is the God dead? Paradoxically, in the present cultural condition, erasure of landmarks between fact and invention gives the religion a second life. For the lovers of popular cinema, the shocking naturalness of human suffering through the eyes of Mel Gibson makes the history of Christianity more convincing, even if they are nonbelievers. Moreover, one even has a chance to try a “remake” of this history. Dan Brown's *The Da Vinci Code* sells the story told anew. Literary critics note that “in novels of Brown we encounter not an interpretation of historical facts (this is typical for historical novels) but rather a new and unusual thing – the invention of contrived historical facts”⁹. It is not haphazard. In her reflections, the literary critic Elena Baliutyte notes that the desire for the real, a strong attachment to actuali-

ties of ongoing social life also mark the present fictional Lithuanian literature.¹⁰

One might ask what makes these processes relevant for politics and civic life. To put it simply, politics and culture are two sides of the same coin. In present conditions, the relationship between the two sides undergoes a substantial transformation, to refer to Fredric Jameson, and it gets complicated to grasp its consequences for political practice.¹¹ Postmodernists are often those who are the first to be accused of an attempt to de-differentiate traditionally autonomous spheres of social life and celebrate aestheticisation of the political.¹² However, one might argue that the neo-Marxist critical social theorizing constructed a curious conflation of culture, politics and free market. Walter Benjamin's *The Work of Art in the Mechanical Age of Reproduction* exposed destructive consequences of the intermingling of art and politics¹³, and Max Horkheimer's and Theodor W. Adorno's ideas on consumer society and culture industry made a capitalist market the centre of cultural reproduction.¹⁴ Later political thought was influenced by the idea that when "the whole world is in transmission through the filter of culture industry"¹⁵ only principles of demand and supply are followed, works of art and values of culture are subdued to serial reproduction – manufactured, distributed and consumed in the same way other material goods are. In other words, this is how culture becomes a commodity – a threatening *alter ego* of dignified moral and political life.

Interestingly enough, *commodification* of culture is closely linked to the *aesthetic* dimension of human life. Inexhaustible human wishes, hopes, fantasies and sentiments were found to be a *perpetuum mobile* of the capitalist market. Vytautas Rubavičius notes that commodification of culture becomes possible when "human relations, feelings and desires are turned into cultural goods and services"¹⁶. The market feeds on human needs but it does not stop here. Culture industries permanently create new needs and desires, and consumption is enforced by seduction of masses with new attractions, experiences and pleasures. For Horkheimer and Adorno, a peculiar combination of commodification of culture and aestheticisation of everyday life creates a veil of manipulation under which the autonomy of political life is lost. Under the rule of market logic, any "moral decisions are perceived as either a promotion or meaningless twaddle".¹⁷

The techniques of seduction and the principles of show business are usually perceived to pose a serious threat to civic critical reason and liberal political order.¹⁸ Firstly, political leadership, party competition and struggle for political power undergo “rationalisation of persuasion”.¹⁹ The relationship between the governed and the governing becomes impossible without technologies of public relations, services of spin doctors, popular slogans and target public campaigns. Secondly, popular choice and legitimacy of power rely on the appeal of the style and image of a politician, the charisma of a personality, the ability to mirror and sustain popular sentiments, hopes and utopian expectations. Third, representatives of culture industries march to the political arena, and the Weberian imperative of politics as a vocation is substituted with the radiance of “celebrity culture”²⁰. It is no longer news that the American electorate rely on “stars”²¹, and the Lithuanians do not refuse locally well-known faces.²² It is a fact that political power attracts comedians, transfers televised “folk advocacy” into local representative bodies, or asks for inventiveness to manage different social roles effectively. In practice, it means that one plays the role of politician in the daytime, and during the evening one turns into the popular character of commercial television “Close to You” – half Bronius le Bronjus (a type of Sacha Baron Cohen’s mimicry), half a mouse (not a Disney character but rather an ambivalent embodiment of local folk wisdom).

The present complexities of political bonds and the intellectual anxiety about the demise of civic life²³ reveal a curious inversion of relationship between culture and liberal democratic ideals. As long as arguments of Frankfurters are followed, *popular culture* brings uneasiness into political life. Popular culture is a sub-product and technique of capitalist market – artificial, brutal, manipulative, and alienating. It is a *culture of masses* that reproduces itself on the basis of standardization of culture products, exploitation of basic instincts, needs, desires and vulgarisation of human nature.²⁴ Mass culture precludes responsible and critical civic reasoning and participation, submerges an individual into a private non-reflexive world of emotional stimuli and bodily pleasures.

However, alternative readings of *popular culture* are to be noted in present intellectual debates, namely the Cultural Studies approach.²⁵ In Latin, *cultura popular* refers to “culture of the people”, and James Lull states that

it first of all means that “*artefacts and styles of human expression develop from the creativity of ordinary people, and circulate among the people according to their interests, preferences and tastes*. Popular culture thus comes from people; it is not just given to them” (italic in the original)²⁶. This approach questions the pessimism of mass culture theory and aims to redefine the relationship of power. The terrain of everyday and popular practices is taken as an arena of authenticity, of cultural and political negotiation and struggle, a resource of the symbolic capital of the weak to resist social hierarchies and the domination of capitalist minority.

The incompatibility of “enslaving” and “liberating” notions of popular culture reveals the complexities of ongoing intellectual debates. However, for the purposes of this analysis it witnesses that politics is not an “ivory tower” – our daily routines, life-styles promoted by culture industries, and the performance of political power are intermingled in a tricky way. Can we denounce the political value of popular culture on normative grounds and deny it the right to pass empirical political investigations?²⁷ John Street shoots straight when he says that we are to recognise the realities of the present political condition:

Our relationship to popular culture and the popular press cannot be seen simply as a relationship of cause and effect. Instead, popular culture has to be understood as *part* of our politics. [...] Popular culture neither manipulates nor mirrors us; instead we live through and with it. We are not compelled to imitate it, any more than it has to imitate us.²⁸

It is a challenge to counter the argument that democratic politics must be based on the principle of inclusion, i.e. stay in touch with the popular will. Otherwise, the public arena becomes an alien sphere occupied by strangers whom nobody in our neighbourhood cares about.²⁹ The disregard of inner tensions between normative ideals and popular concerns in the very notion of *liberal democracy* increases the risk to deepen political alienation and the stagnation of civic life. The risk urges to approach political life in novel ways and pose new questions for political theory and analysis. Is a constructive relationship between politics and popular culture possible? What potential does the field of popular culture offer to civic practices and public deliberation? Are the controversial ideas of Liesbet van Zoonen reasonable and encouraging: “Can politics be combined with en-

tainment? Can political involvement and participation be fun? Can citizenship be pleasurable?”³⁰

The further chapters scrutinize the nature of the mediatized political condition, theorizing on the “civic service” of public mediators, the political aspects of entertainment media and set up landmarks for the means to approach the raised questions.

Mediatized political condition

A discussion on the relationship between politics and popular culture must take into consideration the pervasiveness of indirect – mediated – social interactions. The mass media establish a multi-faceted communicative arena to serve both serious political enterprise and daily leisure activities. They offer a chance to enrich public knowledge, take part in political debates, involve in public affairs, and at the same time call to take a break and relax. Development of technologically mediated social interaction and its political implications have interested theorists of political communication for a long time.³¹ Intensive debates concern nature of the visual media, especially television, its social and political roles.³² What does it mean to participate in political life through “TV living”?³³

The variety of media output and different uses of mediated interaction acquire a new political significance when changes of the political communication circle are reconsidered. A new mode of interaction, based on technological devices and enabling transmission of information and visual signs across time and space, is named *mediated quasi-interaction*³⁴. The mediated quasi-interaction gains weight in the present-day political communication as the gap between the people and the state, citizens and politicians is filled with a televised flow of images and political narratives. A media-driven link between the main players of the political process becomes vitally important in the era of twilight of mass membership in political parties and recession of turbulent civic mobilization featured in late 60s.

This is not to ignore that the tradition of liberal democracy has already accorded the mass media a status of important political actors.³⁵ It is to stress that today mass-mediated practices gain a new political value. Mass-media institutions still legitimise their public authority on the basis of the

normative ideal, however, at the same time the media field embodies other vital symbolic assets desired by actors of the political arena. It is not the normative function of the media but *publicness* and *visibility* that attract political actors who strive for reputation and public trust in the competition for power.³⁶ The importance of visibility implies at least two things. First, politicians, government and public bodies thrust into the mediated public space with a hope to get public support and favour. Secondly, the political arena becomes more “transparent” in terms of the media’s legitimate right and often the potential to penetrate the very backstage of political power. As Michael Schudson notes, the present political game more often develops in the eyes of the public, not behind the closed door.³⁷ Both aspects of political performance echo a particular phenomenon that Nick Couldry calls “the myth of the mediated centre”:

the belief, or assumption, that there is a centre to the social world, and that in some sense, the media speaks ‘for’ that centre. [...] [It is a myth] that ‘the media’ has a privileged relationship to this ‘centre’ as a highly centralised system of symbolic production whose ‘natural’ role is to represent or frame the ‘centre’.³⁸

Popular metaphors of the mass media – a “window to the world”, a “mirror of reality” – embody the myth of the mediated centre. However, today they are much more. The media-created environment becomes the gravitation point of political power and public affairs. In other words, the mass media does not simply *represent* or *illuminate* political events: mediated publicity becomes the virtual *topos* where political life *establishes* and *evolves*. In the mediated arena political competition takes place, public legitimacy is gained and lost. Therefore, development of the mass media implies more than a bare multiplication of communication channels. Some media researchers consider the term *mediation* to be too narrow to grasp the amplitude of the social penetration of mass-mediated interaction and its political significance. They replace *mediation* with the neologism *mediatisation*.³⁹ One can summarize the phenomenon in Lauras Bielinis’ philosophical pitch: in the present media-saturated environment *to exist* means to *be visible*⁴⁰, even if one has to take risks, for example, to withstand the piercing sarcasm of Sacha Baron Cohen (best known from “AliG”) or Ian Hislop and Paul Merton (British show “Have I Got News for You”). Therefore, the issue of media-constructed social reality based upon conflation

of the field of popular culture and politics, “serious” and “frivolous” life, public responsibilities and private taste becomes of vital importance.

Media engagé: two notions

Yet, the normative theory of public communication does not allow a full overlap of the mass media field and the political field. As Peter Dahlgren states, “not all interaction is a manifestation of the public sphere, but the point is that the functioning of the public sphere is greatly dependent upon the nature of sociocultural interaction”⁴¹. Linking of particular mass media genres to specific sociocultural uses (and effects) has become an observable social convention. It produces and sustains an opposition between tabloid and broadsheet press, entertainment television and pundit debates, leisure programming and “hard” news, fiction and nonfiction. Intellectual discussions reveal strong attempts to set up a demarcation line between “public-spirited” mediation and malign mediation, “good” and “faulty” media genres, desirable and pernicious modes of public communication. Public sphere theorists are highly preoccupied with preservation of symbolic borders between mass media genres, and concern mainly the generic “purity” of factual media. Jonathan Gray, the researcher of *The Simpsons* serial, makes an illuminating remark that dominant intellectual debates do not even consider the political value of other types of the mass media: the “media” is often treated synonymously with the “news media”, and “many critics regard the news as the all and end-all of the public sphere (albeit a damaged one, in many versions of the tale)”⁴² and public communication.

Let us take the theory of *media-malaise* (*video-malaise*) established three decades ago.⁴³ *Media-malaise* implies malign effects of media practices on civic mobilisation and the quality of established democracies. First, public mediators are accused of frustration and disappointment of citizens, a strive to increase viewership and profit by any means, a conflation of “soft” and “hard” news, a style of fictional programming; dramatisation and focus on negative information is treated as a stimulus of political distrust, civic passivity, fragmentation of the public sphere, and the slump of political participation. This type of pessimism was expressed in the notorious thesis on “crisis of public communication”, proposed by Michael Gurevitch and Jay Blumler.⁴⁴ The second approach holds that the mass media corrodes the

public sphere by offering entertainment instead of information. Pleasurable and amusing experiences distract citizens from the communal affairs and a serious outlook to public problems. The phenomenon has been labelled *infotainment*, or de-differentiation of two media functions – information and entertainment.⁴⁵ Deadly risks of pleasurable politics were figuratively expressed in the famous Neil Postman's argument that the media and television based on show principles preclude any serious stance to life, make solution of practical problems impossible, and therefore lead us to self-destruction.⁴⁶

The *media-malaise* and *infotainment* theses still attract considerable attention of academic debate though neither of the two gains a strong unilateral empirical support.⁴⁷ However, the focus of debates on particular genres of the mass media implies making a significant difference between the mass media that “are *able* to inform” and the media that “*can only* entertain”. The civic potential of the news media (though nowadays corrupted) is grounded upon a number of presuppositions. First, this type of media concerns exceptionally the “realm of facts”. As Harvey Molotch and Marilyn Lester put it, “the typical conception of the media's role, then, at least in western, formally uncensored societies, is that the media stand as a reporter-reflector-indicators of the objective reality “out there”, consisting of knowably ‘important’ events of the world”⁴⁸. Second, the news media adhere to norms of *realism*⁴⁹ in manufacturing social representation. The values of objectivity, precision, impartiality, balance of opinion and truth constitute the basis of journalistic ethics and are expected by audiences.⁵⁰ Third, the notion of *current affairs* implies a particular mode of communication and style – directness, urgency, and seriousness – that makes news story different from anecdote or fictional narrative. Robert E. Park notes that the news “is something that has for the person who hears or reads it an interest that is pragmatic rather than appreciative”⁵¹.

However, one may wonder whether the popular entertainment media is void of any features to join the mission of democracy support. Can a decorative style, emotional appeal and disordered burlesque be considered politically relevant? The strongest affirmative answer to this question comes from the intellectual camp of radical democracy.⁵² In the field of mass media studies it paved the way to the view that popularization of media

content, breaking the formal rules of elitist discourses, celebration of vernacular and vulgar discourses express resistance to the ideology entrenched in the mainstream mass media. Alternative and popular media produce empowering effects on ordinary people. In the advocacy of ordinary voices “from below”, John Fiske alleges:

Popular pleasures must always be those of the oppressed, they must contain elements of the oppositional, the evasive, the scandalous, the offensive, the vulgar, the resistant. Pleasures offered by ideological conformity are muted and hegemonic; they are not popular pleasures and work in opposition to them.⁵³

Kevin Glynn similarly argues that tabloid media are not disruptive of the public sphere but expand it and make the social dialogue inclusive.⁵⁴ In this line of reasoning, even the trash TV is given a political significance. It is considered to be a “weapon” of the weak against the dominant social groups: tabloid content provides symbolic resources – knowledge and the public platform – for marginalized members of community whose voice is otherwise reduced to silence. The advocacy of vernacular media discourses can be traced back to Michael Bakhtin’s notion of carnival culture that stresses the power of grotesque subversive festivities, the burlesque of folk culture and brutal transgressions of sacred norms that suspend established social hierarchies and symbolically disrupt the structures of social domination.⁵⁵ The Bakhtinian legacy also inspires recent critical arguments urging to give aesthetic, affective and impassioned modes of interaction a decent value in the public sphere. In the words of Michael E. Gardiner, it “evinces a more subtle and realistic account of power, domination and resistance than does Habermas”⁵⁶ and opens up the way for more inclusive and, thus, democratic mass media practices.

Approaches celebrating popular taste and “dramatic publicness”⁵⁷ are not short of serious limitations. The concepts of empowerment and resistance are open to scrutiny here. If tabloid media or trash TV are interpreted in terms of cultural subversion, what are the positive effects of consumption of this production? Is it a reflexive activity, and to what extent does it indeed embody the political act of *emancipation*? Moreover, what popular viewership practices do not embody ideological resistance?

Cultural public sphere and critical intervention

A fundamental tension is set between the two approaches to the public sphere and their visions of politically committed media. In search of the landmarks to conceptualize this tension, the insight of John Corner on a division of labour in mass media studies is illuminating. Corner distinguishes between two camps of theorising and empirical research – “public knowledge project” and “popular culture project”.⁵⁸ A focus on different mass media genres and programmes as well as different concepts of communication act build a gap between the two approaches. Representatives of the “public knowledge project” specialize in the Habermasian public sphere, focus on the programming of news, current affairs, political debates, stress the cognitive value of public mediated interaction, examine the processing of information and production of knowledge. On the contrary, the “popular culture project” is interested in the mass media as entertainment source. Adherents of this approach are concerned with the aesthetic and affective dimensions of communication – pleasure, enjoyment, emotions, sentiments and popular tastes. The former intellectual camp treats media publics as citizens and the latter as consumers.

The lack of communication between the two projects and the stronger position of the first camp in the realm of political science explain why popularisation of the mass media is often linked to vulgarisation and trivialisation of public affairs, and why playfulness is treated as incompatible with reasoned critical discourse.

Jim McGuigan, the British researcher of popular culture, culture policy and television, proposes a possible resolution. He denounces optimism of “popular culture project” naming the trend “uncritical populism” which overestimates the importance of egalitarian impulses for the quality of civic life.⁵⁹ Nevertheless, he remains discontent with the classical conception of the public sphere. Invoking Jürgen Habermas’ idea of the literary public sphere, McGuigan proposes the idea of *cultural public sphere* which embodies a modern equivalent of the realm of coffee houses, pubs and literary salons of French and British capitals in the 18th century. He argues that in the late-modern world the cultural public sphere is not confined to a republic of letters or high art and cannot be imagined without sites of popular culture:

It includes the various channels and circuits of mass-popular culture and entertainment, the routinely mediated aesthetic and emotional reflections on how we live and imagine the good life. The concept of a cultural public sphere refers to the articulation of politics, public and personal, as a contested terrain through affective (aesthetic and emotional) modes of communication.⁶⁰

Hereby the limits of the traditional notion of the public sphere are extended. Firstly, the circle of legitimate members of public deliberation expands to include representatives of culture industries and popular mass media. Secondly, social dialogue becomes more liberal and inclusive in terms of the variety of communication styles. The potential of aestheticised argumentation and sentimental bonds to sustain social solidarity and cohesion is recognized though not overestimated. McGuigan is convinced that some practices of mass culture and popular media can serve the public interest, draw public attention to burning issues and stimulate practical political solutions of urgent problems. Appreciation of realities of cultural conditions in combination with critical stance and practical effects can make a popular mass media practice a “critical intervention”⁶¹.

How do rationality and sensitivity coexist in the cultural public sphere? Are actors of the realm able to combine rational / analytic and affective / pleasurable modes of communication in a productive way? The answer remains ambivalent, but the following insights of Peter Dahlgren are encouraging:

There is often a questionable assumption at work, whereby politics is analytically associated with rationality, and entertainment is seen exclusively as pertaining to emotionality. Controversial questions arise: Can television communicate in a “rational” manner (however that may be defined)? Should it always strive to? Does it inevitably portray even the most serious issues of public concern largely in terms of emotionality? Is the “entertainment” bias in television so strong that it unavoidably trivialises everything it touches [...]?⁶²

This view triggers an inversion of traditional concerns of public communication theorists. Instead of arguing whether committed news media can legitimately adopt artistic techniques we may ask: can entertainment media contribute to civic life? The proposed inversion must be regarded neither as an advocacy of any and every popular media genre nor as a praise of melodramas, popular reality shows or tabloid content. One should differentiate this question from advocacy of whatever popular tastes, trash

media and turbulences of “emotional public sphere” à la *the Jerry Springer Show*⁶³. The following chapters focus on the ambiguous identity of new television genres and programming that are formally considered as entertainment but feed on representation of political realities and mimicry of “serious” public communication styles.

Hybridity of popular media

Entertainment media remain a vast uncharted territory for researchers of political science. Debasement of entertainment in political communication rarely explicates upon the notion of *entertainment* itself and neglects the variety of amusing and pleasurable experiences. Thus, it is reasonable to follow R. Lance Holbert’s argument:

Before there can be serious empirical assessment of the varied roles of entertainment media in politics, political communication scholarship first needs to ground itself conceptually in how to approach such a diversity of media messages and the potential political outcomes that derive from these messages.⁶⁴

The “popular culture project” recognizes political aspects of entertainment, however, it suffers greatly from the lack of differentiation of mediated entertainment practices and indiscriminating praise of any burlesque phenomena. The present chapter reveals that the discussion on the relationship between politics and entertainment media gets even more complicated if the present transformation of media production practices is taken into consideration.

Genres are important tools both to generate and to consume media texts. Literally a *genre* means a *sort*, and in the field of mass media studies implies a conventional code, an unwritten instruction circulating among producers of media contents and their publics on how to read the message, approach and use texts. In other words, genres are “systems of orientations, expectations and conventions that circulate between industry, text and subject”⁶⁵, and become a commonsense that gives meaning to a variety of media discourses, guides us in our choice of preferable media content. Nevertheless, one should remember that these conventional systems are not fixed or set up forever. Genres are not abstract, stable configurations of features intrinsic to a text but rather “cultural products, constituted by media practices and subject to ongoing change and redefinition”.⁶⁶

Addressing an academic research of visual mass media and television, Jason Mittel notes that classical genre theories established in film and literature studies are often uncomfortable with some specific production and reception practices unique to the modern television medium.⁶⁷ What puzzles researchers and sometimes even viewers of television most is a mixture of *fictional and non-fictional* programming, and reality television is an area of exclusive concern. Annette Hill draws attention to the fact that in the present mass media environment the limits of *popular factual television* are pushed so far that we become unsure whether we get in touch with social reality or observe stage-managed dramas.⁶⁸ Constantly bred reality shows, talk shows and info-shows, documentary reconstructions of daily life of the police, rescue forces or private detectives, televised mimicry of legal processes and docu-dramas represent the so-called hybrid genres.⁶⁹ On the production side, hybridity implies a deliberate implosion of factual and fictional genres, a mixture of reality and fantasy, authenticity and artificiality. Television critics note that such transgression of traditional generic conventions produces a “spectacle of reality based on facts”;⁷⁰ thus, traditional criteria of nonfiction and fiction become useless to classify mixed television genres – how do we determine the difference between “fictional documentary” and “documentary fiction”?

The issue of hybrid television requires another long discussion, however, in the framework of this analysis it is important to make the following point. A mix of documentary and fiction on TV also means an erasure of clear demarcation lines between politically relevant and irrelevant media practices. Žygintas Pečiulis pays attention to the fact that the claim for *new social roles* distinguishes the new television.⁷¹ Popular factual television no longer confines itself with the identity of a communication channel or an entertainer and attempts to raise its social and political relevance. A promise to the public to hear each and every voice of ordinary people, to bring to the public sphere all problems devoid of state or “serious” media’s attention strengthens the hybrid entertainment television and poses a challenge to traditional “public service” institutions:

An active dialogue with the audience, attention to experiences of an ordinary citizen, and publicity of social maladies and private life are characteristic of the new television. Formal institutionalism of television is supplanted with informal attempts

of television to imitate or duplicate the functions of state institutions, to influence social processes. [Thus] the dialogue of various social groups is enforced, and social, juridical advice is provided.⁷²

As long as debates on public affairs and practical problems of common concern constitute the essence of the democratic public sphere, it is difficult to denounce the value of such television. It also remains ambivalent whether the hybrid programming is a mere leisure or entertainment business, trivial to communal problems of television publics. One may argue that an implosion of generic principles in hybrid television has a double effect: it prompts an earlier discussed aestheticisation of news media practices, but also turn the fictional, entertainment programming on social realities, daily public affairs, urgent problems of common concern and politics.

Ambiguities of seriocomic discourse

When we find ourselves smiling or laughing while watching television just because we take an inventive masquerade of dummy political characters to be a felicitous mimicry of our daily public life, traditional means of political analysis to grasp our experience are insufficient. The situation witnesses that uses of at least particular mass media contents are much more complicated than Frankfurters thought or postmodernists wish to claim. First, such pleasures of communication are generated by a surprise of the burlesque image of life, but the amusement comes after the image is recognized and given a political value. Second, postmodernist ideas of an infinite play of appearances and aesthetic experiences hardly hold in the realm of daily practical reasoning. Normally people do not consider themselves entangled in the illusionary world of brothers' Wachowski, the surrounding world is in one or another way meaningful to us. In terms of communication pragmatics, we constantly make sense of media content and judge televised narratives in accordance with our experience, enrich our knowledge, and re-examine our attitudes. A viewer of *Dviračio šou* might disagree that "funny" discourses lack this potential.

Aestheticised media discourses are not necessarily void of a potential to make socially and politically significant claims. The argument of the chapter follows that a mixture of humour and serious political discourse creates

a new political talk worth of further conceptualization and empirical research. As Jeffrey P. Jones argues, new entertainment programmes “feature comedians and nonexperts on politics (i.e. political “outsiders”) discussing, arguing, satirizing, parodying, laughing and ranting about political events and issues in serious yet entertaining manner”.⁷³ The “serious yet entertaining” mode of communication is extraordinary and poses a number of questions. Is a seriocomic political discourse feasible? Can we approach serious issues in a non-serious manner in the public sphere? How do we handle indirectness and ambiguities of comic speech-acts? If the conventional mass media enjoy the metaphor of “mirror of the world”, what kind of “mirror” the new political talk is?

The scope of challenge partially explains why humour finds a safer harbour in the linguistic studies than political science.⁷⁴ A number of present and former Lithuanian television programmes – *Dviraičio šou / Dviraičio žinios*, *Be tabu / Be tabu savaitė*, *Radijo šou*, particular episodes of *Nekenčiui reklamos (I hate ads)* – and imported *Ali G (Da Ali G Show)* periodically gained and still attract attention of media critics, internet commentators, but lack extensive scholarly consideration.⁷⁵ It is no wonder that televised performances of the satirical puppet theatre “*Šėpos*” *teatras* are nearly forgotten by now, and puppets are “sent to the museum” with the sunset of Singing Revolution, according to Gintaras Varnas.⁷⁶ The lack of attention is surprising, given the fact that a humorous and derisive political discourse on television is a well-known world-wide phenomenon. The British *Have I Got News for You*, the Russian *Kukly (Puppets)*, the Dutch *Dit was het nieuws (This was the news)* the Danish *De aktuelle nyheder*, the Finnish *Uutisvuoto (Newsleak)*, the former Czech *Bez Obalu (Unwrapped)* and the Polish *ZOO* represent only a small share of television programmes across Europe. However, similar programming in the U.S. enjoys much attention in media and public communication analysis.⁷⁷

It is important to note that the listed programmes neither exhaust the variety of political humour nor constitute a single television genre. The hybrid programmes still lack established definitions besides a loose stereotypical denominator – entertainment television or political humour / satire. A variety of labelling and naming shows the confusion and uneasiness to adapt traditional literary concepts and genres for this area of mass

media production.⁷⁸ Undoubtedly, the focus on literary theorizing on satire, parody and comedy is a promising starting point to approach the presented television discourses.⁷⁹ However, it is a matter of future intellectual endeavours to bridge the gap between political communication studies and art theory. For the aims of this discussion, the *seriocomic nature* of media discourses is chosen as a pivotal denominator. By seriousness we mean that programmes deal with social, political realities and provide critique of public life. By comic we imply frivolousness, funniness, non-seriousness of communication mode. Discourse has often a double structure: a ridicule of politicians and other public actors, a taunt of governmental policies, decisions is supplemented with mockery of generic rules of “serious” TV news, current affairs programmes and pundit talks.⁸⁰

Seriocomic media discourses ask for a special scholarly attention because they reveal serious limitations of the above presented division of labour in media studies and political communication analysis. The “public knowledge project” does not trust and devalues humour because of indirectness, ambivalence, “opaqueness” of discourse and potentially misleading effects. In Jürgen Habermas’ theory of communicative action humour, irony or parody are secondary or “parasitic” forms of language-use because “they compromise the lucidity and openness that ideally marks the communicative process, or introduce elements of strategic action”⁸¹. The discourse is unsuitable for solution of practical problems because it retains deliberate semantic ambiguities and does not reveal the “true nature of its game” to the audience. Because “humour makes a mockery of seriousness”⁸², the aims and effects of such communication acts remain ambivalent and contradictory. Contrary to the “public knowledge project”, the burlesque, non-seriousness, playfulness, insolent violations of communicative norms and pleasures of the ludicrous spectacles are the main issues the “popular culture project” focuses on. It has already been discussed that normative subversions, social parodying and comic interactions are granted the role of important strategies of social and political critique, expression of popular resistance against the dominant. However, in this theorizing humour-involving interactions are bound to the realm of irrationality, celebration of folly, festivity of emotions and sensualities. Humour is a means to suspend existing oppressive political re-

alities, to withdraw from the daily routines rather than to take an active stance and step in the centre of public life.

One may argue that neither “public knowledge projects” nor “popular culture projects” fully grasp the political potential of seriocomic media discourses. Their chameleonic nature makes it a risk to declare their practical political value. Nevertheless, the risk does not preclude the main question: can seriocomic television implement the role of a cultural critical intervention? According to McGuigan’s interpretation, the media practices as a cultural critical intervention should have a corrective aim and generate practical effects. However, to reach practical effects one at first needs to gain a particular public reaction, namely the *recognition* of critical intervention on the side of the viewers. In the case of seriocomic media discourses it means that discourse reception should go beyond pure laugh-producing pleasures similar to those aroused by such programming as *Lalaila* (LNK) or *Ai skauda* (TV3). These discourses should have a cognitive (political knowledge) and normative (social, political principles) value for the audiences and not merely produce disinterested amusement and laughter.

We lack empirical data on audience reception of seriocomic media discourses on Lithuanian television. However, a number of studies reveal that the aesthetic dimension of comic seriousness does not preclude a political argument and, in some cases, leaves it central in media content interpretation processes. For example, according to the results of the public opinion poll presented by the Civil Society Institute in June 2006, *Dviračio šou* was recognized a TOP programme to represent current affairs in the country. It gained a stronger support than such solid pundit debate programmes as *Spaudos klubas* or *TV forumas* (public broadcaster LTV).⁸³ It is also interesting to note that Lithuanians differentiate the comic, burlesque modes of media representation: readers of the most popular tabloid *Vakaro žinios* are not keen to admit their favour to this newspaper, do not admit it as a source of political knowledge, indicate other reasons for buying it than reading news, and label the newspaper *tabloid* and *unserious*.⁸⁴

On the international level, the output of research of the viewership of American seriocomic television provides controversial insights.⁸⁵ This body of research neither allows final conclusions about political relevance of this programming nor reveals social uses and political impacts of similar media

discourses in Lithuanian public sphere. However, it confirms the view that they involve more than “aesthetic humour”⁸⁶, because here the humour concerns moral and political issues. As Sharon Lockyer and Michael Pickering state:

The aesthetics of comedy, even if conceived only in terms of its intrinsic formal dynamics, cannot be cleaved off in that way from moral, ethical and political considerations associated with the “real world”. Comic discourse obviously operates in ways which are distinct from other forms of discourse. And it would be foolish to try to reduce it, or make it conform, to the conventions and values of those other forms. [...] We should therefore make distinctions between serious and comic forms of utterance and dialogue, but not conceive of them as, or allow them to develop into, rigid compartmental divisions.⁸⁷

The recognition that politics evolves in ludicrous discourses, too, offers to consider several directions for the future political research of seriocomic television.

First, it is important to determine the relationship between the viewer and media discourse in terms of production of political knowledge. Do we use this programming as an alternative information source? What and how do we learn? How are aesthetic pleasures and making sense of ridicule and criticism of political bodies intermingled? It is also a challenge to examine what makes the staged buffoonery factual, how do viewers negotiate the meaning, trustworthiness of the rumours and other “extra-facts” they do not encounter in traditional news?

Second, the issue of political attitudes and political trust also demands extensive scholarly attention. Is the generation of political cynicism and alienation the only political effect of humorous new political talk? We need to develop audience research, focus on discourse processing and uses of seriocomic television to pose pessimistic arguments. Only extensive empirical research of viewership and their social characteristics can possibly ground the statement that *Dviračio šou* is a mere mechanism of social control that allows a “discharge” of social and political discontent and sustains the domination of hegemonic political discourses⁸⁸ against the claim that this type of programming

both entertains the audience and provides them with a new perspective on the political realm. Innocuous jokes relying on puns and pop culture references are frequent,

but it is through *The Daily Show*'s use of satire, irony and parody that the viewer may take a step back from the spectacle of the news stories, look at why certain events and people are spotlighted, and consider how that may affect them.⁸⁹

Finally, there is also an issue of *social roles* of authors, producers of serio-comic media programmes. The public perception of identity of the comedian might be considered of secondary importance for a political scientist, nevertheless, it is a compelling area of research. What kind of figure the entertainer is? Who stands behind the mask? Do we encounter modern reincarnations of “court jesters” who enjoy the right to declare the plain truth to the publics? Or is it just another version of amusing clowning in the circus? Vytautas Šerėnas, the host of *Dviračio šou*, presents himself as an entertainer (one should mind he is not necessarily *serious*), but at the same time he argues that *Dviračio šou* “was always political” and is pleased when the programme is considered as a source of true news.⁹⁰ Another member of *Dviračio šou*'s team, Haroldas Mickūnas, prefers a pun instead of direct answer about the mission of the programme: “We laugh about things, and I can't say that we have a task, our task is our mission”⁹¹. John Stewart, the host of *The Daily Show*, makes public announcements that the programme is a mere entertainment, it is nonsense to search for hidden meanings and messages there, “it is not being run as a public good”⁹².

The public *authority* of a comedian commenting on political issues is not solely based upon his / her artistry to amuse publics. The legitimacy or popular trust of a comedian and a politician emanate from different sources. Although a politician is not required to demonstrate a serious face all the time, joking, relaxed style and amusement are allowed as far as they do not harm an image of a “trustworthy representative”. To put it simply, a politician striving for success can be a good entertainer, but he must not let the audience doubt the *seriousness* of one's intentions and policies, and this principle holds for populist leaders and popular celebrities willing to enter the political arena.⁹³

What about serious intentions of a comedian? A further research of audiences could reveal whether authors of the mentioned television programmes are trusted as “truth-tellers” who through mocking, exaggeration and ridicule present the upside-down picture of our world and through this social *camera obscura* allow us recognise the vices and follies of our public life.

The best literary satire is based upon similar mechanisms of inversion that has moral intent. In cases of George Orwell, Aldous Huxley, Kurt Vonnegut, Ray Bradbury, art addresses politics in the form of anti-utopia. It ridicules ferocious and absurd policies and social realities, however, pursues not a comic effect but moral and political responsibility. The narrator of Kurt Vonnegut's *A Man without a Country* states he cannot imagine a humorous book or a parody on Auschwitz, but all good humour concerns those issues of human life that affect us and raise human anxiety.⁹⁴

It is an impermissible exaggeration to claim that the present seriocomic television has an anti-utopian stance. It does not strictly adhere to a radical differentiation between good and evil and does not avoid amusing us with the mere playful "logic of absurd"⁹⁵ from time to time. In other words, a comedian remains demonstratively unserious in times of relative peace, prosperity, and fall of totalitarian regimes. However, what if in these conditions, the power of persuasion paradoxically lies in comedian's playfulness and rejection to "reveal the cards", a promise to stay in the realm between the serious and the non-serious? At least two sources of authority and trustworthiness of a comedian should be considered. First, the discrimination among the ridiculed targets, joking about particular political bodies but leaving others as taboos, a focus on a small number of public figures or policies signal a bias. Even performed unintentionally, it violates a disinterested stance. Thus, only extension of satiric discourse to cover a larger number of worldly phenomena, a wider political field extends the comedian's autonomy.⁹⁶ Second, another mode of disinterestedness is a refusal to abandon the realm of ludicrous seriousness. Stephen Colbert, the aforementioned inventor of *truthiness*, seems pretty serious stating that

I think one thing that comedians have – that protects them – is that they just continue to be funny. If they're making jokes and trying to be entertaining and not – you know, I think one of the things that people on the Left got in trouble with when they were protesting the latest war in Iraq, was that they – at the moment at which these entertainers should have used what they do best, which is entertain, they stopped and they said, "No, I want to make a political statement." They were vilified and, you know, ostracized by the general public because of that. [...] And there's nothing wrong with making a political statement, but you've got to do it with what you do best. You know, you've got to continue to be funny.⁹⁷

Non-seriousness keeps the discourse immune to political bias, advocacy or exceptional critiques. To give an example, this is the main reason why discontent and public flings accompany the political carrier of Algis Ramanauskas-Greita. Andrius Bielskis is also sceptical of a schizophrenic identity – a mix of performance of a political representative and a satyric comedian – because the mastery of a great number of “social masks” is a high artistry and because cynicism is a defective strategy in practical politics.⁹⁸ However, the trustworthiness of a comedian is not a matter of artistry of changing social roles. One might argue that the roles and functions of politicians and comedians are incompatible in principle. A comedian ought to persuade he / she retains a distance and autonomy of the craft to gain authority on the side of the publics. The strategy to stay funny asks self-reflection and self-irony of a comedian. Self-irony, declaration of one’s situatedness and recognition of limitations of the truth paves the way to popular recognition of the discourse as a potential source of truth on the side of the publics. Paradoxically again, the refrainment from outspoken political argument is the only way for a comedian to step into the sphere of the political and accomplish a *truthiness* endeavour.

Conclusions

Empirical political science should not ignore the messy cultural condition of the present time and should dare a search for new approaches to cultural and social phenomena taken for granted or considered irrelevant in the realm of politics. One way to broaden the horizon of the discipline and navigate it in accordance with social transformations is to reconsider the interplay between politics and popular culture. The popular culture should not be treated as extraneous to political practices as we lead our daily lives through it and in it. Therefore it is reasonable to examine whether a field of popular culture is a dangerous realm for reasoned politics, or it has a potential to contribute to civic life.

The politics of everyday life is a “mix of mass mediated public information (and public entertainment) and mass participation in the consumption of images, objects and ideas”⁹⁹. The scope and social significance of mass-mediated interactions and experiences allows considering the gravitation of the centre of political processes to the media-created environment.

Mass media no longer *represent* or *illuminate* the political life, they constitute an arena where the politics *evolves* and where we *experience* it. However, the realm of the mass media is Janus-faced, as it serves serious political enterprises, public deliberation as well as private leisure, entertainment interests. The dominant theorizing on the relationship between the mass media and politics draws cardinally opposite demarcation lines in the media field to differentiate between media engagé and irresponsible media, desirable and pernicious modes of public communication. On the one hand, the “public knowledge project” advocates a classical public sphere, rational deliberation, communicative consensus and factual mass media debasing the positive value of aestheticised discourses, not to speak about popular entertainment media genres. On the other hand, the “popular culture project” opposes the former approach by celebration of the popular culture, vernacular discourses, tabloid media, pleasures of the vulgar, and the burlesque as expressions of social resistance.

McGuigan’s notion of the *cultural public sphere* is an attempt to balance between the two approaches, to narrow the conceptual gap and extend the limits of the public sphere to include actors of popular culture as well as to recognize (though not overvalue) the aestheticised modes of public interaction; thus, in civic life, popular culture acquires the role of critical intervention. Therefore an inversion of traditional concerns of public sphere theorists is proposed. Instead of arguing whether committed news media can legitimately adopt artistic techniques, novel questions are raised. Can entertainment media contribute to civic life? What kind of entertainment television combines the rational / analytic and affective / aesthetic modes of interaction?

The search for answers goes through problematisation of the notion of *genre* in current transformations of mass media production. The rise of so-called hybrid programming embodies a mixture of fictional and factual genres, a deliberate implosion of reality and fantasy, authenticity and artificiality. The limits of popular factual television are pushed so far that narratives on social life conflate with stage-managed dramas. Moreover, in these conditions, not only the styles and contents of production alter, but also the hybrid television claims new social roles and demonstrates attempts to raise its social and political significance by an active dialogue with ordinary

people. As long as the solution of practical problems of common concern constitutes the axis of the democratic public sphere, it is difficult to denounce these hybrid television practices as a mere leisure or entertainment business. This draws attention to hybrid entertainment programming that focuses on social realities, current affairs, urgent social problems and politics, and approaches the audience in a manner similar to documentary media genres.

Seriocomic television programming is chosen as a peculiar area of entertainment media exemplifying an argument that aestheticised media discourses are not necessarily void of the potential to make socially and politically significant claims. A particular mix of humour and political criticism generates a new political talk worth of further conceptualization and empirical research in the discipline of political science. The “serious yet entertaining” mode of communication is extraordinary and poses more questions that the mainstream political science can answer at the moment. Hybrid seriocomic programming still lacks established definitions, and we need an interdisciplinary link between political communication and literary studies to adapt concepts of satire, parody and comedy in the analysis of new modes of seriocomic television.

The recognition that politics evolves in humour-involving discourses, too, is accompanied by several directions for the future political research of seriocomic television. First, it is important to determine the relationship between the viewer and media discourse in terms of production of political knowledge. Do we use this type of programming as alternative information sources? What and how do we learn? How are aesthetic pleasures and making sense of ridicule and criticism of political bodies intermingled? Second, the issue of political attitudes and relationship between political trust and viewership of seriocomic television also demand extensive attention. Third, what are the social roles of authors, producers of seriocomic media programming? Do we encounter modern reincarnations of “court jesters” who enjoy the right to declare the plain truth to the publics? Or is it just another version of amusing clowning in the circus? What are the sources of public authority and trust in deliberately “non-serious” discourses? How does this relate to the sources of trustworthiness and the authority of a politician? What are the conditions of autonomy of the comedian in the public sphere?

The *new political talk*, proposed by J. P. Jones to identify seriocomic television discourses¹⁰⁰, linguistically echoes the Orwellian *Newspeak* in *Nineteen Eighty-Four*. However, in their purposes, the *new political talk* and *Newspeak* are fundamentally different. Both the factual *new political talk* and the fictional *Newspeak* are Janus-faced discourses, their social representations have an ambiguous relationship with daily reality and factual truth. However, *Newspeak* is a means of manipulation, control of critical thinking and free thought. It is based on *doublethink*, a method to accommodate truth under an overt lie: it means “the power of holding two contradictory beliefs in one’s mind simultaneously, and accepting both of them. [...] peculiar linking-together of opposites – knowledge with ignorance, cynicism with fanaticism”¹⁰¹. As a means of enslavement, the discourse controls any ambiguities of thought or a possibility of critical reflection. On the contrary, the *new political talk* is an ambivalent *double-talk*¹⁰² in regard to social realities; it questions the established truths, plays with multiple meanings and stimulates self-reflexivity of the public upon whom the burden of political choice lies.

NOTES AND REFERENCES

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birds with one stone – ludicrously addresses journalists, pundits and political bodies.

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- ⁸⁵ In Autumn 2004, the *Annenberg Public Policy Centre (University of Pennsylvania)* announced that fans of *The Daily Show with John Stewart* were better informed about the presidential election campaign and competition between George W. Bush and John Kerry than non-viewers (see Young, D. G., *Daily Show viewers knowledgeable about presidential campaign, National Annenberg Election Survey Shows*, Philadelphia, PA: Annenberg Public Policy Center., 2004. For the results of survey, see <http://www.annenbergpublicpolicycenter.org/NewsFilter.aspx?mySubType=Finding> [20-07-2007]). In April 2007, the *Pew Research Centre*, an independent opinion research group, explored the trends of public knowledge sources and found that “there is no clear connection between news formats and what audiences know”, and audiences of *The Daily Show* and *Colbert Report* are among relatively well-informed (see For the summary of findings see <http://people-press.org/reports/display.php3?ReportID=319> [20-07-2007]). Other individual studies confirm the view that “*The Daily Show* audience ranks right up there with other politically interested audiences in wanting news that is more informative and less entertaining” (see Larris, R.J., *The Daily Show Effect: Humor, News, Knowledge and Viewers* [a thesis], Georgetown University, 2005 // <http://cct.georgetown.edu/academics/theses/RachelLarris.pdf> [18-08-2007]). These results contrast with earlier findings of content analysis of *Tonight Show* with Jay Leno and *Late Show* with David Letterman, *Late Night* and *Politically Incorrect* (1996–2000) that the “nature of late night humour is determinedly non-issue oriented, [...] jokes are not directed toward a political issue but more likely to a person foible of a political leader” (see Niven, D., Linchter, S.R., Amundson, D., *The Political Content of Late Night Comedy* // *The Harvard International Journal of Press / Politics*, 2003 (8), p. 130). Moreover, Baumgartner and Morris claim that an exposure to the *The Daily Show* led to a stronger sense of political self-efficacy but greater scepticism about the media and electoral system at large among American youth (see Baumgartner, J., Morris, J.S., *The Daily Show Effect: Candidate Evaluations, Efficacy, and American Youth* // *American Politics Research*, 2006 (34/3), pp. 341–367).

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**PUBLIC ADMINISTRATION
AND PUBLIC POLICY ANALYSIS**

SHIFTING PARTIES, CONSTANT CLEAVAGE: THE REVERSED CLEAVAGE MODEL

Svenn Arne Lie

Abstract. When studying party system formation in unstable party systems such as post-communist Lithuania, the Western European theoretical framework is a useful although not sufficient tool to understand this process. The problem relates to the very high level of instability. In addition to unstable electoral support for the established parties, new parties successfully emerge, but disappear, then change name, splinter and merge with other parties.

This article introduces the reversed cleavage model which is an attempt to study cleavages in a post-communist setting, exemplified with the urban–rural cleavage in Lithuania. Instead of focusing upon continuous representation of political parties, the reversed cleavage model applies cleavage continuity as a point of departure. The unstable party system in Lithuania is thereby not related to voters' missing perception of cleavages, but to the parties' inability to establish long-lasting alignments with the electorate. Party system formation along the urban–rural cleavage in post-communist Lithuania, is explained by shifting parties and a constant cleavage.

Introduction

Can a stable cleavage structure persist alongside an unstable party system? The argument raised in this article is that unstable party systems are not the result of voters' weak perception of cleavages, but rather of the parties lacking the ability to own the cleavage and thereby establish long-lasting alignments with the electorate. Despite shifting parties, the cleavage structure can therefore be seen as a stable element for voters' part preference, and the problem of instability is caused by political parties themselves.

This article introduces the *reversed cleavage model* in which the most important prerequisite is that social conflicts (cleavages) survive parties, and that cleavages therefore represent continuity. Cleavages can thereby

structure the voter's party preference without leading to stable party systems. The reversed cleavage model confronts scholars arguing that the cleavage structure over time will generate stable party systems (Bakke 2002: 20, Kitschelt 1992) by arguing that a fragile party system is not related to transitional but rather structural challenges in Central and Eastern Europe. It also confronts those who argue that cleavages do not exist in CEE (Whitefield 2002: 184 with references to Ost 1993, White, Rose and McAllister 1997, Elster, Offe and Preusse 1998). The Reversed cleavage model argues that cleavages can structure the voters' party preferences without leading to stable party systems. The volatile voter behaviour is thereby a reflection of the fluid party configurations and not the consequence of cleavages' inability to structure voters' party preferences.

The reversed cleavage model will be applied to party formation along the urban–rural cleavage in Lithuania. Lithuania held its fifth post-communist election to parliament in October 2004, and the outcome confirmed assumptions of a fragile party system. In the Political Science Yearbook of 2004, this election is referred to as a second “earthquake” shock for the Lithuanian party system after 2000. As in many other Central and Eastern European countries, the party system in Lithuania is characterized by volatile support for the established parties and an immediate electoral success for party newcomers. Party–voter alignments are not reflected in continuity on party level, which makes it difficult to identify patterns of party–voter alignments. The reversed cleavage model is launched to defeat this problem.

The Lipset and Rokkan cleavage model

The study of party systems is concerned with topics such as thresholds for entering the party scene, how parties are related to each other and how the parties are linked to the electorate. Three approaches have dominated the literature; cleavages, institutional factors and agency (Millard 2004: 4, Ware 1996: 185). The first approach has focused upon socio-structures as sources of cleavage alignments between voters and parties. The second approach emphasizes institutional factors, and the last approach highlights the role of actors¹. The further focus of this article is on the linkage between voters

and parties through cleavages, where Lipset and Rokkan's *Party Systems and Voter Alignments* (1967) constitutes the point of departure.

According to Lipset and Rokkan, parties are aligned with the electorate through *cleavages* and thereby represent the voters' interests. Lipset and Rokkan's main point is that these party–voter alignments last (frozen), and *party stability* thereby becomes their keyword. New parties could not emerge because party–voter alignments are stable; the voter simply supports the same party in several elections (Zielinski 2002: 193). The result is a stable party system.

Although the cleavage itself evolved around one particular conflict issue, such as, e.g., labour vs. capital interest, the parties' ability to mobilize and use the cleavage concept exceeds this main political question and refers to a wide range of other issues as well. Other conflicts, which may be essential in the political landscape and of personal value of the voter, overlap with the core logic of the main cleavage. For instance, the view in one issue, such as public vs. private school funding, overlaps with the labour vs. capital conflict because there is a concurrent political logic among employer's rights, social welfare and public school funding. *The concept of cleavage therefore refers to a set of attitudes in different political issues which are combined and explained by the voter's preferences given by structures.* The notion of cleavages as political packages covers this approach, cleavage incorporates values and aspects related to other conflicts and issues as well, and integrate them into the underlying logic of this cleavage. This is essential in Lipset and Rokkan's explanation of why parties survive.

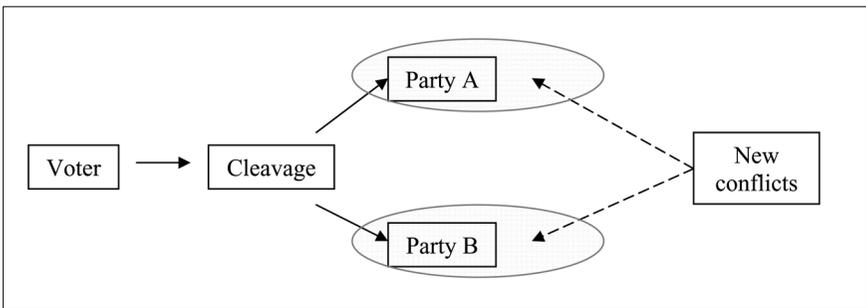
Parties' ability to survive

Parties are more than "cleavage representatives"; were they not, they would just disappear as soon as the cleavage conflict is solved. They explained this continuity by arguing that parties in Western Europe had a unique ability to survive their original conflicts by committing themselves to history, electorate and ideology. Parties have self-interest in keeping the cleavage conflict alive and thereby justify their own existence. With time, the electorate associated a certain history and political ideology with certain parties, or as Lipset and Rokkan state:

Parties do not simply present themselves *de novo* to the citizen at each election: they each have a history and so have the constellations of alternatives they present to the electorate (Lipset and Rokkan 1967: 2).

Parties can thereby be more loosely connected to the cleavage of their origin. They can define new conflicts into their basis of existence in the framework of the political package the party represents. New societal conflicts are defined within the already existing political framework which the party monopolizes. The inner organizational strength of established parties enabled them to interpret new issues within the framework of existing cleavages. Therefore, new parties could not emerge and the existing political parties were preserved. Figure 1 is an illustration of how Lipset and Rokkan explain party survival in Western Europe.

Figure 1. Lipset and Rokkan's cleavage model



By monopolizing the political space they represented, parties in Western Europe froze the alignments with subgroups of the electorate. The foundation for stable electoral support was thereby established. The parties survived, while new parties could not emerge because the market was already occupied. According to Lipset and Rokkan, one can argue that the Western European party system, because of the parties' ability to survive by redefining and generating new conflicts into their party substance, was characterized by shifting cleavages and constant parties.

Cleavages after communism?

Lipset and Rokkan explained stable party systems by focusing upon stable party–voter alignments through cleavages. But in Lithuania and Central

and Eastern Europe (CEE) in general, parties themselves can be regarded as highly unstable. In addition to unstable electoral support of the established parties, new parties successfully emerge, but soon disappear, then change name, splinter and merge with other parties resulting in fluid party configurations (Millard 2004: 114). The constant shift of party configurations constitutes a problem when asserting and identifying cleavages in Lithuania since the high level of voter volatility reflects the weak links between parties and socio-structured interests among the electorate. The explanatory value of the cleavage model is dramatically reduced within such a context because cleavages do not seem to generate predictable party-voter alignments.

The role of civil society organizations provided a vital link for the maintenance of a representative party system in Lipset and Rokkan's theoretical framework. Civil society organizations were the glue that kept alliances between parties and electorate stable. Other scholars have highlighted this element as well, where civil society organization is seen as an important source of interest and political allegiance and decisive to coordinate a stable interaction between voters and political parties (Whitefield 2002: 183, with references to Sartori 1969 and Przeworski 1985).

When it comes to CEE, scholars disagree about the impact of communism upon party system development in the region. According to the missing middle approach, one has to account for the effect of communism². Forty years of communist monopoly of all kinds of political activity in CEE had a "...debilitating effect on civil society, (undercutting) the possibility of a return to pre-war party attachment or party conflicts" (Evans and Whitefield 1993: 534). The political parties that emerged in CEE after 1989 could therefore not grow out of long-lasting mobilized mass interests because "...communism deprived individuals from institutional or societal structured identities from which to derive political interests" (Evans and Whitefield 1993: 522). Due to the communist's total control of civil society organization, the atomization of society inhibited the formation of stable alignment between voters and parties because intermediate, middle range civil society organizations did not exist when the multiparty competition was introduced. Post-communist party formation lacked institutional and social structured identities which undermined the mobilization of political

interests into stable party–voter alignments. Without this stabilizing element, party systems became susceptible to personalism and populism (Tavits 2005: 287). There were no glue to keep alignments between parties and electorate stable.

On the other hand, the modernization approach sees communism as a force of modernization in the CEE region (Evans and Whitefield 1993). This means that communism modernized the region, resulting in the same social structures here as in Western Europe. Speaking of political development, scholars supporting this view argue that the political organization of cleavages occurs under the same circumstances in post-communist CEE as it did in Western Europe.

Problem with cleavages

Both the missing middle approach and the modernization approach illustrate the central problem when studying cleavages in unstable party systems. If stable party representation indicates the presence of cleavages, scholars of the modernization approach conclude that: 1) many shifting parties would indicate a multi-dimensional cleavage structure in CEE. For instance, Berglund et al. (2004: 602) suggested a pattern consisting of ten different cleavages. Jurkynas (2005) suggests six cleavages (or issue divides) in Lithuania during the Seimas election in 2004 (centre–periphery, better-off – socially disadvantaged, urban–rural, religious, anti-Russian, and transitional relevance of personalities); 2) a second assumption when using parties as cleavage indicators is that these cleavages are fragmented and fluid since parties appear and disappear rapidly (Moser 1999: 371).

On the other hand, the missing middle approach concludes that the lack of observable stability in party representation could make us assume the absence of cleavages in this region (Whitefield 2002: 184 with references to Ost 1993, White, Rose and McAllister 1997, Elster, Offe and Preusse 1998). The focus is instead upon institutional factors and agency.

All these assumptions are derived on the basis that stable party representation indicates the presence of cleavages. But parties in CEE are simply not suited for indicating cleavages. This limits the applicability of Lipset and Rokkan's cleavage model to the study of strictly stable party systems.

The third conclusion mentioned above, the “absence of cleavages”, is particularly interesting for the framework of this article. Unstable party support has led scholars to the assumption that cleavages have lost their importance, essentially meaning that there are no conflicting interests in society. Socio-structured friction and polarization is toned down or said to be non-existing. Instead of conflicting sectarian interests and ideas among subgroups of the electorate, society consists of postmodern, post-material, post-soviet individuals competing happily in a free and open market, simply representing themselves. Politics and party preference are thereby structured by other sources, or sometimes not structured at all. Charismatic leadership and populism together with volatile electorate thereby become the essential explanations for the party system development.

How realistic is this assumption? There are two main arguments against such an assumption. First of all, would it be natural to suggest that a small-scale farmer in Pasvalys has exactly the same interests and the same perception of reality, identity and political interests as a cappuccino-drinking stock-broker in Vilnius? I do not think so. It is not enough that they drink different types of coffee, they would probably vote for different parties as well. The cappuccino-voter and the Pasvalys farmer represent different interests and ideas to begin with. Further, these two persons have experienced and perceived the years after fall of communism very differently. Of course, they have different interests and views in the societal development. Secondly, politicians might have self-interests in portraying this picture of societies without conflicts and interests because it allows politicians to act more independently of party organization, ideology and electorate. If one argues that conflicting societal interests do not exist and that ideology is not important, politicians do not represent any specific interests but “everyone and the common sense” in society. I would certainly argue that most politicians, and Lithuanian in particular, appreciate such a picture of the political reality because it is very favourable for them. Nevertheless, it covers the real dynamics of the political nature.

The reversed cleavage model

The reversed cleavage model attempts to use cleavages to explain the formation of an unstable party system in Lithuania (and CEE) by using the

urban–rural cleavage in post-communist Lithuania as a point of departure. The reversed cleavage model acknowledges both the assumption of party–voter alignments through cleavages and takes into consideration the unfavourable conditions for political organization in Lithuania³. This is a mixture of both the missing middle approach and the modernization approach mentioned above. The crucial point in this model is separation of the *presence of cleavages* and the *political organization of cleavages*. The theoretical precondition is that voters can structure their party preferences from cleavages, but the political manifestation of the cleavage remains fragile and is therefore the main source of party system instability. This means that although parties may come and go, cleavages do not necessarily have to do the same. The fact that voters change parties frequently does not necessarily mean that the foundation for cleavages is absent. Voters may still derive their party preferences from societal conflicts related to cleavages, but the organizational expression (parties) and stable party–voter alignments do not have favourable conditions for long-lasting survival in Lithuania. If the parties represent the organizational expression of the cleavage, voters may change this organizational expression for a number of reasons, but still derive their party preference from cleavages.

...rather than a change in political preferences, volatile behaviour reflects the change in institutional configuration among the contestant, that is, the mergers and splits and the public image of political parties (Johannsen 2003: 295).

Volatile voter behavior is thereby not necessarily the result of cleavages' inability to structure voters' party preferences, but a reflection of the fluid party configurations. Because of communism and the weak civil society, the organizational expression of the cleavage, namely parties, and the alignments between voters and parties dramatically weakened. Two assumptions are central in the reversed cleavage model: parties are shifting, and cleavages are constant.

Parties are shifting

Because of weak ties between parties and voters in Lithuania, parties never have the intention or capacity to establish stable, long lasting alignments with subgroups within the electorate⁴ (Biezen 2005). The top-down con-

struction weakens the elites' commitment to the notion of party politics (Lewis 2000: 73) and party leaders as such have few ideological liabilities since their party is not built upon representation of specific societal interests. The parties themselves are fragile, elite-controlled and incapable of implementing efficient policies anchored in the electorates' interests.

The parties' ability to own the cleavage and further solve and generate new conflicts into their party substance or political package, and thereby survive, is dramatically reduced within this context. When parties themselves are weakly connected to the electorate, without history and lack commitment to ideological liabilities, the preconditions for the Downsian argument about party competition along a spatial dimension are weakened (Downs 1957):

...parties cannot move much beyond the centre, nor change their relative positions to left or right, because of the confusing effects this would have on electors and the lack of credibility of a party which repudiated its past commitments, not to mention the policy belief of leaders themselves (Budge 1994: 451).

But without these commitments, parties *can* move along and perhaps also leapfrog the different dimensions. The lack of sufficient past commitments and organizational links to the electorate, disable parties to monopolize political space. This further inhibits the survival of the parties because they do not have a space where new conflicts can be absorbed and redefined into. The party competition therefore remains open.

Cleavages are constant

The overwhelming societal developments that took place during communism could not be translated into political interest aggregation due to the authoritarian regime structure. Organization of political interests had to be conducted after the fall of communism, along with many other parallel processes such as nation building and democratization. This phase accumulation weakens parties' ability to solve or define societal conflicts (Rokkan 1970), which means that the durability of societal conflict patterns, in this cleavage, will be strengthened.

Both parties and voters affect the permanence of cleavages. When voters align with the parties on Election Day, expectations about political perfor-

mance (output) are generated. But due to the weak institutionalization, lack of historical commitments and organizational ties between voters and parties, the parties are not sufficiently capable of implementing policy to solve the societal conflicts they claim to represent. The expectations of the electorate do not correspond with the actual results parties are capable of presenting. Since party–voter alignments are weak, there are no reasonable incentives for voters to support the same party twice if they are not satisfied with its performance. The conditions for new parties to emerge are favourable because voters change parties when these do not fulfil their expectations. These new parties, however, are also weakly aligned with the electorate and have exactly the same problem with cleavage-ownership, political packages and policy implementation as their predecessors. The cleavage does not obtain a stable political manifestation but remains as a stable source on the voter level.

Party entrepreneurs find the raw material for political competition in the cleavages and make use of the mobilization potential it represents. But since parties do not manage to establish long-lasting cleavage ownership and monopolize the political space, alignments between voters and parties remain weak. These circumstances favour the *emergence* of new parties, but weaken their *ability to survive* because party competition remains open. This is the exact opposite postulation of Lipset and Rokkan's expectations about parties' ability to survive in Western Europe

Winning elections vs. implementing policy

Winning elections is not the same as implementing and developing policies. A party does not need ideology, party organization or members to win an election. All you need is enough idiots to vote for you and the majority in parliament to pass laws. But to develop and implement predictable policy that represents the interests of the electorate, parties need exactly ideology, party organization and members. Here the role of a vital civil society and a linkage between civil society and political parties plays an important role.

If the parliament, consisting of elite politicians in suits, wants to pass a law on security on construction sites, they first of all need detailed inputs on how to design the law. It is likely that few politicians have ever been at

a construction site. For this purpose they need close contact and communication with civil society organisations that can provide parties with knowledge. Labour unions for construction workers or interest organisations would know something about this. Involving these civil society organisations in the law process would therefore sound like a good idea. Let's say the politicians are able to pass a new law on security on construction sites. Who is going to follow up and scrutinise these regulations when the law is passed in the parliament? Certainly not the politicians themselves. This is where the role of a strong civil society is even more important. It would probably be a good idea if, for instance, the same labour union or interest organisation that was involved in the lawmaking also monitors the implementation of the law.

Because of the weak linkage among parties, civil society and voters in Lithuania and in CEE in general, parties become unpredictable in their policy, elite-controlled and incapable of implementing an efficient and consistent policy that addresses pivotal societal problems in the region. The "problem solvers" do not have any strong institutionalised link to the actual problems through interests groups and civil society. Then it also becomes very difficult to come up with the proper, long-term solutions and even more challenging to implement them. Parties are not committed to members, ideology or organisation, so their policy becomes unpredictable, exposed to corruption and politics in general, an elite project without any popular anchoring or representation. Elite politics is therefore by definition bad politics, and bad politics is the recipe for political instability.

The model

When defining the concept of cleavage, the reversed cleavage model focuses less upon stable party representation. A cleavage is understood as a structural link between societal conflicts and political preferences. By prerequisite cleavage continuity, the cleavage can mobilize the same voters but to different parties over time. The reversed cleavage model does not need stable political actors to have the presence of cleavages,

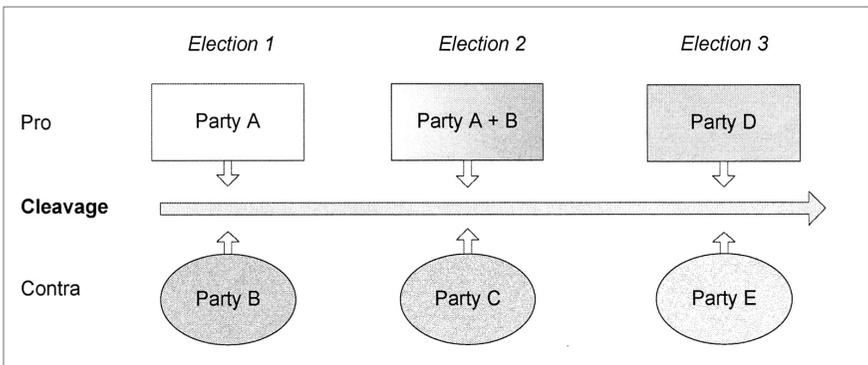
By unveiling and identifying the societal conflict pattern, a cleavage is by all means related to the understanding of each voter's preferences on the

micro level. The structures, and further the cleavages, are meant to be at hand with the interests, alternatives and choices the voter relates to. As already mentioned, neither voters nor parties are passive actors in cleavage formation; both play a vital role in creating and shaping the alignment between party politics and voter preferences. The cleavage can therefore be seen as both constraining and catalyzing political activity, both on the party and voter level. Due to the assumption of cleavage continuity, the parties either create or define themselves into cleavages without being first aligned with the voter. This makes parties rather entrepreneurs, but not bearers, of political conflicts.

Lipset and Rokkan assumed that certain cleavages resulted in certain parties which survived by aligning with electorate and redefining new conflicts into their political space. The reversed cleavage model also assumes that cleavages are the raw material of party competition. But due to the parties' inability to establish stable alignments to the electorate and to own and redefine societal conflicts with a defined political space, the cleavage structure do not result in stable support for parties. The cleavage modifies both the voters' preferences and the party competition, but the electorate reflects the cleavage structure in the selection of different parties over time.

In election 1, party A and party B present themselves as pro and contra representatives of the cleavage, but weak party–voter alignments affect the parties' ability to survive as cleavage representatives. In election 2, party B has leapfrogged and merged with party A, opening the space for a new

Figure 2. Shifting parties, constant cleavage



contender, party C, on the contra side of the cleavage. In election 3, all parties representing the cleavage are replaced by new parties, D and E. The cleavage is preserved by continuous party type representation, but with different parties. Since parties are elite constellations, changes in the party landscape are “easy” to conduct. The cleavage does not structure the behaviour of parties, but it can still be vital on the voter level.

By assuming that parties are shifting and that cleavages are constant, the reversed cleavage model presents three solutions when approaching the party system formation in a post-communist setting. First of all, it avoids that party system formation related to cleavages becomes too closely dependent on a stable representation of particular parties. Secondly, the role of agency and political entrepreneurs is given a broader explanatory position in the party formation process, along with the cleavages. Cleavages constitute the raw material of party competition, but party leaders seek to exploit cleavages in the party formation process. And thirdly, the problem with short time horizons regarding the alignments between voters and parties are avoided since the continuous, institutional expression of the cleavage, namely the parties, is not seen as a precondition for the presence of cleavages.

The party system in Lithuania

Lithuania was said to have a stable party system after the fall of communism (Holm-Hansen 2002: 73). Although the number of relevant parties was increasing with every election, they have all been mainly structured along a left-right cleavage (Berghlund, Ekman and Aarebrot 2004, Duvold and Jukynas 2004, Bakke 2002, Jelinskaite 2001). Throughout the 1990s the parties operated in two government coalition blocks. The reformed ex-communist party, Lithuanian Democratic Labour Party (LDDP), was the leading party of the left. The largest party representing the right was the National Opposition Movement Sajudis, later Homeland Union (TS) (Holm-Hansen 2002: 86). Election results are presented in the table below⁵.

The post-communist parliamentary elections in Lithuania throughout the 1990s were dominated by the two government coalition blocks. LDDP, with its junior partners, and Sajudis (later Homeland Union) together with

Table 1. Post-communist elections in Lithuania

1990		1992		1996		2000		2004	
Party	%	Party	%	Party	%	Party	%	Party	%
Sajudis	43.0	LDDP	44.0	TS	31.3	SDK	31.1	DP	28.6
LDDP	34.1	Sajudis	21.2	LKDP	10.4	NS-S	19.6	LSDP-NS	20.7
LSDP	6.7	LKDP*	12.6	LDDP	10.0	LLS	17.3	TS	14.6
LKP	5.2	LSDP	6.0	LCS	8.7	TS	8.6	LDP	11.4
				LSDP	6.9			LiCS	9.2
								VNDS	6.6

Sajudis – Opposition Movement, LDDP – Lithuanian Democratic Labor Party, LSDP – Lithuanian Social Democratic Party, LKP – Lithuanian Communist Party, LKDP* – Lithuanian Christian Democratic Party + Union of Political Prisoners and Deportees + Lithuanian Democratic Party, TS – Homeland Union, former Sajudis fraction, LKDP – Lithuanian Christian Democratic Party, LCS – Lithuanian Centre Union, SDK – Social Democratic Coalition, NS-S – New Union-Social liberals, LLS – Lithuanian Liberal Union, DP – Labor Party, LSDP-NS – Working for Lithuania, LDP – Liberal Democratic Party, LiCS – Liberal and Centre Union, VNDS – Peasants’ and New Democracy Union.

its collateral parties, took office every other election. Although the party system was somewhat fragile, these two parties had a firm grip of the electorate. Politicians and political scientists were happy. But the last two Seimas elections, in 2000 and 2004, have demonstrated that the Lithuanian party system is rather unpredictable. The electorate’s overwhelming support for new parties has annoyed not only politicians but also political scientists. The latter have, in pure desperation, made extensive use of the words “populist segments” and “protest parties” to explain the ongoing process⁶.

The 2000-election represented the first earthquake of the Lithuanian party system (Jurkynas 2005). First of all, the centre-right parties suffered major losses. LKDP and LCS were wiped out in the PR-election and only managed to keep two seats each in the SMD-election. TS obtained just eight percent of the votes. Secondly, the leftist block reorganized into a unified Social Democratic Coalition (SDK)⁷, became the largest party in parliament with 31.1 percent. Thirdly, two new parties, Lithuanian Liberal Union (LLS) and New Union-Social liberals (NS-S), successfully emerged on the party arena. Together the newcomers LLS and NS-S re-

ceived almost forty percent of the votes and brought about a third centre-block alternative in the Lithuanian party system.

The erosion of the Lithuanian party system continued towards the 2004-election. After suffering heavy losses in the 2000-election, LKDP and the smaller Union of Political Prisoners and Deportees (Lkpts) merged into TS, establishing the united rightwing party *Homeland Union – Conservatives, Political Prisoners and Deportees, Christian Democrats (TS)*. Most parties running under the Social Democratic Coalition-label in 2000 merged under the new name, Lithuanian Social Democratic Party (LSDP). In the 2004 PR-election, LSDP ran on a common ballot with its government partner New Union NS-S under the name “*Working for Lithuania*” (LSDP-NS). Internal conflicts within Lithuanian Liberal Union (LLS) resulted in a total fragmentation of this party. The remaining members of the different centre-block parties, LLS, Lithuanian Centre Union (LCS) and the smaller Modern Christian Democrats (Mkds), merged into *Liberal and Centre Union (LiCS)* before the 2004-election. Lastly, the New Democracy Party (NDP), one of the junior partners in the Social Democratic Coalition from the 2000-election, joined Lithuanian Peasant Party (LVP) and formed the *Peasants’ and New Democracy Union (VNDS)* (Bakke 2002: 85, Duvold and Jurkynas 2004: 141).

The 2004-election represented the second earthquake, with the newcomer Labour Party (DP) winning the election, being the largest party in almost every constituency with around thirty percent of the votes, nationwide. The incumbent coalition of LSDP and NS-S went from a collective support of above fifty percent in the 2000-election to just above twenty percent four years later. The reorganized TS improved its result compared to the devastating 2000-election and ended up with around 15 percent. LiCS and the other newcomer Liberal Democratic Party (LDP) achieved just below ten percent, while VNDS attained a close to seven percent support nationwide. It was impossible for the established parties to neglect the overwhelming electoral support for DP. A broad majority government coalition was established by DP, LSDP, NS-S and VNDS⁸.

As already mentioned, the replacement of parties is difficult to explain within the framework of Lipset and Rokkan’s cleavage model. By focusing upon one cleavage, the conflict between urban–rural economic interests,

this article will further discuss the development of the party system in Lithuania in the light of the reversed cleavage model.

Urban–rural cleavage in Lithuania?

According to Lipset and Rokkan, the urban–rural cleavage was an expression of different economic interests between cities and rural areas (1967: 21, 47). The farmers' struggle for democracy contained an element of economic opposition towards the expanding urban economy. Urban–rural disparity should, at least theoretically, have the capacity to structure voter preferences in Lithuania, first and foremost because of the dominating position of the agricultural sector (Duvold and Jurkynas 2004: 149, Tavits 2005: 288). According to the 2005 census, 545 381 Lithuanians, or 15.7 percent of the population, were employed in agriculture (Lithuanian Statistical Department, Agricultural Census 2005). Table 2 below illustrates the regional differences in agricultural employment.

The agricultural sector has been exposed to pressure and change after the fall of communism. The agricultural decollectivization and economic reforms had distributive consequences, especially for the rural economy. The overall decline in the region's GDP after the transition came from

Table 2. Agricultural employment in Lithuania⁹

Region	Employment in agriculture, %
Vilnius	8.9
Kaunas	11.4
Klaipėda	11.9
Šiauliai	19.3
Telšiai	19.6
Panevėžys	19.8
Alytus	23.2
Utena	23.6
Marijampolė	26.1
Tauragė	29.8

recession in the rural economy. GDP's share of agriculture decreased from 21 percent in 1994 to 5.9 percent in 2002 (Duvold and Jurkynas 2004: 149). The overall poverty and unemployment is more visible in rural areas. The pressure towards the agricultural sector and farmers overall becoming the transition losers (Lie 2004: 493, Johannsen 2003: 292, Tavits 2005: 288) give favourable conditions for an agrarian party organizing the political interests of this group. The question is how this mobilization can be manifested politically.

Lipset and Rokkan (1967: 47) saw the agrarian parties as the organizational ex-

pression of the urban–rural cleavage. But this did not mean that agrarian parties would emerge wherever there are farmers. Agrarian parties seemed to emerge in countries or regions where these four criteria were fulfilled:

- 1) cities and industrial centres were numerically weak at the time of the decisive extensions of the suffrage;
- 2) the bulk of the agricultural population were active family-size farming and either owned their farms themselves or were legally protected lease-holders largely independent of socially superior land-owners;
- 3) important cultural barriers between the countryside and the cities and much resistance to the incorporation of farm production in the capitalist economy of the cities;
- 4) the Catholic Church had no significant influence (Lipset and Rokkan 1967: 45–46).

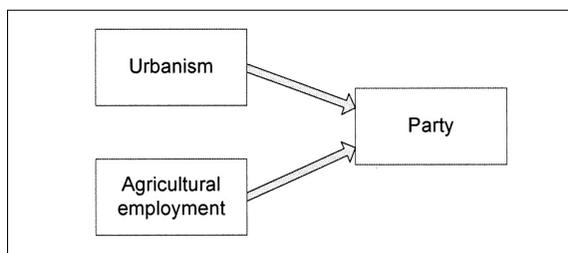
Of the four abovementioned conditions, Lithuania can be said to fulfil all but the one concerning the Catholic Church. The Catholic Church has been central in the historical development of the country and can be argued to play an important role in the Lithuanian society even today. This is an argument against the emergence of agrarian parties along the urban–rural cleavage since urban–rural division can overlap with the religious–secular cleavage. Although Lithuania had a religion-based party in the 1990s, the Christian Democrats (LKDP), there is a disagreement whether the latent cleavage between urban and rural economic interests overlaps with the religious–secular cleavage (Jelinskaite 2001: 92).

Many parties, the same cleavage

By applying the Reversed cleavage model, this article will now study voter behaviour along the urban–rural cleavage in post-communist Lithuania during the three last Seimas elections (1996, 2000 and 2004). The assumed causal relationship of the analyses is presented in Figure 3¹⁰.

To identify the urban–rural cleavage in post-communist Lithuania, two variables are applied: urbanism and percentage agricultural employment on the constituency level. These two variables will most probably overlap; large cities will have fewer agricultural workers because agriculture is naturally related to rural constituencies. Still, it is important to include them

Figure 3. Assumed relationship in the analysis



both in the analysis because they identify two separate elements. First of all, the size of the cities can indicate the economic production structure. In larger cities, other economic sectors such as industry, business, productive and social infrastructure in addition to agriculture can, at least theoretically, have a dominant position. Secondly, the Tingsten's law on social gravity centre (Karvonen and Grönlund 2003: 229) predicts that the dominant social group in a given constituency affects the voting behaviour of other social groups as well¹¹.

Urban–rural cleavage manifestation in the 1996 election?

Only two parties have significant results in the 1996 correlation analysis. The positive correlation between Lithuanian Centre Union (LCS) and urbanism indicates a co-variation in the increasing support for LCS and an increasing share of urban population on the constituency level. At the same time, LCS has a negative correlation with the increasing agricultural employment. The result for Lithuanian Democratic Labour Party (LDDP) is the opposite of LCS, with a negative correlation with urbanism and positive with agricultural employment.

Table 3. Result of the correlation 1996

Election	Variables		Party	Inter-party correlation
1996	Urbanism	+	LCS (.423)	<i>Positive:</i> LDDP-LSDP (.561), LDDP-LKDP (.345), LKDP- LSDP(.345)
		–	LDDP (–.439)	
	Agricultural employment	+	LDDP (.419)	<i>Negative:</i> LCS-LDDP (–.282)
		–	LCS (–.380)	

An inter-party correlation controls the findings in the abovementioned correlation results¹². Most important for 1996-analysis is the negative correlation between LCS and LDDP, indicating that in constituencies with increasing support of one of the parties, the other party reduces its support. In the analysis, LDDP also significantly positively correlates with two other parties, Christian Democrats (LKDP) and Social Democrats (LSDP), but none of these two showed a significant correlation with urbanism and agricultural employment. The support for LKDP and LSDP can therefore be said to be more equally distributed than the support for LDDP between urban and rural constituencies. The negative correlation between LCS and LDDP and their opposite correlation with urbanism and agricultural employment suggest that these two parties represented the urban–rural cleavage in the 1996-election.

Urban–rural cleavage manifestation in the 2000 election?

As already mentioned, the incumbent centre-right government coalition of TS, LCS and LKDP suffered major losses in the 2000 election. Only TS managed to obtain mandates in the PR-election. Meanwhile, the unification of the centre-left forces into the Social Democratic Coalition (SDK) proved to be an electoral success.

While only two parties showed a significant correlation with urbanism and agricultural employment in the 1996 election, all four parties receiving mandates in the 2000 PR election showed significant correlation results. A new party, Lithuanian Liberal Union (LLS), and the “established” rightwing party Homeland Union (TS) correlate positively with urbanism

Table 4. Result of the correlation 2000

Election	Variables		Party	Inter-party correlation
2000	Urbanism	+ –	LLS (.847), TS (.351) SDK (–.339), NS-S (–.328)	<i>Positive:</i> LLS-TS (.421)
	Agricultural employment	+ –	SDK (.341), NS-S (.319) LLS (–.812), TS (–.308)	<i>Negative:</i> LLS-SDK (–.534), LLS-NS-S (–.368), TS-NS-S (–.492), TS-SDK (–.480)

and negatively with agricultural employment. This indicates an increasing support of these two parties in constituencies with an increasing percentage of urban population and a decreasing percentage of agricultural employment. Adomenas (2005: 56) confirms this pattern, especially when it comes to LLS being a party for urban middle class and entrepreneurs. The opposite result is found for the other two parties receiving mandates in the 2000 PR-election. The Social Democratic Coalition (SDK) and the New Union – Social Liberals (NS-S) correlate negatively with urbanism and positively with agricultural employment.

The inter-party correlation confirms the pattern suggested above. LLS correlates positively with TS and negatively with SDK and NS-S. This strengthens the argument that there might be an urban–rural cleavage between these two groups of parties (LLS+TS and SDK+NS-S) in the 2000 election. At the same time it should be mentioned that the interparty correlation between SDK and NS-S did not satisfy the level of significance. This can indicate that although both these parties had mainly rural support, their relative support was not equally distributed among the rural constituencies.

The party that represented the urbane electorate in the 1996 election, LCS, did not obtain representation in the 2000 PR-election. The results of the 2000-analysis suggest that the urban electorate was mainly divided between LLS and TS, while rural constituencies in the same election were dominated by SDK and NS-S.

Urban–rural cleavage manifestation in the 2004 election?

The 2004-dataset is more detailed than the other two elections, and a regression is applied to this analysis¹³. The advantage of such an analysis is the relationship between dependent and independent variables and thereby assumptions about causal relationships. The 2004 election was dominated by the newcomer Labour Party (DP). DP won the election by becoming the largest party in all constituencies. The incumbent government coalition of LSDP and (former SDK) and NS-S ran on a joint list in the PR-election and suffered heavy losses, especially in rural constituencies.

Table 5. Regression in 2004 election

Party	Urban-rural		Iner-party regression					
	Urbanism	Ag. employment	DP	LDP	LiCS	LSDP-NS	TS	VNDS
DP	-.090	.297**	-	-.346**	-.168	-.274**	-.230*	.022
LDP	-.118	-.199*	-.352**	-	-.121	-.300**	-.274**	-.107
LiCS	.409**	-.354**	-.178	-.125	-	-.069	.253*	-.224*
LSDP-NS	-.135	-.195	-.268**	-.289**	-.064	-	.116	-.270**
TS	.234*	-.097	-.224*	-.263**	.233*	.115	-	-.058
VNDS	-.031	.373**	.024	-.114	-.231*	-.301**	0.65	-

** Sign. 0.01. * Sign. 0.05.

The results show that some parties seem to perform better in rural and agricultural constituencies than in urban ones, and visa versa. Beta coefficients are only significant for urbanism and the support for Liberal and Centre Union (LiCS) (significant at 0.01 level) and TS (significant at 0.05 level). Both beta coefficients are positive, indicating that LiCS and TS increase their support by respectively 0.409 percent and 0.234 percent, if the population in cities increases by 1000 inhabitants.

Several parties have significant values in their regression with agricultural employment (DP, VNDS, LiCS and LDP). The two strongest results are LiCS, which is negative, and New Democracy Peasant Party (VNDS), which is positive. A one percent increase in agricultural employment reduces support of LiCS by 0.354 percent and increases support of VNDS by 0.373 percent. A very interesting finding is the insignificant results of LSDP and NS. Both these parties (SDK and NS-S) were mainly rural in the 2000 election, but four years later voters did not show any significant pattern regarding the urban-rural cleavage. According to the reversed cleavage model, this can mean that these parties lost their cleavage ownership and that other parties have undertaken the role of cleavage representatives.

In the inter-party regression, support of Labour Party (DP) is related to a significantly lower percentage of support of LSDP-NS (-0.268), TS (-0.224) and Liberal Democratic Party (LDP) (-0.352), but not of LiCS. LiCS was definitely the strongest urban party by both variables in the regression. The insignificant regression between DP and LiCS weakens the

position of DP as a mainly rural party. The support of VNDS involves a significantly decreasing percentage of support for LSDP-NS (-0.270) and LiCS (-0.224). VNDS was the main rural party in the former regression, and the insignificant beta coefficients with DP, TS and LDP can indicate that these three parties did not represent the urban-rural cleavage in the 2004 election.

Comparing the results of the regressions, we might conclude that LiCS and VNDS represented the urban-rural cleavage in the 2004 election. They were the only parties with significant beta values both for the variables measuring the urban-rural cleavage and in the inter-party regression.

Shifting parties, constant cleavage

Comparing the results of the 1996, 2000 and 2004 elections, one can argue that the electorates' party preference along the urban rural cleavage changes from election to election. Table 6 presents a correlation of all urban and rural parties from the three elections studied in this article. The support of each party is correlated with the support of the other ones on the constituency level across the elections.

Table 6. Correlation between urban and rural parties

		"Rural parties"				"Urban parties"			
		1996	2000		2004	1996	2000		2004
		LDDP	SDK	NS-S	VNDS	LCS	LLS	TS	LiCS
"Rural"	LDDP	1	.702**	.300*	.542**	-.282*	-.542**	-.318*	-.449**
	SDK	.702**	1	-.010	.555**	-.018	-.534**	-.480**	-.592**
	NS-S	.300*	-.010	1	.070	-.094	-.368**	-.492**	-.297*
	VNDS	.542**	.555**	.070	1	-.250	-.541**	-.464**	-.571**
"Urban"	LCS	-.282*	-.018	-.094	-.250	1	.407**	-.064	.264*
	LLS	-.542**	-.534**	-.368**	-.541**	.407**	1	.421**	.907**
	TS	-.318*	-.480**	-.492**	-.464**	-.064	.421**	1	.513**
	LiCS	-.449**	-.592**	-.297*	-.571**	.264*	.907**	.513**	1

** Correlation significant at 0.01 level. N = 59.

* Correlation significant at 0.05 level.

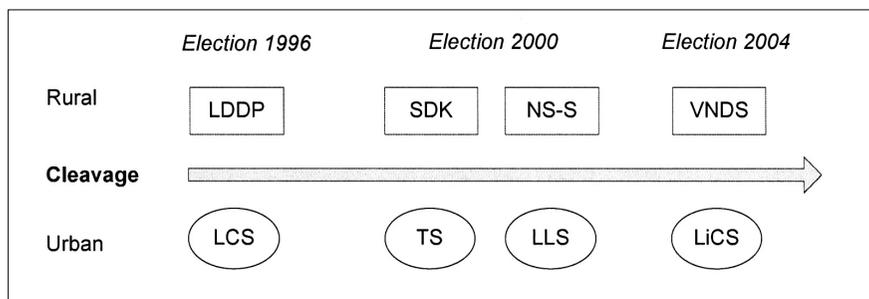
For the argument raised in this article, most important are the positive correlation of the rural parties with other rural parties and their negative correlation with the urban parties, and vice versa. This means that the parties' electoral support correlates on the constituency level over time. The upper left and the lower right sections of Table 6 confirm a pattern of continuous party-type support at shifting parties. Rural parties correlate positively with the other rural parties (upper left) and negatively with the urban parties (lower right). The correlation among urban and rural parties is negative (upper right), while the correlation among the urban parties is positive (lower right). Some results are weaker than others, such as NS-S in the rural group and LCS in the urban group. Some results are particularly strong, such as the correlation between LLS and LiCS with Pearson's $R = 0.907$ and significance level 0.01. Also, the correlation between LDDP and SDK is strong and positive with Pearson's $R = 0.702$.

Conclusion

The reversed cleavage model demonstrates how cleavages can reflect the party–voter alignments in a context where party institutionalization is weak. The assumptions of parties being shifting and cleavages being constant illustrate both the favourable conditions for the emergence of new parties and the unfavorable conditions for the parties to survive. The reversed cleavage model suggests that new parties can emerge along one cleavage dimension because (1) the old parties lack the ability to own the cleavage and thereby monopolize the political space. This weakens alignments with the electorate. And (2), old parties have problems generating new cleavages into their party substance because they have not monopolized any political space.

By applying the theoretical framework of the reversed cleavage model, the target of this article was the urban–rural cleavage in post-communist Lithuania. In each of the three elections studied in this article, different parties seem to represent the urban-rural cleavage in the Lithuanian party system. Lithuanian Democratic Labour Party (LDDP) and Lithuanian Centre Union (LCS) represented the opposite poles of the urban–rural cleavage in the 1996 election. In 2000, the urban–rural cleavage was rep-

Figure 4. Urban–rural cleavage representation in Lithuania



resented by four parties; Social Democratic Coalition (SDK) and New Union–Social liberals (NS-S) were most attractive in rural, agricultural constituencies, while Homeland Union (TS) and Lithuanian Liberal Union (LLS) were successful in the urban constituencies. In the 2004 election, SDK and NS-S were abandoned in rural constituencies in favour of Peasants and New Democracy Union (VNDS). The urban constituencies were dominated by Liberal and Centre Union (LiCS).

The results of the analysis show that the voters' party preferences can change on the very same scale and that different parties represent the same cleavage from election to election. The unstable party system is thereby not a result of voters' missing perception of cleavages, but rather related to parties' inability to survive as representatives of these cleavages by establishing long-lasting alignments with the electorate. The results of this analysis show that although the urban–rural cleavage has the ability to structure voter's party preferences in Lithuania, the organizational expression of the cleavage remains fluid. Therefore, a stable cleavage structure can persist alongside an unstable party system.

NOTES

¹ It is important to underline that there is no definitive divide between these three approaches, although one can argue that they each have a main focus: cleavages, institutional factors or actors.

² Also called the Tabula Rasa theory (Kitschelt 1992 and Johannsen 2003).

³ This framework can further be developed to create an eastern-centric approach to explain the lack of stable party system formation in CEE.

- ⁴ Such as, for instance, the institutional ties of labour unions and social democratic parties.
- ⁵ The 141 representatives in the Lithuanian parliament Seimas are elected according to a mixed electoral system. 71 representatives are elected in equally sized Single-Member-District (SMD). The remaining 70 representatives are elected in Proportional Representation (PR) on national party lists with the entire country as one constituency and a five percent lower threshold.
- ⁶ There seem to be a common assumption among some scholars, politicians and journalists that 1/3 of the Lithuanian electorate are genetically “protest voters”.
- ⁷ LDDP, LSDP, Union of Russians in Lithuania (LRS) and the New-Democracy Women’s Party (ND-MP).
- ⁸ This coalition broke down in spring 2006. The current government (01.11.06) consists of LSDP, VNDS, LiCS and a splinter group of DP.
- ⁹ Source: Department of Statistics to the Government of the Republic of Lithuania. Agricultural census 2005.
- ¹⁰ Urbanism: percentage of city-population within each constituency. Agricultural employment: percentage of agricultural employment within each constituency. Parties passing the threshold in the PR-election. Since the 1996 and 2000 elections are not available on polling district level, 19 constituencies are combined into seven analysis units comparable with the aggregated agricultural employment data. The analysis of the 1996 and 2000 elections therefore has 59 units on the constituency level, while the 2004-election has 106 units on the district level.
- ¹¹ Correlation results are judged by Pearson’s R and significance level. Only significance level below 0.05 is considered in this analysis.
- ¹² The support of each party is correlated with the support of the other parties on the constituency level.
- ¹³ In addition to significance level, the regression applies standardised beta coefficients indicating changes in the dependent variable when the independent variable increases by one unit and all other variables are constant.

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EFFICIENCY MEASUREMENT METHODOLOGIES AT PUBLIC SERVICE INSTITUTIONS

Šarūnas Broga

Abstract. The article joins the debate of whether it is worth and feasible to perform an impartial efficiency comparison of parallel public and private service providers. The author addresses and challenges reservations why it is challenging to compare efficiency of analogous institutions from two ideologically divergent camps, and suggests a methodological tool enabling efficiency evaluation and comparison of public and private organizations. The presented path is free of complex formulas and shall help verifying claims and statements about the inefficiency of public sector institutions in comparison with private service providers or public institutions in other countries.

Is there a problem at all?

Debates on the efficiency of the public sector are not abating. On the contrary, the amount of affirmations and complaints due to the low efficiency of public service providers is tending to grow. When do we usually claim one or another governmental institution working inefficiently? Firstly, it happens when people are not satisfied with the performance of an institution. Citizens expect a certain level of service in terms of time, quality and (not always) price, but the deliverables do not meet their reasonable expectations. However, secondly, we get used to criticize public sector efficiency when it comes to its comparison with analogous service providers in other states or especially in the private sector. Is it possible to compare the efficiency of similar private and public service providers? There are many “buts” and reservations, but if we have an objective measurement methodology it might become viable.

Is there a problem at all when one disputes about the demand and feasibility of this type of efficiency measurement methodology? The prob-

lem is twofold: 1) whether there is a need for that and 2) whether it is viable. Above all, it will allow us to reasonably claim that in a certain case the public service provider is less efficient in comparison to its privately owned counterpart. Without it, statements on the relative inefficiency of the public sector may be choked by the difference between the private and the public sectors, accused of inability to consider the peculiarities and exceptions of the public sector and finally easily denied. Elimination of the reservations on whether impartial measurement is possible would provide us with an opportunity to move further in search and analysis of core inefficiency causes and ways to improve the efficiency.

The feasibility part of the problem is far more complicated. Possession of a versatile efficiency measurement methodology applicable to both public and private service providers is questionable due to fundamental differences between both sections. In a simplified situation, in order to assess and compare efficiency, there is an essential need of defining the input and output units. The input units can be evaluated financially or by the amount of required resource units, whereas the output units directly depend on the goal of an institution. The key distinction lies in the definition of goals set for each institution. The majority of private institutions have a clear goal at the end of earning money now as well as in the future, though publicly owned similar service providers by default must serve public interest. Usually the goal of any public organization does not induce the organization to pursue the type of efficiency typical of private organizations. The of format serving public interest is not measurable and requires expansion, though not in a financial way. Secondly, as the goal of any institution is defined by its owners, we are facing a classic challenge in identifying the true goal of public institutions for three core reasons: 1) societies are too voluminous for thorough polls and decisions on what should the goal of one or another institution; 2) usually opinions at the lowest level of society on the specific goal of a certain public institution differ; 3) at the end, the majority of opinions tend to change from time to time. And these are only a few distinctions that must be taken into account. The rest will be analysed in the further sections.

Finally, the absence of an identifiable and accepted efficiency measurement methodology also affects the problem of the insufficient monitoring,

accountability and performance improvement of public institutions. If it comes out that it's impossible to develop an appropriate measurement methodology for institutions of both sectors, at least it could contribute to improving their efficiency. When performance measurement systems are designed and implemented effectively, they provide a tool to maintain control over the organizations and a mechanism for governing bodies and funding agencies to hold organizations accountable for producing the desired kinds of results. They can also help reward success and take corrective actions to avoid replicating failures. However, the successful development of a universal efficiency evaluation model would enable not only to compare parallel institutions from public and private sectors, but also to learn from a more efficient organization if it comes out that the performance of the private institution is better. Public institutions could be provided with a model which explicitly indicates where the efficiency stands behind and can be improved using the best practice of parallel private institutions.

Defining the efficiency

However, before moving ahead it is important to still the doubts related to terminology and related definitions of “efficiency” and “public sector”. There are many performance measures of output, productivity, efficiency, effectiveness, service quality, and customer satisfaction providing information that can be used by public and non-profit organizations to manage their programs and operations more effectively. “Output” as the quantity or amount produced in a given time is a too narrow and insufficient measurement for comparison as it does not take into consideration that institutions might have different resources and capabilities to produce similar output units. “Productivity” is generally measured by the ratio of output to input and is very similar to efficiency, but has a savour of labour as economics characterises “productivity” as the ratio of the quantity and quality of units produced by the labour per unit of time. The common definition of “efficiency” includes “productivity”: the ratio of the effective or useful output to the total input in any system. “Effectiveness” means the capability of producing an effect. “Efficacy” is the ability to produce a desired amount of the desired effect, or success in achieving a given goal, although, contrary to efficiency, the focus in efficacy is on the achievement as such and not on

the resources spent in achieving the desired effect. Therefore, what is effective is not necessarily efficacious, and what is efficacious is not necessarily efficient. Service quality is the key factor for customer satisfaction and a mandatory element for efficiency's "useful" output. As a result, efficiency comes out as the most comprehensive variable in order to fully assess the performance on any organization.

As efficiency may be regarded as an attribute of economics, there might come up a question how the present research relates to politics and its branch of public administration that examines the practices of governance. Economics define efficiency as the ratio of useful output to the total input of any system, although end-users of public service providers (ordinary citizens) usually do not perceive that. They face end results as clients and do not dispose of information about the amount of inputs required to provide a certain service or produce a good. However, one may constantly hear complaints that one or another public institution is working inefficiently. How come? One of the possible answers is that we have at least two mainstream perceptions of efficiency, and the primitive one used by society is more related with a service quality and satisfaction. Citizens are used to claim that a public institution is working inefficiently because they are not fully satisfied with the provided end-good or end-service due to insufficient quality, long queues, slow performance and respectively long lead-time. At first sight it might look unrelated to efficiency. However, if a public institution manages to improve its efficiency by reducing waster and lead-time with the same resources and keeping the same quality characteristics, it will directly reflect on customer satisfaction. Citizens could be served faster, spend less time in queues and even pay less where and when it is required to pay. As the funding of publicly owned institutions is usually very limited and not easy to increase, the ability to serve more citizens with the same resources in a limited time period will raise contentment of society. In some areas where it is not admissible to cut the lead-time, e.g. high school education, achieving more output units with the same or lower investments and cost may also improve the efficiency. Finally, public institutions (inputs) are funded by taxpayers whose satisfaction also rests on how efficiently public service providers handle inside processes and exploit granted inputs. Therefore, if serving the same amount of citizens but with

less input (cost and investment) would not be felt by ordinary citizens, at least it may contribute to raising the satisfaction of taxpayers. Some political scientists define governance efficiency in public administration wider by including corruption level, participation of citizens, though this research focuses on and explores operational efficiency.

The public sector is generally defined as the part of economic and administrative life that deals with the delivery of goods and services by and for the government, whether national, regional or local / municipal. To improve research quality and therefore to narrow the scope of objects and analysis, in this research the focus falls on public service providers that provide services immediately to citizens and that (most of them) have analogous private service providers. That will enable comparative analysis not only among public institutions of different countries, but also between privately and publicly owned organizations. In addition, there are two main types of activity environments: project environment and operational environment. Obviously, in relation with the private sector there is no point in developing assessment methods of the effectiveness or efficiency of various social programs which are implemented solely by the governmental institutions. From the private sector point of view, this research is not interested in performance of business-to-business activity-based companies. Thus, the operational environment mostly in the areas of service provision to the end-users like health care or education is of the key interest for the research. Of course, e.g., the educational level of high schools in Lithuania may be regarded as a project environment due to yearly modified examination regulations. Every year for a particular high school can be considered as a separate project which requires a unique preparation and implementation plan. However, the same examination instructions apply to private high schools as well, and that enables the evaluation of efficiency in both environments. In general, research success in complex environments like health care and education could guarantee the applicability of the model in less complex environments where similar public and private organizations operate.

Determination of the goal

In the previous chapter, efficiency was defined as the ratio of the effective or useful output to the total input in any system. Input units in the form of

investments and operating expense can be calculated arithmetically and estimated using even accountancy standards. Meanwhile output units directly depend on the goal of an institution. Private organizations have an expressed goal of earning money now as well as in the future, which is not the case with public institutions which are generally referred to as protectors of public interest. To count the output units of a particular public service provider, it is necessary to define or identify the true end-goal of that institution.

The higher education environment with public and private players can serve as one of the examples. Privately owned universities, like public ones, broadly claim that their goal is to raise best possible professionals, although it does not explain why so many universities grant scholarships and make exceptions for talented athletes. The reason behind is related with the institution's desire to promote its name and attract more fee-paying students. And this is not the only fact proving that the true goal of private institutions at the higher education level is to earn money now as well as in the future.

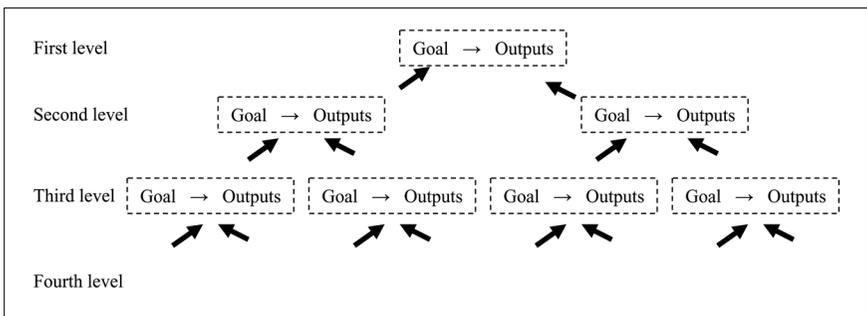
The health care system with its players is another good example. The general goal of every hospital is, or at least should be, to heal as many patients as possible. However, there is no private hospital whose owners or investors would declare that they invested money for other purposes than getting return on their investment. Of course, there can always be rare exceptions related to charity initiatives. Public hospitals cannot have a goal bounded with earning money as they were created to serve public interest set by society through electing the then government.

The goal of an organization is defined by the owners of the organization. Shareholders of any private company set the goal for the company to earn more money now as well as in the future. Even in situations when a company is owned by thousands of shareholders, the goal remains unvaried with one accord as the vast majority of shareholders invest with a clear goal to maximize their return on investment. But who is the owner of public organizations? The direct owner might be the immediate central or regional governmental institution, although the true owner in democratic environments is society which elects and delegates parliament or municipalities to set goals to public institutions through government or regional

governance. This long chain makes the whole picture even more complicated in terms of goal formulation and timely communication. In addition, society is divided into many interest and opinion groups. As a result, the mainstream opinion on what format of goal shall be appointed for one or another public institution can also change in time. That makes setting a true goal (satisfying at least the current mainstream position of the society) for a specific public institution difficult, but it needs to be done in order to identify the right output units.

Efficiency measurement

Whatever final goal a public service provider will have, the top goal's units can never be comparable to the ones in the private sector. If it is impossible to have identical final output units, how could we measure and compare the performance and efficiency of analogous services providers from different sectors? In this situation, the solution is formation and application of a chain of intermediate objectives and respective outputs.



Matching the intermediate objectives at analogous institutions from both sectors enables identification of equable intermediate output units and performance comparison. If it is impossible to compare parallel public and private service providers at a general level, it is doable at certain lower levels. In most of the cases there is a struggle to define output units for public organizations at the top level.

Obviously it is not possible to parallel and compare satisfied people with earned money. That makes difficult to judge about the efficiency of selected organizations. Thus, the elaboration of key goals provides us with

Table 1. Top level goals

	<i>Public sector</i>		<i>Private sector</i>	
	Goal	Output units	Goal	Output units
First level	Serve or service its society	Delighted citizens	Earn money now and in the future	Net profit
Second level	...	...	...	...
Third level	...	...	...	...
... level	...	...	...	...

Table 2. Adjusted top level goals

	<i>Public sector</i>		<i>Private sector</i>	
	Goal	Output units	Goal	Output units
			Earn money now and in the future	Net profit
First level	Serve or service its society	Delighted citizens	Satisfy their clients	Satisfied clients
Second level	...	...	...	...
Third level	...	...	...	...
... level	...	...	...	...

an opportunity to identify equivalent output units. To earn money now as well as in the future, a company needs to have revenue which is paid by the end-clients. To be paid by the clients, a company must provide a service of an appropriate quality during a term acceptable for the client. In other words, private companies also attempt to satisfy as many citizens as possible. Otherwise they will not be paid, lose current clients, harm their image and bankrupt due to a low revenue and generated losses.

Even at this level it is not easy to count and compare delighted citizens with the amount of satisfied clients. Of course, there can be surveys and polls organized to figure out and evaluate feedbacks on provided services. However, classic problems appear like whether it is feasible to constantly question all clients and whether respondents really mean what they write in questionnaires. Thus, there is a need of setting clear intermediate objectives at lower levels with corresponding output units. At this stage, a move

Table 3. Second level goals at health care environment

	<i>Public sector</i>		<i>Private sector</i>	
	Goal	Output units	Goal	Output units
			Earn money now and in the future	Net profit
First level	Serve or service its society	Delighted citizens	Satisfy their clients	Satisfied clients
Second level	Properly heal as many patients as possible	Healed patients	Properly heal as many clients as possible	Healed clients
Third level	...	...	...	...
... level	...	...	...	...

Table 4. Second level goals at educational sector

	<i>Public sector</i>		<i>Private sector</i>	
	Goal	Output units	Goal	Output units
			Earn money now and in the future	Net profit
First level	Serve or service its society	Delighted citizens	Satisfy their clients	Satisfied clients
Second level	Train scholars of the highest qualifications	Educated scholars	Train scholars of the highest qualifications	Educated scholars
Third level	...	...	...	...
... level	...	...	...	...

from the general to a specific environment is required (e.g., health care, education or other).

Healed patients or educated scholars are unlikely to be compared as they may have too many different satisfaction attributes; e.g. a healed patient who spent in the queue at his doctor twice less time than the other is much more satisfied. At the same time the patient who waited longer in the queue might receive better treatment, consultations, and recommendations on better drugs and recover faster from the disease. The satisfaction of the patient also depends on whether the treatment effect is temporary or long-lasting. Finally, every person has unique anatomical characteristics that make it impossible to measure every aspect impacting the client satisfaction and thus the efficiency.

Similarly to the health care environment, educated scholars are also hard to characterize and so to compare. Not everything is objectively measurable here, too. Some high schools or universities draft only best scholars in advance while other educational institutions aim to train as many scholars as possible, ignoring the initial skills and talent of prospective scholars. That reflects on examination results as well as on the opportunities and capabilities to apply for a better university or to find a better paid job. What is a well educated scholar? How could we characterize and define him (her)?

If satisfied patients and clients cannot be regarded as estimated, countable and comparable output units, it is necessary to identify neutral attributes that make a patient delighted. At this stage, only appropriate measures (intermediate objectives and output units) must be defined. They can be divided into two interdependent types: operational and qualitative. For example, how long on average patients wait at the reception in emergency hospitals is one of the operational elements to measure. The ratio of patients returning with the same complaint or injury due to poor surgery or treatment can serve as a qualitative measure and therefore is not neutral as doctors can treat the same situations and patients differently. Moreover, patients are anatomically different due to the working and living environment, genes and so on. This makes the qualitative attributes of output units difficult to estimate and compare. Death rate is also a very insecure measurement, because part of private hospitals may not accept a patient with a high probability of failure at all. Focusing on operational attributes and only on neutral qualitative measures (like written exams in the educational sector) is the path which provides us that an opportunity to define and compare the output units. The quality of services in the health care and education sectors is very sensible, and the quality variable should not be involved. The level of quality must meet the set standards and norms, and any changes aimed at improving the operational measures must not in any way harm or decline the quality.

It also depends on the type of health care or education institution taken into consideration. Primary health care institutions or polyclinics will differ from outpatient surgery institutions or emergency hospitals. For primary health care institutions, from the operational point of view, it should

be very important to make patients spend as less time in queues as possible. In other words, to make the total time a patient spends at a polyclinic closer to the touch time (net time an expert needs to spend with a patient). It is also possible to reduce touch time without impacting the quality. Therefore, the total time spent at the hospital can be taken into account. At emergency hospitals, queues at the reception must addressed.

Table 5. Primary health care institutions and emergency hospitals

	<i>Public sector</i>		<i>Private sector</i>	
	Goal	Output units	Goal	Output units
			Earn money now and in the future	Net profit
First level	Serve or service its society	Delighted citizens	Satisfy their clients	Satisfied clients
Second level	Properly heal as many patients as possible	Healed patients	Properly heal as many clients as possible	Healed clients
Third level	Serve a patient as fast as possible	Operatively served patients	Serve a patient as fast as possible	Operatively served patients
... level	...	...	...	...

Table 6. Out-patient surgery institutions

	<i>Public sector</i>		<i>Private sector</i>	
	Goal	Output units	Goal	Output units
			Earn money now and in the future	Net profit
First level	Serve or service its society	Delighted citizens	Satisfy their clients	Satisfied clients
Second level	Properly heal as many patients as possible	Healed patients	Properly heal as many clients as possible	Healed clients
Third level	Serve a patient as soon as possible	Sooner served patients	Serve a patient as soon as possible	Sooner served patients
... level	...	...	...	...

There can be more than one attribute for an output unit in a certain environment. The example at outpatient surgery institutions it is not only important that a patient will be served fast, but also started to be served as soon as possible. When a patient requires surgery, he / she cannot wait in a queue very long, and the delay of surgery will reflect on the patient’s health.

As the educational sector is more project than the operational environment, neutral qualitative measures play a more important role than operational attributes. It is important how much time a scholar spends at a high school because the quality of schedule and windows between the courses. Far more important is the end result which can be measured by the results of an even written exam or the ratio of scholars who have successfully entered certain universities. However, the second measure is dangerous as not all scholars want and attempt to enter universities after the high school, but it does not mean that high school education was not efficient for some of them.

Grades as output units are measurable. The member of teachers and classrooms may serve as input units. Time will be considered by estimating the total expenditure on wages of teachers per period; e.g., one school manages to prepare a scholar for the exam in 9 years while other in 10 years. However, there are reservations to be addressed, e.g. the image of the institution cannot be assessed. Some scholars tend to choose special high schools which are (or at least are regarded as) stronger in general or in specific areas

Table 7. High school institutions

	<i>Public sector</i>		<i>Private sector</i>	
	Goal	Output units	Goal	Output units
			Earn money now and in the future	Net profit
First level	Serve or service its society	Delighted citizens	Satisfy their clients	Satisfied clients
Second level	Train scholars of the highest qualifications	Educated scholars	Train scholars of the highest qualifications	Educated scholars
Third level	Prepare scholars for exams well	Grades	Prepare scholars for exams well	Grades
... level	...	...	...	...

than other schools. Naturally, more talented scholars may not only get better education due to the infrastructure and personnel of a better high school, but also due to a concentration of brainy scholars. As regards the inputs, best professors can choose to work for a lower wage in a prestigious university instead of a higher wage at a less prestigious university. It is possible to evaluate the input units as money paid to the personnel, but how can we evaluate and take into account the prestige and image of the institution?

Conclusions

The efficiency assessment and comparison model presented in the previous chapter may be applied for evaluating analogous service providers not only from the public and the private sectors, but also for service providers from the public sector in the same or different countries. For defining and comparing the efficiency we needed similar, if not identical, input and output units. Since the input units as the investment and operating expenses were not found difficult to identify and estimate, this article focused on the output units that directly depend on the goal of an institution. Since the nature of goals in the public and private sectors significantly differs, there is a clear need to find a way to identify equivalent outputs.

The article does not focus on the causes why the efficiency might differ. This is a next step after proving that there is a difference in efficiency. First of all it is necessary to verify whether the claims and complaints regarding the low efficiency in the public sector in comparison with the private sector are well grounded. For that purpose it is suggested to form (using the cause and effect relations) a pyramid-type chain of intermediate objectives and corresponding outputs and the use the matching levels of comparable chains to compare the efficiency.

**INTERNATIONAL RELATIONS AND
EURO-ATLANTIC INTEGRATION PROCESS**

KALININGRAD'S TOWARD TURN TO EUROPE: HOW CROOKED? HOW FAR?¹

Nataliya Smorodinskaya

Abstract. The problem of Kaliningrad, in the form it has emerged after the 2004 enlargement of the European Union, stems from the region's ambivalent economic position of being simultaneously inside and outside the EU territory, with no international regulations existing to reconcile this conflict. However, according to the author, this situation looks puzzling only regarding historical retrospective. In the context of post-modern realities and rapid erosion of the Westphalia system of world order, Kaliningrad just fits into the new type of regionalization based on transborder cooperation and translocal networking.

As commonly recognized by experts, the only true perspective for Kaliningrad is its export-oriented integration into the EU economic space. At the moment, this prospect depends on the interplay between Russia's political efforts to maintain the status-quo, on the one hand, and powerful economic effects of global competition, on the other. The article argues that the new Federal Law on the Kaliningrad SEZ, in force from April 2006, rests on Moscow's traditional security thinking which rather impedes than promotes the region's modernization. Meanwhile, the author believes that globalization and the expected Russia's entry into the WTO will objectively make the local economy enter the stage of radical restructuring. In this connection, the article reviews the region's latent competitive advantages and underlines the importance of policies aimed at Kaliningrad's sound involvement into the post-industrial clusters emerging in the Baltic Rim.

What is Kaliningrad's pattern of development, indeed?

In terms of industrial pattern of development associated with mass production, Kaliningrad's economic system is primordially vulnerable and objectively unable to function in a self-supporting manner. It suffers from narrow sizes of internal market, full dependence on externally supplied power and most of industrial inputs, noncompetitive harbour facilities (as com-

pared with other Baltic ports), and the lack of strategic raw materials for mass exports². The region's ongoing large-scale trade with mainland Russia is basically impracticable (because of the 1,000 kilometres' distance and additional costs of crossing the Lithuanian–Latvian or Lithuanian–Belarusian borders) and can be maintained only thanks to special government incentives (Smorodinskaya / Zhukov, 2003).

As it was typical of East Prussia in its time and is generally typical of enclave / exclave economies (see *Vinokurov, 2007*), Kaliningrad needs a well-directed federal support. However, the system of support that has been shaping the region's economic profile throughout the whole post-Soviet period constitutes a serious departure from regular market-based policies and thereby works counterproductively. Up till April 2006, it has been resting on three complementary pillars.

The first and foremost is the notorious Special Economic Zone (SEZ) regime, or simply a right for tax-free trading, which was granted to Kaliningrad exclusively in 1992 (along with the status of a free economic zone) and reaffirmed in 1996 by the federal Law "On SEZ in the Kaliningrad Region". Aimed at supporting Kaliningrad's economic links with mainland Russia, the Law on SEZ permitted local actors to pay no duties when delivering to Russia's mainland the goods "considered to be produced in the SEZ" (actually any tax-free imports processed with a miserable 15–30-percent portion of value added), which was running counter both to the provisions of the RF customs and fiscal legislation and to the key standard requirement set for free economic zones by international rules³.

The second pillar concerns special price subsidies for railway cargo transit granted to the region since 2002 by the RF Ministry of Transport, or actually by the local branch of the Russian state corporation "Russian Railways" ("RZhD"). These subsidies are helping to lower transportation fares for Russian oil-traders and other exporters to the level at which their transit deliveries through Kaliningrad's ports become economically beneficial. Combined with a silent duty-free regime for Russian transit oil-exports (a non-transparent measure, applied periodically), they enable Kaliningrad's ports to sharply enlarge the volume of trans-shipment.

The third pillar implies additional operating benefits that are extracted by geographically remote Kaliningrad's enterprises from the artificially low-

ered level of Russian domestic energy prices as compared to international market prices and export prices of Russian energy suppliers to Europe.

This set of privileges, unavailable to other Russian territories in terms of scale and combination, constitutes the most outstanding regional case of politically created rents in the post-Soviet Russia (Smorodinskaya, 2001). It places Kaliningrad's development under "soft budgetary constraints" associated with the disfigured macroeconomic regime, an abnormal pattern of economic growth and dope dependence on federal money.

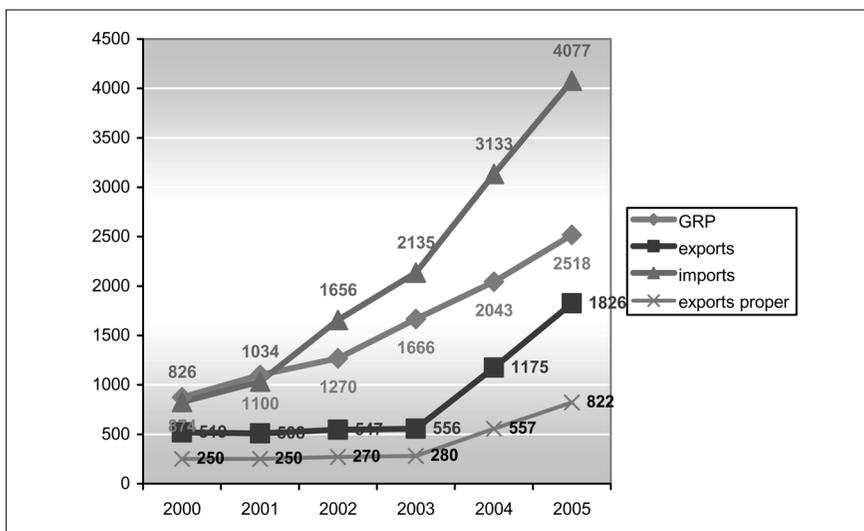
***Import-led economic growth
and Guinness-record macroeconomic pathologies***

"Soft budgetary constraints" and zero customs duties had made trade intermediation, particularly the servicing of tax-free import flows to mainland Russia, the most profitable type of local business and, thanks to that, the key specialization of the region. Such specialization remained dominant during the whole post-Soviet period, both under transformational recession of the 1990, when Kaliningrad was experiencing a disastrous industrial slump (much heavier than the all-Russian decline in production), and under the subsequent industrial upsurge when upon the rapid recovery of 1999–2001 the local economy went on growing extremely fast, at annual rates of 9–12% (versus all-Russian rates of 5–7.3%) (Smorodinskaya / Zhukov, 2003; Usanov / Kharin, June 2006). For the most part of this period, massive rouble-denominated deliveries from SEZ to Russia were officially treated as import substitution and therefore highly welcomed in Moscow. But actually Kaliningrad was only mediating a tax-free entry of foreign consumer goods to the Russian markets while expanding the output just nominally, through winding up its figures by the increased turnover of imported goods.

As a result, the economic growth in the region becomes import-led and gets a bubble-like nature⁴. It generates unique pathological dependences which deserve to enter the Guinness book of records.

The import-led growth is a pathological macroeconomic regime under which imports are increasing much faster than industrial production and may far exceed the value of GRP, while manufacturing exports are practically not developing and thereby remain incomparably smaller. Figure 1

Fig. 1. Kaliningrad: growth of GRP, exports and imports in comparison, US\$ m



shows that the curve of total exports, which illustrates the statistically registered outflows from Kaliningrad's customs territory, keeps staying considerably below the curve of GRP (at least until 2004), while the curve of Kaliningrad's exports proper (i.e. the value of total exports, cleared from the oil and other transit export flows) is considerably below that of total exports. Meanwhile, the curve of imports is sky-rocketing above all others, including that of GRP, which implies that Kaliningrad's economy is deprived of any objective constraints to limit the raise of trade deficit.

A more detailed picture of Kaliningrad's import-led economic growth is submitted in Table 1.

In our estimation, in 2001–2004, Kaliningrad's total imports were expanding 1.5 times as fast as GRP and had increased 3-fold to reach over \$3 billion, which was not just comparable with GRP (as it had been in 2000–2001), but exceeded it by a half. In 2005, imports enlarged by a billion more, up to \$4 billion, or to an unrivalled degree in the global economy of 62% above GRP. Along with imports, Kaliningrad was similarly expanding its rouble-denominated shipments to Russia: their scale had also trebled in four years and kept amounting further in 2005 to reach \$2.3 billion, or more than 90% of GRP.

Table 1. Kaliningrad's trade transactions in 2000–2005

	2000	2001	2002	2003	2004	2005
<i>Trade transactions, US\$ m</i>						
Foreign trade turnover	1,345	1,542	2,203	2,691	4,308	5,903
• Total exports (inc. transit flows)	519	508	547	556	1,175	1,826
• Total imports (inc. transit flows)	826	1,034	1,656	2,135	3,133	4,077
• Total trade balance	-307	-526	-1109	-1,540	-1,958	-2,251
Deliveries to mainland Russia *	432	619	759	1,118	1,802	2,295
<i>Trade transactions as share of GRP, %</i>						
GRP at official exchange rate, US\$ m	874	1,100	1,270	1,666	2,043	2,518 ¹
Foreign trade turnover	154	140	173	162	211	234
• Total exports	52	46	43	33	58	73
• Total imports	94	94	130	128	153	162
• Total trade balance	-50	-48	-87	-95	-96	-89
Deliveries to mainland Russia	49	56	60	67	88	91
<i>Trade transactions: ratios and cleared figures</i>						
Exports proper** , US\$ m	250	250	270	280	557	822
• as share of total exports, %	48	49	49	50	47	45
• as share of GRP, %	29	23	21	17	27	33
Imports proper** , US\$ m	826	1,034	1,656	2,135	3,133	4,077
• as share of Russia's imports, %	1.8	1.9	2.7	2.8	3.2	3.3
Cleared trade balance ** , US\$ m	-576	-784	-1,386	-1,855	-2,576	-3,255
• As share of GRP, %	-50	-71	-109	-111	-126	-129
Total coverage ratio (exports : imports), %	51.0	39.7	25.9	26.0	37.0	44.8
Cleared coverage ratio (exports proper : imports proper), %	30.3	24.2	16.3	13.1	17.8	20.2

1 Minimal value, estimated at the assumption that in 2005 GRP had grown no less than by 9%.

* Tax-free deliveries of goods 'considered to be produced in the SEZ' (as provided in the 1996 Law on SEZ).

** "Exports proper" denote the actual volume of export goods produced in the SEZ, i.e. the volume of total exports cleared from transit flows. Kaliningrad's "imports proper" are practically equal (by 95–97%) to the volume of total imports. Trade balance cleared from transit flows (i.e. total trade balance adjusted for "proper" values) shows the actual size of Kaliningrad's foreign exchange shortages.

Calculated from: Kaliningradstat (2004–2005); Customs Statistics (2004–2005); Database of the Bank of Russia; Usanov (2005 November); Usanov / Kharin (2006); Smorodinskaya, N. / Zhukov, S. (2003).

Against this background the region's total exports were almost flat, staying at the level of \$510–550 million a year. Only in 2004, due to transit shipments of Russian oil at skyrocketed international prices, they started a sharp rising and in a year made up as much as 73% of GRP (\$1.8 billion). However, Kaliningrad's exports proper (without considering transit flows from Russia), which also began to rise only in 2004 (thanks to enlargement of oil extraction in the region), increased to only a third of GRP by 2005, which is incomparable with the relevant ratio of imports (160% of the GRP). It is noteworthy that the share of exports proper in total exports hasn't enlarged at all and even slightly narrowed (from 50% in 2003 to 45% in 2005).

As a result, foreign trade deficit showed a further exponential growth and came up to the value of GRP, having reached nearly \$2 billion in 2004 and \$2.3 billion a year later (a 4-fold growth in five years). This means that the local economy continued to face high macroeconomic risks which were automatically damped down by the federal centre with funds arising from oil-export revenues.

To estimate the region's macroeconomic situation more precisely, we have adjusted the aggregate or statistically registered volumes of trade for the own-generated export and import volumes (see cleared indicators in Table 1). The negative figures of trade balance, once cleared from transit flows, reveal the actual scale of Kaliningrad's foreign exchange shortages to finance the ongoing expansion of imports, i.e. they show the extent of region's inability to self-support the further economic growth. During the 2000, Kaliningrad's real value of trade deficit has been enlarging at a steady and much greater pace than the corresponding total indicator. As early as in 2002, it exceeded GRP and by 2005 increased up to \$3.3 billion, making almost 30% above GRP. This implies that during the years of accelerated growth the region's economy has become still more incredible and unsustainable than ever before.

***Nominal expansion of output
and its destructive economic effects***

In order to transfer imports to Russian markets on beneficial terms (i.e. exempt from customs duty and value added tax) local enterprises have to add, be it formally, only 15 to 30% of value during the processing (as

according to the 1996 Law on SEZ) and to receive a Certificate of Origin from the local Trade and Industry Chamber, confirming that these goods have been produced in the SEZ. This means that the value of Kaliningrad's goods, which are "considered to be produced in the SEZ", is formed 70% to 85% by imported components. However, everything coming from the beltline (after assembly, glue, or packing works done) is registered in full by official statistics as the local industry's output. This is an actual way to generate a purely statistical growth accompanied by a decreased share of value added and a lowered replenishment of real GRP.

The practice when minimum a half of the officially registered GRP is created nominally, under a miserable addition of value, results in a reduced and ever diminishing level of tax collection (as proportion in GRP). The reduction concerns all types of taxes, not only VAT itself but also profit tax (the corporate income tax) and personal income tax. The fundamental reason for that is the very design of the SEZ regime, which aims local producers at very specific schemes of tax optimization, simply speaking, at an unprecedented scale of shadow activities.

First, large-sized and the majority of medium-sized companies widely apply *artificial splitting into numerous small and smallest enterprises* (including individual private entrepreneurs without a legal person status). Such splitting enables them not only to enjoy a simplified system of taxation granted in Russia to small businesses, but also to avoid any forms of VAT payments now applied in Russia, both the traditional VAT charged upon domestic producers of the total value of commodity, and the VAT charged upon importers (automatically along with import duties) of the value of imported components only (both at the rate of 18%)⁵. This practice leads to mass shadow incomes and seriously distorts the institutional structure of the regional market. In particular, the statistical contribution of Kaliningrad's small business to economic growth far exceeds its real contribution: while accumulating only 11% of able-bodied population, this sector formally makes up to 35% of the region's GRP (against the Russian average level of 12%).

Secondly, the larger local companies, in order to fit the total amount of production costs into a small 15–30-percent portion of value added, *widely re-register their import contracts in offshore centres and artificially overprice the*

imported components. This permits them to conceal part of their profits from taxation under the disguise of production costs and to leave non-taxed delta sums on their offshore accounts. A side effect is the distortion of price structure in the regional market: despite the regime of duty-free imports meant purely for the benefit of local population, the local consumer prices are artificially boosted and currently reach (or sometimes exceed) the level of Moscow prices.

That is why key “import substitution” businesses with a noticeable share of the Russian market in various consumer items (canned fish and meat, TV sets, electric vacuum cleaners, refrigerators, furniture suits, and assembled motor cars – all products with a 70–85% share of import components), despite showing a rapid growth in production, contribute very little to Kaliningrad’s economic development in terms of their share in tax payments and total investment⁶. These producers either evade taxes or operate, on purpose, on the brink of profitability.

As a result, Kaliningrad actually keeps a second economy in the shadow: for many years the turnover of shadow assets reaches up to 95% of statistically registered GRP, versus maximum 50% in Russia as a whole (Samson / Eliseeva, 2003). And money turnover in the local sector of retail trade, or just in the market of consumer goods, is 2.5 times larger than the officially recorded value (*Stepura, 2005b*). Noteworthy, the major part of shadow assets is accumulated in the sphere of trade intermediation and is “virtual” by nature, which means that contraction of informal activities in Kaliningrad will rather diminish than enlarge the recorded value of GRP: almost a half of the real economy may just be blown off like a bubble.

One more spill-over effect is a deeply distorted industrial structure. The entire manufacturing industry provides almost 90% of recorded industrial output, but makes less than 10 to 15% of the region’s net yearly revenue (a balanced aggregate profit of large- and middle-sized enterprises). At the same time, oil extraction, which makes only 9 to 11% of the region’s industrial output, provides alone up to 70–85% of the region’s net revenue, thus serving as the largest exporter and taxpayer in the region (*Stepura, 2004; Usanov / Kharin, 2006*). And the tertiary sector (trade and services), while employing up to 70% of local workforce, produces only a little more than 40% of GRP.

***Growing fiscal shortages
under high economic growth rates***

As noted above, Kaliningrad's consolidated budget rests on tax receipts from oil industry, not only regarding oil extraction but also oil trans-shipment. Contrary to that, any further expansion of "import substitution" automatically leads to losses in tax revenues, irrespective of the will and efforts of regional authorities. As a result, a shortfall in tax receipts and the following frustration of annual budget plans has become in Kaliningrad a typical situation.

Basically, Kaliningrad has started to run serious fiscal shortages and a growing demand for extra federal subsidies as early as in 1995⁷. In 2001, the Russian Clearing House even declared Kaliningrad bankrupt, since the ratio of its budget deficit to its own budget revenues had almost reached a critical point of 15% (the permissible limit for Russian regions, as set by the RF Budgetary Code)⁸. In the next period of economic boom, the scale of fiscal shortages was only increasing, at least until the last quarter of 2005, when the enlargement of oil extraction and oil exports under fabulous international prices had seriously contracted the annual budget deficit (Table 2). Nevertheless, budget plans for 2006 and 2007 were adopted by the regional Duma with far larger shortages than ever before (at the level of 6.8–6.9% of total revenues).

Table 2. Kaliningrad region: consolidated budget in 2001–2005, RUR millions

	2001	2002	2003	2004	2005	(2006)*	(2007)*
Revenues	5,460	7,781	9,190	11,236	15,145	12,550	17,676
Expenditures	5,431	7,917	9,627	11,505	15,164	13,420	18,879
Fiscal balance	29	- 137	- 437	- 269	- 19	-870	-1,203
• as share of expenditures, %	0.5	- 1.7	- 4.5	- 2.5	- 0.1	-6.5	- 6.4
• as share of revenues, %	0.5	- 1.8	- 4.8	- 2.4	- 0.1	-6.9	- 6.8

* Budget drafts as adopted by the Regional Duma in the 4th quarter of the corresponding preceding year.

Compiled from: Usanov / Kharin (June 2006); data from the Kaliningrad Regional Government; [www.regnum.ru / news / 745041.html](http://www.regnum.ru/news/745041.html)

According to the local economist Elena Stepura, the level of tax collection in Kaliningrad's GRP in the 2000s has never exceeded the mark of 21–22%, which implies that it has been 9 to 10 percentage points lower than the comparable Russian indicator cleared from customs payments (Stepura, 2005). And in our own estimation, in the years of an especially rapid economic growth this level was even more critical – no higher than 15% of GRP⁹.

Table 3. Kaliningrad's consolidated budget in 2006 as compared to 2005 (US\$ m, constant prices of 2005, data for the first half of the year)

	1h 2005		1h 2006				% - change
	Actual (A ₅) US\$ m RUR m		Actual (A ₆) US\$ m RUR m		Plan RUR m	A ₆ : Plan %		A_{6} : A_{5} %
Revenues	243.8	6,989	234.2	5,989	6,343	-5.6	- 3.9
Own revenues	172.9	4,959	167.6	4,289	4,418	- 3	-13.5
– % to revenues	70.9		71.6		69.6		+0.7 pp
• Profit tax	47.9	1,373	63.0	1,610	1,870	- 14	31.5
– % to revenues	19.6 (27.7)		26.9 (37.5)		29.5 (42.3)		+7.3 (9.8) pp
• Property and transportation taxes	9.2	264	30.8	792	554	+ 43	265.0
– % to revenues	3.8 (5.3)		13.2 (18.5)		8.7 (12.5)		+9.4 (13.2) pp
Federal transfers	70.8	2,030	66.4	1,700	1,925	- 12	- 6.2
• % to expenditures	30.8		30.4		25.6		- 0.4 pp
Expenditures	230.2	6,601	218.3	5,584	7,513	- 25.7	- 5.2
Fiscal balance	13.6	388	15.9	405	-1,170	-	17.0
• % to revenues	5.6		6.8		- 18.4		+1.2 pp
• % to own revenues	7.9		9.4		- 26.5		+1.5 pp
• % to expenditures	5.9		7.3		- 15.6		+ 1.4 pp

Notes: converted in US\$ at official exchange rate for the end of period; %-change (1h 2006-on-1h 2005) calculated at dollar prices of 2005; figures in brackets show %-share in own revenues; pp – denotes increase (+) or decrease (-) of the share in percent points.

Calculated from: Data of the Kaliningrad regional Ministry of Finance, October 2006.

In 2005, thanks to a spectacular growth in oil-export earnings and increased federal transfers (concerned with preparations for celebrating the 750th anniversary of the Kaliningrad city), the region enjoyed a significant rise in total budget revenues (34.5%) and managed to finish the year with an almost balanced budget (as shown in Table 2, fiscal deficit went down to 0.1% of total revenues). This event was followed by the appearance of a visible budget profit in the first half of 2006 (of 6.8% of total revenues), which made an impression that Kaliningrad had started to steeply improve the state of its finance. However, our assessment of a year-period changes, as made at constant dollar prices (Table 3), reveals that the observed budget surplus was rather a result of a skillful fiscal management under the new Kaliningrad's governor than a sign of economically backed improvement in the structure of the region's finance.

Though in 2005–2006 Kaliningrad had succeeded to enlarge its tax collection thanks to a combined effect of several factors (increased payments of oil industry, enlarged base for property tax after the start up of TETS-2, increased Governor's fight against shadow incomes, etc.), this positive outcome still couldn't overweight the flaws of import-oriented economic growth. As Table 3 indicates, in the 1st half of 2006, the regional authorities again faced a traditional drop in fiscal revenues (by 5.6% against the planned figure). This shortage was caused mainly by a fall in the profit tax returns (by 14% nominally against the plan, or just to the extent already observed in 2003 and in 2004) together with a decrease in the federal budget transfers (by 12% against the plan). In order to compensate shortages and balance the budget, the regional Government had to drastically cut the volume of expenditures (by 25.7%, or at a 4.5-fold greater scale than the fall in revenues) and to further raise the transportation tax (its collection, together with enlarged returns of property tax, had exceeded the plan by 43%). Just this very situation, where an unplanned contraction of revenues was followed by a much larger reduction in expenditures and higher tax rates, had created a formal basis for the emergence of budget surplus.

To conclude, under the existing macroeconomic regime, Kaliningrad's authorities are objectively unable to make the region richer and more independent. They can push up nominal budget revenues in this or that

way (through periodical resale of state property, or higher tax rates, or additional federal subsidies), but can't provide a stable outstripping growth in tax receipts over the demanded expenditure growth¹⁰. If not oil export earnings (perhaps, the only serious shock absorber at the moment), Kaliningrad's budget would get rapidly shrinking. However, oil-related income is a very fragile foundation for future stability. If Kaliningrad is deprived of its right to export oil duty-free, as well as of its other individual privileges now contradicting the WTO rules, it will mostly lose the advantage of trans-shipping the large-scale transit oil-flow, which provides together with local oil about 73% of the region's export earnings (*Customs Statistics, 2005-3Q*).

***Dope dependence on federal aid
and leakage of sources for future development***

The official fiscal statistics doesn't reflect to the full the real state of weakness of Kaliningrad's finance. A situation when the region's foreign trade deficit amounts to 90–95% of GRP while its cleared value ("deficit proper") exceeds GRP by 25–30% implies that for many years Kaliningrad has been in a chronic state of default, even regardless of its inability to pay off the accumulated external debt. Under market conditions, no territory would survive if it has a zero level of creditworthiness. And be Kaliningrad a sovereign state, it would automatically face a crucial systemic crisis. But as part of Russia, it enjoys a chance of covering its foreign exchange shortages and macroeconomic risks by the federal centre and, in this way, of concealing its actual insolvency.

Under the present influx of oil dollars to Russia, the burden of Kaliningrad's foreign currency losses is not felt by the federal centre. However, this situation may sharply worsen just in a couple of years, as soon as Russia starts to face the anticipated financial tension. To compare, several years ago Kaliningrad's foreign currency losses have cost Russia no less than a quarter above the sum of annual repayment of the national external debt (Smorodinskaya, 2004). Moreover, during the 2000 Kaliningrad has been steadily enlarging its contribution to the Russian 'Dutch disease': by 2005, its share in all-Russia's imports reached a record high level of 3.3%, which exceeded its share in Russia's GDP (of 0.3%) just 11 times¹¹.

By the moment, Kaliningrad's economy rests upon numerous instruments of federal support, including exclusive customs favours; exclusive tax favours; budgetary subsidies; price subsidies for local cargo traffic; VAT exemption for Russian logistic companies servicing Kaliningrad's cargo traffic to and from Russia; budget allocations from the Federal Target Programme till 2010; the growing volume of Russia's foreign-currency assets to cover the region's trade deficit; exemption of export duties for Kaliningrad's oil-flows, and other benefits. Taken altogether, these favours constitute an absurdly high price that Russia has to pay for maintaining the existing pattern of interaction with Kaliningrad – the pattern making the local economy still weaker and more incompatible.

Indeed, the aerodynamics of import-led growth swallows any additional federal resources allotted to Kaliningrad, while the territory itself keeps losing its own production and investment capacity.

Kaliningrad's agro-industrial complex exists as a sector of production only nominally. It has zero and even negative growth rates and is totally suppressed by duty-free imports of foodstuffs, despite significant import quotes (or their substitutive measures, as introduced from April 2006), as well as huge and ever growing federal allocations¹². According to local officials, one third of agricultural producers are under bankruptcy procedure, while the other two thirds are *de facto* bankrupt. There are about 150 meat-processing companies in the region, but all of them are relying on import supply.

Kaliningrad's transport and port complex can maintain its functional capacity only under special federal stimulators and due to those cargo flows to and from Russia's mainland, which most likely will be cut down in the course of globalization. Kaliningrad's ports, while deeply depressed for many post-Soviet years, started to enlarge its turnover only recently, under increased oil trans-shipment. In 2005, their turnover amounted to 15.5 million tones (Usanov / Kharin, 2006), with nearly 90% of cargo destined for export. However, immense federal efforts are applied to keep this complex afloat¹³.

Kaliningrad's manufacturing industry is producing a minimal value added, while the main contribution to the growth of GRP is provided by enlarging oil industry and trans-shipment of the Russian transit oil-flows.

In 2005, a record high growth in the oil extraction sector (by 47.5%) helped to even out the significant slowdown in the manufacturing sector.

Investment activity in Kaliningrad is very volatile and doesn't match with the growth rates of either industrial production or GRP, with private capital investment lagging, in principle, far behind the industrial output. While running high rates in total fixed investment (30% as a share in GRP in recent years), Kaliningrad fully depends on federal injections. The latter are made either in the form of direct budget allocations, with their share in total investment (14.3% in 2005) far exceeding the Russian average (6.7%) and the average of North-West (9.8%), or as investment by state monopolies, such as Gazprom and RAO "UES of Russia" (Usanov / Kharin, 2006). In particular, the local investment 'boom' of 2003, when investment increased by 50.5%, was caused by two capital outlays made simultaneously by Gazprom (construction of a huge power station, TETS-2) and Lukoil (erection of the oil-extracting platform D-6 on the Baltic Sea shelf) under the Federal Target Programme for Kaliningrad's Development. And thereafter, total investment activity has steeply slowed down to 5.6% in 2005, with private activity just facing a decline (by 3%), and public investment, on the contrary, showing a remarkable enlargement (by 87%) (Usanov / Kharin, 2006).

A situation when the economy is booming under the diminishing private investment and the enlarging state allocations to compensate this drop, implies that Kaliningrad runs an intensive leakage of capital assets needed for further development. Under any Governor in office, until the existing macroeconomic regime is not amended, Kaliningrad's business sector will be facing dope dependence on state money and its public sector a similar dependence on external financial support. This is a typical vicious circle of regional economic growth: "shortages – federal subsidies – growth – shortages – extra federal aid".

Why the Russian authorities are not ready to start Kaliningrad's reforms?

In the post-Soviet times, federal economic policies towards Kaliningrad were focused on the problem of its isolation from the Big Russia and its urgent need of special favours to cover the relevant extra costs. In the 1990s,

the demand for federal favours was attached to exclave location of the territory. A typical argument said that the region was not just detached from the centre like, say, the Far East, but it was surrounded by foreign countries, and thereby, dependent on imports. In the 2000s, this argument was enriched by the factor of the EU enlargement: "The region has become an enclave in the alien economic environment and is isolated from Russia by higher visa barriers and harder terms of transit."

However, in reality, the relationship between Kaliningrad and Moscow has been shaped by a trivial rent-seeking game. For many years, the region was successfully profiting by the fact of its remoteness and the risk of its possible separation from Russia to enjoy guaranteed federal assistance, with optimal figures for grants and favours never calculated exactly by federal economic bodies¹⁴.

The struggle of local elites for preserving their exclusive privileges has been always accompanied by a highly contradictive positioning of Kaliningrad in the eyes of federal circles. On the one hand, the regional authorities presented Kaliningrad as an economically successful and rapidly advancing territory, just trying to create a positive image of their own managerial efforts. On the other hand, they simultaneously focused on the issue of the region's vulnerability and poorness – for the purpose of getting hold of additional federal assistance¹⁵. While lobbying the further federal aid they usually underlined that the emerging problems were caused not by the SEZ regime as such, but rather by its inappropriate implementation – either on the part of the federal centre itself (meaning its permanent inclinations to revise the existing system of SEZ favours) or on the part of previous regional offices (Karabeshkin / Wellmann, 2004).

As a result, until early 2000, the real picture of the region's economic performance under the SEZ regime was unavailable not only to the general public but even to high-level federal policymakers.

In 2002, when Poland and Lithuania were preparing to join the EU and to introduce a full-fledged visa regime for Russians, Moscow had fully realized that the EU enlargement would fundamentally alter the conditions of Kaliningrad's evolution. The new situation objectively called for reforming the region to prevent it from lagging more and more behind its advancing neighbours. Thereby, after reaching the agreement with Brus-

sels on the issue of visas and transit via Lithuania (at the 10th EU–Russian Summit in November 2002)¹⁶, the Kremlin listed the Kaliningrad development problem among its five national policy priorities, with the expert group headed by Putin’s Aid Igor Shuvalov commissioned to start working on the new Law on Kaliningrad’s SEZ.

Thanks to a whole cluster of relevant research papers appeared in 2000–2003, Shuvalov’s group could enjoy resting upon a wide conceptual undertaking, including the Pilot region idea that implied the EU–Russian Partnership on Kaliningrad’s development, the concept of import-export re-orientation of the region under a certain transition period, or the prospect of making the oblast’ a “region of co-operation” with Europe (as proposed by local elites in their regional development strategy till 2010).¹⁷ Relying on these findings, the Group suggested a consistent economic course: with the help of a renewed system of favours to softly switch the local economy from servicing imports to producing exports and, by developing non-raw export items, to insert it into the common European space.

Though the very technology of the region’s structural reforms was not thought over to the end, this course was obviously a promising approach to the problem. However, it had largely remained on paper. As soon as the work on furnishing the draft Law had moved to other high-level officials, with their special security priorities, the focal idea of Kaliningrad’s structural turn to Europe faced a traditional politization, in other words, got disfigured by considerations of political expediency.

Federal securitized approach

The system of values which the present Russian leadership is sticking to, both in its domestic economic policies and in its relations with Europe, mostly fits into a classical perception of security, which goes up to the times of the Westphalia peace and the concept of Realpolitik. In the view of Realpolitik, sound development of a federal community depends on the stability and economic strength of the federal centre, which sees its priorities in pursuing geopolitics and maintaining a tight sovereign control over the regions.

Meanwhile, priorities of realism have started to become obsolete as far back as the preceding era of late modernity when sustainable economic

development was largely associated with the principle of institutional adaptability (the ability of a country to promptly react to changes in the balance of costs and benefits). And today, in the era of post-modernity and post-industrial development, such priorities are completely unfit. The contemporary approach to security, which is shared by the most advanced players in Europe and Asia, implies an entirely different value code. Control over time and speed in innovations are becoming the key factor (instead of control over a territory); transnational clusters, translocal cooperation and regionalism are taking the place of defending national sovereignty; flexible horizontal networks are replacing the tough vertical subordination; and the principles of creative destruction and reconstruction are gaining the upper hand over attempts to preserve the status quo (Smorodinkaya, 2007).

Disregarding these fundamental changes, Moscow continues to build its policy line towards Kaliningrad upon security and geopolitics in their classical sense. The so-called enforcement ministries (Ministry of Defense, Ministry of Home Affairs, Federal Security Service, etc.), as well as the Ministry of Foreign Affairs – all these bodies in Russia are demanded to scrutinize economic decisions for Kaliningrad in the light of their possible sovereign-security-risk effects. In focus is Moscow's concern of how not to loose (let alone not to lose) the levers of economic and political control over the exclave against the background of the 2004 EU enlargement and the supposed extension of the Western presence in this territory. As a result, the federal position on Kaliningrad's development is shaped de-facto by several specific political priorities which seriously diverge from and even conflict with European approaches (Table 4).

Both Moscow and Brussels are looking for improvement of Kaliningrad's well-being and for its successful adjustment to the challenges of global competition. However, while the EU associates such adjustment with more liberalized policies for the exclave, emphasizing the priority of its active self-engagement into European infrastructural and cooperation networks, Russia's attempts are constrained by the old alarmist approach. This approach substitutes the prospect of Kaliningrad's Europeanization either with the principle of its "retaining within the indivisible political, economic and defense space of the country", as proclaimed in the Federal Target Programme for Kaliningrad's Development till 2010 (Federal Tar-

Table 4. Kaliningrad's edge in the EU–Russian relations

Priorities of Moscow
<p>Not to allow Kaliningrad to become a weak point of the national security agenda, both in terms of the defence issues and the problem of sovereign control over the regions</p> <p>1) To bound Kaliningrad's life-support systems centripetally to Russian mainland and to provide unconditional flow of traffic to regional ports and military facilities</p> <ul style="list-style-type: none"> • through political ensuring the easiest terms of cargo, gas and energy transit to the region • through developing non-transit transportation routes roundabout the EU territory <p>2) To ensure sustainable development of Kaliningrad without any serious extension of the Western economic presence here</p> <ul style="list-style-type: none"> • through focusing EU–Russian cooperation on Kaliningrad to the issues of its immediate life-support, while avoiding joint discourse on the problems of its modernization • through enlarging the presence of Russian capital and majors in the exclave <p>3) To improve Kaliningrad's well-being at a balanced pace, preventing enhancement of its autonomy or a rise of local separatism</p> <ul style="list-style-type: none"> • through avoiding both the growing social contrast and the too rapid economic convergence of the region with EU neighbours
Priorities of Brussels
<p>Not to allow Kaliningrad to become a weak point of the European security agenda, including the issues of European integration and sustainable development</p> <p>1) To ensure sustainable development of Kaliningrad in harmony with EU neighbours</p> <ul style="list-style-type: none"> • through raising agenda for EU–Russian cooperation on Kaliningrad far beyond the transit issues, up to jointly promoting its socio-economic modernization <p>2) To eliminate ecological and other soft security risks emanated from Kaliningrad</p> <ul style="list-style-type: none"> • through offering grants and other assistance to build the needed infrastructure • through joint EU–Russian programs (to fight organized crime, etc.) <p>3) To engage Kaliningrad into infrastructural and cooperation networks in the Baltic Rim</p> <ul style="list-style-type: none"> • through its careful involvement into the EU information and communication systems • through its highlighting in the Northern Dimension Action plans • through funding joint translocation projects in the adjacent border area of Kaliningrad–Lithuania–Belarus (<i>to develop small business, self-governance and tourism</i>)

Compiled from: Smorodinskaya (2005a); website of European Commission.

get Programme, 2001), or at best by the idea of “making use of the Kaliningrad factor in the interests of creating the EU–Russian common spaces”, as declared by Ilya Klebanov, Putin’s plenipotentiary in the North-West, just after discussing the issue of common spaces at the EU–Russian Summit in May 2005 (Rosbalt, 23.05.2005).

As a result, federal policies towards Kaliningrad don’t go beyond trivial compromise solutions which may formally boost its level of development (in terms of per capita GRP) but don’t address the fundamental issues of its economic modernisation. As fairly argued by Raimundas Lopata, the leading Lithuanian political scientist, “Russia in its rhetoric claims supports the exclave, but actually Russian and Kaliningrad interests often clash, and decisions are taken not in Kaliningrad’s favour”¹⁸.

Indeed, since early 2000, high-level Russian officials repeatedly confirm their adherence to the idea of making “the Kaliningrad oblast a pilot area of Russian-European cooperation”, emphasizing that this idea has been initiated by Russia herself in line with her policy of strategic partnership with the EU¹⁹. However, such statements keep remaining pure declarations, with no visible interest on the part of Moscow to back them by practical policy steps.

***A narrow “window of opportunities”
for Mr. Boos***

Against this background, in September 2005, Georgy Boos, member of the ruling “United Russia” Party and until lately Deputy Speaker of the State Duma, has been appointed by the President Vladimir Putin the new Governor of the Kaliningrad Region. He took up this office in the way of blitzkrieg – two months ahead of the expiry date of the ruling Governor Vladimir Yegorov and upon a blazing unanimous approval by the regional Duma. The most likely reason for such a blitzkrieg is that Mr. Putin decided to put an end to the rent-seeking game between the region and the centre, at least in its traditional design²⁰.

In his first statements as a governor, Georgy Boos claimed that he would run the region for ten years to bring into life his personally shaped programme of Kaliningrad’s development, aimed at sharply lifting the local living standards: within five years, up to the levels of Lithuania and

Poland (in terms of per capita GRP), and in the next five years, by 2015, to the level of Germany (*Interfax, 2005*)²¹. He also enumerated key-priority measures to reach this ambitious goal, which mostly answered the logic of the new 2006 Law on the Kaliningrad SEZ, at that time a draft.

Firstly, Boos was planning to ensure an early setting of TEZ-2 and a full-scale supply of gas to the region. *Secondly*, he decided to strike a blow against “corrupt local bodies” and put an end to the “local wasting of public funds”. *Thirdly*, he expected to attract large-sized investors to Kaliningrad (primarily from Russia), which could build the needed infrastructure and construct industrial plants “to make and sell products throughout the world”. *The fourth measure* dealt with introduction of wide tax benefits for potential investors, with the region’s budget getting federal subsidies to cover the falling out tax revenue. *Finally*, Boos decided to increase the region’s population 5-fold in ten years, up to 5 million people by 2015, in order to reach a “normal European density”. For this purpose, he proposed to attract to Kaliningrad residents from Russian overcrowded industrial centres, as well as Russian compatriots from the Baltic States (the latter intention has met no warm respond in these countries) (Rosbatl, 2005a).

Just the next day after the inauguration, Boos appointed the regional Government, partly manned with federal people. And a short time later he outlined its basic priorities in the field of Kaliningrad’s industrial restructuring. They concern an accelerated development of: 1) the agro-industrial complex; 2) transport and logistics; 3) tourism, and 4) innovations, including building of several technological parks (Rosbalt, 2005b). A year later, this list of priorities has been supplemented with a fifth item – promotion of export-oriented production, and highlighted in the new draft Programme of Kaliningrad’s Development for the years 2007–2016, prepared by the regional Government together with federal bodies (Kaliningrad’s Programme, 2006).

Georgy Boos seems to welcome the prospect of the EU–Russian Kaliningrad partnership. He believes that Kaliningrad’s cooperation with the nearest neighbours, Poland and Lithuania, should “display a model for shaping Russia’s relations with the united Europe” (Rosbalt, 2005b). He also sees Kaliningrad as “a platform for Russia’s economic integration into the world market”, a place that “can generate a momentum for cooperation

between Russia and the EU" (EUobserver, 2006). Meanwhile, this position, whatever promising, is just a reflection of the respective Kremlin's declarations on the Kaliningrad pilot-region idea.

Indeed, Mr. Boos does not look like the kind of man to tolerate unwanted political changes. His first resolute statements on the export-oriented scenario of Kaliningrad's reforms, his claims in favour of rapprochement with Europe, and the very blitzkrieg of his arrival at this territory could never have taken place unless he got a clear approval from President Vladimir Putin. However, for this or that reason, many of these statements will most likely remain on paper.

Just as early as by the end of the first month of Boos' ruling, it has become clear that the new Kaliningrad Government will be hardly permitted to go far with the intention to modernize the region and make it closer to Europe. Rather, Kaliningrad's future development will be largely influenced by Moscow vested interests aimed at counterbalancing the rent-seeking appetite of the local elite. It is indicative that Boos has failed to bring his initial ideas on Kaliningrad's rapprochement with Europe to a focus of the new federal Law on the Kaliningrad SEZ. It is also remarkable that the local branch of the RF Ministry of Foreign Affairs has taken away from Kaliningrad's Government any independent authority for advancing its external economic contacts, including trans-border cooperation with Poland and Lithuania. Finally, there are several notable cases when Boos had to suddenly revoke (on the instruction of the RF Ministry of Foreign Affairs) his important appointments with high-level European officials at the very last moment²².

In terms of independent policy initiatives, Kaliningrad is now locked down by Moscow much stronger than its neighbours in the North-West, let alone the central Russian regions. Actually, the regional Government has to agree its every step with federal bodies, which makes its economic decisions fully dependent on Kremlin's logic of policymaking.

No wonder that Boss has started to actively revise the results of privatisation held in V. Yegorov's times – as a step forward in a promised fight against corruption. Cancelling with a stroke of the pen the earlier concluded contracts that he finds unlawful (for the reason that they implied deliberate underpricing of state property), Boos looks to bring the most

attractive regional assets back under the state control and to resell them thereafter by auction and at ‘normal’ prices to some new, larger investors. The proceeds must be directed to the budget and used for patching its gaps, first of all in concern with social needs.

Similar trade operations are now widely conducted by the Government with local private estates: they are bought for budget money and resold to big developers, mostly from the Moscow region, which come to this territory to make use of wide tax benefits granted to majors by the 2006 Law on Kaliningrad’s SEZ²³. This implies that along with an improved budget management and increased construction works, the new Governor’s initiatives will be accompanied by a large-scale redistribution of property in favour of federal actors – a not-outstanding case in today’s Russia.

The regional development Programme for 2007–2016 sees one of its key priorities in “expedient integration of Kaliningrad Oblast’ into the processes of macroeconomic development in the Baltic Sea Region” (Kaliningrad’s Programme, 2006). This looks as a cautious attempt of the local elites to enlarge their “window of opportunities” in the sphere of cooperation with Europe. However, as mentioned above, whatever new European investors would come to this territory, they will hardly help Kaliningrad to make an economic advance unless Moscow starts a well-designed set of reforms here. Unless and until it happens, Georgy Boos will be doomed, like his predecessors, to concentrate his economic policies around a trivial point: how to keep the region’s finance from dropping further into the red, at least formally. To this end, he will look for extra sources of politically created rents, like construction of tax-favoured tourist zones (as provided in the 2005 Federal Law on Special economic zones in Russia), or making the region a kind of Russian Las-Vegas, an exclusive and legally admitted location of gambling houses²⁴.

***The new law on SEZ:
a half-step to Europe, two steps away***

The new Law on Kaliningrad’s SEZ, finally adopted in December 2005 (after numerous co-ordinations) and brought in force in April 2006, constitutes a non-transparent and highly contradictory document. It can be

implemented only by means of a dozen of additional federal by-laws and over thirty revised legislative acts of the regional level.

Formally, the Law highlights several economic targets important for the region: attracting foreign investment, developing exports, increasing the level of well-being up to the average European indicators (Law on SEZ, 2006). De facto, it has, however, Moscow's political priorities in focus, but not the vital needs of Kaliningrad's economy.

Firstly, the traditional principle of holding the region under a strict sovereign control has taken the upper hand over the prospect of enhancing its role in the EU–Russian cooperation. The Law looks not for bringing Kaliningrad closer to Europe, but rather for preventing its possible breakaway from Russia in case that the growing socio-economic gap between the region and its advancing neighbours gives rise to local separatism. Guided by this threat, Moscow makes a clumsy attempt to strengthen the competitive edge of Kaliningrad's economy by merely expanding the presence there of several large-sized Russian companies meant to counterbalance, if needed, the possible Western expansion.

Secondly, regarding the system of Kaliningrad's SEZ favours, the Kremlin rather concerns about the SEZ would-be meeting the terms of Russia's fluent joining the WTO than about helping Kaliningrad to make a smooth structural shift to an export-led economy. For this reason, the Law aims at formally fitting the SEZ into the standards of a classical local-sized free trade zone, instead of normalizing the region's macroeconomic regime. And curiously enough, the very intention to fully adjust the region to the rules of a free customs area runs counter to the first Moscow's priority of holding Kaliningrad within the national customs territory. Therefore, a full-fledged execution of the Law gets unreal from the start.

Thirdly, Moscow obviously tends to improve the existing negative image of Kaliningrad in the eyes of Brussels and other Russia's partners in the European dialogue. Thereby, the Law provides some administrative measures to clear the territory from economic crime, smuggling and corruption. This target falls into line with Russia's cooperation with the EU in the field of Justice and Home Affairs, but doesn't sound like eliminating the routes of local shadow activities through improving the region's pattern of growth.

Silently resting on these political priorities, the Law attaches just a subordinate value to the issues of modernizing and restructuring Kaliningrad's economy itself. Those issues are either pushed to the background (like, say, a proper design of structural reforms), or approached in disregard of economic parameters of the territory (like the idea of constructing big industrial plants), or are simply ignored (as the fate of small businesses).

How the Modified SEZ Regime Meets the WTO Rules

The new Law concerns legal persons only. It divides them into two groups: those who can enjoy the status of a SEZ resident, and those who cannot (Table 5).

The first category, called Residents, with a start-up capital for investment of no less than RUR150 m (4.5 m Euro), is granted vast tax favours during 12 years ahead, upon meeting some requirements to investment projects (for example, to locate facilities strictly within the region's territory, or not to deal with oil extraction). The second category, called 'non-Residents', is deprived of tax favours, but granted the transitory ten-year-long customs favours, which are, in essence, an amended version of the previous set of customs favours, provided by the 1996 Law on SEZ. The respective amendments have been made in accordance with the WTO requirements, as well as with the idea to suppress import servicing (the remnants of the idea of structural reforms) and to put an end to tax evasion.

However, for objective and subjective reasons, the adjustment of the SEZ regime to the WTO rules is done largely formally and in a compromise manner, so as to eliminate the most obvious discrepancies.

In the first place, this compromise approach refers to Kaliningrad's new system of customs favours (see Table 6 and its bottom notes).

Firstly, the Law stops Kaliningrad's longstanding practice of legalized smuggle in the form of duty-free deliveries to Russian mainland. As noted before in this paper, for over 14 years the Kaliningrad SEZ has been functioning in full contradiction with the key Kyoto Convention standard for free economic zones, which considers such areas as outsiders of the national customs territory and, thereby, prohibits their duty-free deliveries to the

Table 5. Key provisions of the 2006 Federal Law on SEZ in the Kaliningrad Region

<p>Categories of Actors to Enjoy SEZ Favours (legal persons only):</p> <ul style="list-style-type: none"> • Residents of the SEZ – legal persons included in the SEZ Register upon meeting a set of requirements to their investment projects (<i>except financial organizations</i>) • “non-Residents” – legal persons earlier registered in the Kaliningrad Region (before April 2006), which have been guided by the 1996 Law on SEZ <p>Requirements to Investment Projects Implemented by Residents:</p> <ul style="list-style-type: none"> • capital total to at least RUR 150 m to be invested within 3 years in fixed assets in the territory of the Kaliningrad region • not to deal with: extraction of oil or natural gas; production of excisable goods (named in the officially approved List); wholesale and retail trading; repairing; and financial activity. <p>Favours for Residents:</p> <ul style="list-style-type: none"> • over the first 6 years of operation don't pay the profit and property taxes • during the next 6 years of operation pay half of these taxes <p>Transitory Ten-Year-Long Favours for “non-Residents”:</p> <ul style="list-style-type: none"> • “non- Residents” can apply Free Customs Zone regime within 10 years (from 1 April • according to the rules similar to that of the 1996 Law on SEZ, but with account of special provisions • Customs favours: no duties and taxes on delivering goods abroad or to mainland Russia, provided that goods meet Criteria of sufficient processing • Special provisions for customs favours: modified Criteria of sufficient processing; List of foreign goods never imported tax-free; List of operations for production of goods never meeting criteria of sufficient processing, etc. • Tax favours: none
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Compiled from: Law on SEZ (2006).

mainland. Kaliningrad's deviation from this rule (just the case that promoted its import-led growth and its 'import substituting' but actually smuggling flows), could become possible due to imperfection of Russia's legislation. As a subject of the Federation, Kaliningrad is formally within the national customs territory (as provided by Russia's Constitution), although under the SEZ status it is beyond this territory per se.

The new Law is unable to eliminate this legislative uncertainty. It only adjusts Kaliningrad to classical standards of free customs enclaves by means of obliging all SEZ producers, both the old and the new ones, to pay import duties on deliveries to the rest of the country.

Table 6. Kaliningrad's new customs regime as provided in the 2006 Law on SEZ

<i>Types of trade operations</i>	<i>Customs tariffs and taxes (VAT)</i>
1. Import of goods for domestic use only	No dues (<i>CC* Art. 357.9</i>), no duties, no VAT
2. Import of goods under the FCZ regime** , for their processing and further delivery beyond SEZ	Dues to be paid, import duties and VAT charged conditionally and not paid
3. Delivery of processed import goods provided with the SEZ CO,*** to the RF mainland	Import duties to be paid. VAT to be paid: till 2007, in the part of import components, from 2007, of the total value of good
4. Delivery of goods not provided with the SEZ CO, to the RF mainland	Import duties and VAT to be paid of the total value of good (and according to the RF import tariffs)
5. Export to other countries of processed import goods provided with the SEZ CO	No export duties (doesn't refer to oil exports and similar goods with low value added)
6. Export to other countries of goods not provided with SEZ CO	Export duties to be paid according to general rules of exporting from Russia (<i>Art. 166 of CC</i>)
7. Transit of import goods through SEZ to Russia's mainland, or of export goods from RF to other countries	No dues. Duties charged and paid at zero rate
8. Using of transport vehicles imported before under the FCZ regime, for passengers' or cargo transportation from SEZ to Russia's mainland or to other countries****	Duties and VAT to be paid in privileged form if the given aims of using beyond the borders of the region are guaranteed (<i>Art. 17 and 279 of CC</i>)

* CC – Customs Code of Russian Federation.

** FCZ Regime – free customs zone regime provided by CC, applied in Kaliningrad region to goods imported by legal persons only and in consideration of the 2006 Law on SEZ provisions. Commodities liable to excise duties (Art. 10 of Law on SEZ) as well as more than 50 types of consumer goods and foodstuffs enumerated in the List approved by the Government (Decision of RF Government No. 186 as of 31.03.2006) are prohibited to be placed under the FCZ regime, i.e. to be exempt from import duties and taxes.

*** SEZ CO – the SEZ Certificate of Origin, i.e. the status of own-made production, granted to commodities with a sufficiently processed imported component. The criteria of sufficient processing imply modification of the classification code (according to Russia's Commodity Classification of Foreign Economic Activity) at the level of any first four digits, or a commodity's value added share of no less than 30% (Art. 30 of Law on SEZ;

Decision of RF Government No. 171 as of 30.03.2006). In consideration of Art. 32 of CC, several “screwdriver-assembly”-like processing operations are recognized as never resulting in production of goods that would meet the above criteria (Decisions of RF Government Nos. 183 and 184 as of 31.03.2006).

**** Import of transport vehicles under the FCZ regime is allowed within the limits of established quota, including, exceptionally, individual entrepreneurs engaged in car transportations, who have bought the vehicle before April 1, 2006. Privileges remain in force during 5 years if the transport vehicle is used only for SEZ – Russia, or SEZ – other countries routes (Art. 15 of Law on SEZ; Letter of Federal Customs Service no.01-06 / 10130 as of 28.03.2006).

Compiled from: RF Customs Code; the 2006 Federal Law on SEZ in Kaliningrad Region; Decisions of RF Government and of RF Customs Service of March-April 2006.

Secondly, the Law ceases Kaliningrad’s longstanding practice of avoiding VAT payments. Upon restoring import duties on deliveries to Russia, it has automatically restored the import-VAT linked to those duties, this provision being in force till the end of 2006. And since 2007, all kinds of Kaliningrad’s producers are to pay VAT only in its traditional form (as charged of the total value of commodity) because federal authorities abolished the import VAT in principle (as an economically illogical tax) and passed to the normal practice of charging traditional VAT on the entire Russian territory, including Kaliningrad (in compliance with Russia’s obligations as a candidate WTO-member, as well as with the provisions of the RF Tax Code itself).

Thirdly, the Law abolishes Kaliningrad’s right to apply quantitative quotas to duty-free imports, since such quotas undermine the very principle of free trade associated with free economic zones²⁵. However, the federal authorities still avoid a full liberalization of the region’s import. Thereby, the Law compensates the abolition of quotas with a new form of direct limitations, which are provided as the *‘List of imported goods prohibited to be brought to the SEZ duty-free’*. This List, covering as much as 50 items, is meant for curtailing the flows of disguised imports from the SEZ to mainland Russia, but, obviously, it runs counter to international standards of free trade.

Finally, the Law tightens the criteria of sufficient processing for imported components. Since April 2006, any processed imports can be deemed goods ‘produced in the SEZ’ if their locally value added makes up no less

than 30% (according to the 1996 Law, from 15 to 30%). Simultaneously the Law introduces the ‘*List of processing operations (5 types), which would never result in products meeting the criteria of sufficient processing*’. However, this is still a half-measure, since according to the WTO rules, the locally value added should make up at least 50%. Such discrepancy in criteria does matter, since a 30-percent level of value added encourages Kaliningrad’s producers to go on minimising the profit tax payments (through transforming “extra” profits into costs of import purchases). Besides, a lowered value-added ceiling offers Kaliningrad an artificial competitive advantage against foreign producers, both in the European and in the Russian markets, which violates the principle of fair market competition and, therefore, the WTO rules.

A similar violation occurs with VAT-exemption for Kaliningrad’s logistic companies servicing the Russian cargo traffic, both of the export and the import destinations (storage, reloading and transportation, etc.). The new Law just prolongs the term of this favour provided in the 1996 Law. Such rule helps to boost the turnover of the region’s port complex (in the interests of both Kaliningrad and Russia), but is fully unacceptable by standards of the WTO membership, since it creates artificial cost benefits for Russian participants of foreign trade.

The losers and the beneficiaries

Even high-level federal officials admit that the new system of Kaliningrad’s customs favours is hardly meeting the WTO rules.²⁶ What is not officially recognized yet is the fact that the modified SEZ regime seriously deteriorates the business climate and the terms of fair market competition in the region itself.

While focusing on attracting to Kaliningrad strong Russian investors, the Law distorts the renewed system of favours to the exclusive benefit of majors (by local standards) able to invest in the region approximately 4.5 m Euro in the first three years of operation. According to our observation, this system discriminates the position of individual entrepreneurs to that of corporate entities, and the position of small and medium enterprises to that of large businesses, along with creating disadvantages for new small and medium companies as compared to the existing ones.

The first group of actors, individual entrepreneurs without legal entity status, is now deprived of any favours at all, while in Kaliningrad that group of actors is much larger than on the average in Russia and has been serving, at least until recently, as a kind of social stabilizer.

The second group, the newly formed small and medium companies, is finding itself in a similar detrimental situation: they cannot enjoy the 1996 customs benefits preserved for the “old” companies (registered in the region until 2006), yet they are unable to obtain a status of the SEZ Resident and the respective tax benefits (because of the lack of the required size of start-up investment).

The third group, the existing small and medium companies registered in the region until 2006, will enjoy the 1996 set of customs benefits in its renewed, seriously restricted version.

And *the fourth group*, large companies, are, in all likelihood, the only winners: they can exclusively enjoy a status of the SEZ Resident and the respective tax holidays. This implies that the local large companies have got an artificial monopolistic edge over all others. At any rate, those investors who lack the sum of 4.5 m Euro are in a much worse position for entering the market.

Regarding *foreign investors*, they are, actually, not so much welcome to the Kaliningrad SEZ as it follows from official announcements.

Considering the 2006 Law provisions, the terms of allotting plots of land and construction sites in the Kaliningrad SEZ are much worse than in free economic zones of, say, neighbouring Poland²⁷, and even worse than on the whole territory of the Novgorod Region which has no free zones at all. Against this background, the newly introduced 6-year holidays on the profit and the property taxes are seemingly of limited interest to foreign newcomers, the more so as the second preference is largely beyond the federal control (in today's Russia, the property tax is regulated locally and serves as a source of receipts for regional budgets). The classical investment guarantee, a 25-year-long life span of the SEZ, will obviously remain on paper (for different objective reasons). If so, then the only one (and ridiculous) privilege is left for foreigners – a simplified entry visa regime. Meanwhile, that regime is meant not so much for investors but rather for foreign

workforce to inflow to those large plants which, ideally, the Moscow capital is supposed to construct in the enclave.

Of special notice here is the fact that the Law was enacted without a good economic reasoning in the part of its structural, institutional and social effects. While trying to suppress the unhealthy enclave's specialization in servicing imports, it offers Kaliningrad no positive development alternatives, either in the form of stimulating the effective export producers or at least in the form of softening the anticipated market shocks.

Formally, the Law cares of Kaliningrad's economic adjustment to the revised SEZ regime by guarantying to the SEZ non-Residents a ten-year transition period (to legally apply the old set of customs favours). Yet in practice, the local actors haven't enjoyed even a half-year period of such a transition: the very first package of federal by-laws, signed in January 2006 by the RF Prime-Minister Mikhail Fradkov, has subjected Kaliningrad to the new customs restrictions just overnight, without any "clearance" whatsoever for adjustment.

This shock, though happened even a quarter before the new Law officially came into force, laid the start to a senseless destruction of the small business sector and, with it, of the whole social base of the region. Many firms relying on duty-free imports and deliveries to the mainland began to lose incomes and assets, to fire workers massively, and to busy reallocate the rest of their money into housing and real estate for speculative purposes. And the stratum of individual private entrepreneurs, making up 15 to 50 thousands businessmen, faced a genuine obstruction: deprived of access to any SEZ favours, they were canceling their registration en mass (about two thirds of the whole sector), dropping to pay taxes and passing to the full shadow.

In March 2006, deputies of the Regional Duma appealed to the country's leadership for a delay in enforcement of the Law till January 2007, in order to avoid "economic chaos, numerous lawsuits, and ruining of numerous enterprises" (Explanatory note, 2006). However, at that very moment the Russian Government introduced another package of instructions, which sharply changed the entry status of individual import goods and criteria of their sufficient processing (*see footnotes of Table 6*).²⁸ For several extra months thereafter, the promised 10-year transition regime still couldn't start work-

ing, since the Government had naturally failed to approve some 25 normative acts.

In other words, in 2006, instead of starting “soft” structural reforms (as was strongly recommended by the majority of experts), the federal centre applied to Kaliningrad the worst version of shock therapy, with all resulting market and social disorders. And this was done in a style of emergency and under full uncertainty, with no necessary prescriptions for the involved institutional bodies.

That is why the local experts had been predicting that by the end of 2006, due to numerous bankruptcies in different economic sectors (meat processing industry, cargo transportation, several assembly industries), Kaliningrad would face an explosive, 3.5-fold growth of unemployment (up to 30,000 jobless against 8,400 in late 2005) and an impressive 20–25-percent rise in local consumer prices (Explanatory note, 2006). Indeed, this looked like so: the sector of manufacturing production had fallen by almost 20% in the 1st quarter of 2006 and showed at best a zero growth rate in the 1st half of the year against the respective periods in 2005 (Stepura, 2006b).

However, the overall economic results of 2006 brought a real surprise: the unemployment rate remained at the same level as a year before (5.9%), the consumer price index even went down (7.9%) as compared to 2005 (11.1%), and industrial production showed a breakneck growth rate of 68%, mainly due to a one-off effect generated by the energy sector (the start of operations at Kaliningrad’s power plant TETS-2 since the end of 2005), but also thanks to enlargement of manufacturing in the second half of the year, according to expert estimations based on the official regional statistics (BRE, 2007). Moreover, Kaliningrad entered the list of the first ten Russian regions with the best economic performance and the best practice of fiscal management, as ranked by the RF Ministry of Finance (Petrachkova, 2007). And in the first quarter of 2007 this positive trend only strengthened.

If the official statistics is true and the local economy has survived the new-Law-originated shock much better than could be expected, then we must admit that Kaliningrad’s actors are demonstrating a remarkable adaptive behavior and a good ability of rapid self-adjustment to any changes in

the rules of the game. This situation also implies that the 2006 Law has brought no substantial changes into the pattern of the region's development, with local companies revealing a high creativity in renewing the schemes of extracting shadow rents.

What will happen to shadow activities?

Abolition of Kaliningrad's duty-free deliveries to Russia's mainland, together with introduction of normally charged VAT (instead of "import" VAT), leave seemingly little sense for local producers to go on splitting into small entities for the purpose of tax evasion. Theoretically, this change must improve the region's institutional structure and take the local economy away from shadow rents. The smallest producers will be mostly liquidated, while the small business sector, which has the legal right to apply a simplified taxation scheme and, therefore, avoid VAT payments, will lower its present statistical share in production (35% of GRP) down to its real contribution (according to its 11-percent share in the region's employment). As a result, collection of not only VAT but also of the profit and income taxes in this territory will have to rise, thus positively affecting both the regional and the federal budgets.

In reality, however, the new Law on SEZ can hardly narrow the scale of shadow activities in the region, at least until Russia takes additional obligations to meet the demands of WTO.

First, despite a strong appeal of Mr. Boos' Government to the sense of social responsibility of local businesses, their massive exit from the shadow is not observed as judging by the first 8 months of 2006. In particular, in the first half of 2006, the collection of VAT in the region has remained at the previous level, instead of becoming higher (Stepura, 2006b). Moreover, the region's taxation base for the small business sector is even likely to narrow, since a large part of this sector has merely stopped to exist for the reason it has nowhere to go: the old basis of its activities (and hence, of its taxable profits) has been destroyed, with the new one not yet laid.

Secondly, a loophole for larger companies to overprice imported components and, thus, to conceal part of profits from taxation under the cover of import costs, will be narrowed but just to a very limited extent. Though the 30-percent minimum of value added for goods of local produce, as

stipulated by the Law, is higher than the 15-percent level plasticized previously, it is still a ceiling too low for covering all amount of non-taxable production costs. Besides, Kaliningrad's assembly producers (of, say, home appliances or furniture suits) are always keeping their rent incomes in the shadow, so that a large part of their turnover with Russia (42% of deliveries in 2003 and 33% in 2004–2005) is not statistically registered in terms of value (Stepura, 2006b). Therefore, in order to reach the 30-percent minimum of value added, they don't need to really deepen the processing of imported components, but can obtain the lacking value through a purely statistical transformation of a part of their shadow rents into legal taxable incomes.

Thirdly, the vast tax preferences granted exclusively to the SEZ Residents (i.e. to large investors), together with 'old' customs favours retained for "non-Residents", will encourage Kaliningrad to further extract monopolistic rents by means of 'import substitution', at least as long as the practice of servicing Russian imports exists by inertia. Meanwhile, the sources of rents and the structure of their distribution are changing, so that the predominant part of extra income is now gained not from duty-, but rather from tax-exemptions. Since small business is most likely falling out of this practice, the game is widely played, even more vigorously, on the part of new amalgamated companies which get full use of exclusive tax preferences and in addition apply shadow schemes of cooperation with the old actors to make use of customs favours as well. Before Russia enters the WTO, this group of large 'assembly' producers will be making even better money on the previous specialization, just pushing up the statistical volume of the region's industrial output.

Finally, Kaliningrad has at the moment not many investors ready to meet the SEZ resident's criteria (as according to the local "Business-Expert" consulting centre). The majority of European investment projects, now under way in this territory, don't reach the required investment margin of 4.5 m Euro, and this is true not only for Sweden, Denmark, Lithuania or Poland, but also for Germany which ranks second after offshore territories in the region's accumulated volume of foreign direct investments (Stepura, 2006a). In this situation, local businessmen who lack capital to reach the margin simply resort to artificially overvaluing the construction

cost of new facilities (by contrast with the traditional practice of lowering such cost to decrease the taxation base for the property tax). Such practice is provoking the emergence of a new shadow market in Kaliningrad, specializing in offering specific financial services.

To conclude, the new Law on SEZ does not promote the vitally important rapprochement of the region with its EU neighbours, either concerning the pattern of economic development or regarding the quality of business climate. Instead, Moscow is making a hopeless attempt to strengthen the competitive edge of Kaliningrad without launching a well-designed process of its modernisation. While aiming at discouraging the region from legalized smuggling activities and servicing Russian imports, the Law still keeps it under very specific rules of the game, which seriously diverge from economic openness and fair market competition. Besides, the Law's evident stake on several Russian majors and large-sized industrial plants to dominate in this territory is a dead-end economic policy. Such capital-intensive projects, while never profitable here by market standards, will only impede modernization of Kaliningrad's economy and take it further away from Europe.

Globalization as a natural tool to stop inertial development

Nevertheless, in the not-far future, Kaliningrad's inertial development along the import-led trajectory will be largely exhausted. Globalization will destroy the present non-market-based pattern of interactions between Kaliningrad and the mainland, and thereby make the region enter the stage of radical economic restructuring.

Let's name three factors objectively working at this perspective. *The first one* is the 2004 EU enlargement, which has made Kaliningrad's cargo transit and its trade with Russia more costly. *The second one* is the logic of Russia's relations with the rest of the world and, particularly, its vital interest in joining the WTO. *The third factor* is the logic of domestic economic changes in Russia herself: the inevitable liberalization of energy, fuel and cargo transportation tariffs, which will basically alter the life in Kaliningrad.

***Growing costs of trade
with Russia's mainland***

According to Gerhard Lohan, Head of Russian Unit in the European Commission, the EU enlargement of 2004 is no longer creating obstacles to Kaliningrad's transit since the necessary adaptations in the transit regime have been successfully made (*Gerhard, 2006*)²⁹. This claim is argued by an impressive growth in the value of transit cargo flows to and from Kaliningrad (in 2004 over 10%-rise, and in 2005 over 20%), as well as by a large number of persons (up to 1.5 m annually on the average) travelling through Kaliningrad to and from Russia's mainland as according to further estimations by the European Commission (EC, 2006).

Sharing Mr. Lohan's viewpoint, we must, however, admit that the EU enlargement and, broader, the process of globalization are objectively placing Kaliningrad's interactions with the mainland into a more competitive market environment. As a result, the region's traditional communications with Russia are becoming relatively more costly by market standards, whatever forms this rise in costs is taking.

To our knowledge, the EU enlargement was accompanied by growing individual costs of transiting Kaliningrad's cargo through Lithuanian territory (along the 242 km distance). *Firstly*, Kaliningrad faced additional payments for market services that had emerged due to new obligations of Lithuania as the EU-member (new standards for border and phyto-sanitary control, etc.). *Secondly*, Russia and Lithuania have started the "war of tariffs" in rail-road cargo transportation to their Baltic sea-ports (Kaliningrad and Klaipėda respectively), which took the form of a regular lifting of tariffs by both parties on parallel terms. These events caused a temporary reduction in cargo flows from the SEZ to Russia (according to unofficial estimation, by 20% within a year-period after the enlargement, i.e. by June 2005) and a switch of Russian transit export flows from the port of Kaliningrad over to sea-ports of Finland and the Leningrad Region. As a result, the load capacity of Kaliningrad's ports has dropped.

In particular, in 2002–2004, thanks to huge tariff subsidies granted to the Kaliningrad branch of railway by the RZhD Railway Company, the region enjoyed a two-fold rise in the volume of cargo transit. However, after the EU enlargement, the achieved level of subsidies could no longer

counterbalance the rise in market costs: since the second half of 2005, the volume of cargo transportation started to fall steadily, so that in the first quarter of 2006 it amounted to 93% of the 2005 level, according to official data from the RZhD (RZhD-Partner, 2006).

This fall means that the port of Kaliningrad has started to lose clients even despite benefiting from artificial individual privileges which unduly disadvantage other Baltic ports in terms of WTO standards. This also implies that the region's pattern of trade with Russia had bumped into its objective limits, and bumped even before the new Law on SEZ came into force, i.e. in the times when deliveries to Russia were free of import duties and taxes. Seemingly, despite the growing scale of federal incentives granted to Kaliningrad in the form of the customs, tariff, and tax privileges, its communication with Russia, covering thousands of kilometers, is becoming more and more expensive.

Here are some indirect but notable facts to support our conclusion.

In the 1st half of 2005, the growth rates in Kaliningrad's assembly industries sharply plummeted (for automobiles, from 87 down to 41%; for TV sets, from 170 down to 43%), their share in all-Russian output having reached its possible ceilings (35% for TV sets, 33% for vacuum cleaners) (Usanov, 2005, November). By the end of 2005, the growth rate in food industry, also working for Russian outlets, dropped down to 17% (against 48% in 2004), while the machine building production increased only by 12.3% (against the record of 64% in 2004). And Kaliningrad's deliveries to Russia enlarged in total just by 27.5% (for three quarters of 2005), which is incomparable with their 61% increase for the year of 2004 (Usanov / Kharin, 2006).

In the 1st half of 2006, Kaliningrad managed to increase its total industrial production by 53% and total tax collection by 37% (against the 1st half of 2005). And, as noted earlier in this paper, the overall results of the year were even more spectacular. However, they were achieved due to a sharp conjuncture upsurge both in the local energy production (after the launch of the TETS-2 in the end of 2005) and in the duty-free oil exports by the local branch of Lukoil (the latter had hastily enlarged its exports, including all oil reserves, by 60% in the 1st quarter of 2006 – in the light of ever since the abolishment of the duty-free export of petroleum by the

new Law on SEZ) (*Stepura, 2006b*). Meanwhile, the contribution of manufacturing industries into the economic growth was much less significant: while running zero and even negative growth rates in the first half of the year, they started to increase the output only later, when the local “assembly” businesses elaborated new schemes of tax avoidance.

On this background, a noticeable annual enlargement of the volume of cargo transit between Kaliningrad and mainland Russia, as registered for the whole of 2006 by regional statistics, is neither a sign of a new upward trend in Kaliningrad–Russian market interactions nor a result of any progress in the region’s modernization. Rather, this growth has a temporarily nature and can be explained by three conjuncture factors: firstly, the ongoing expansion of Russian export oil flows under high international prices; secondly, a new portion of federal transportation subsidies to cover the enlarged costs of supplying the region with more fuel and construction materials; and thirdly, the ability of local “import substituting” producers to profit from the imperfection of the 2006 Law on SEZ by finding extra ways of rent extraction.

The effects of Russia’s expected acceptance to the WTO

Joining the WTO will inevitably accelerate the Europeanization of the Russian economy. Even small amendments that Russia will have to make to its Customs Code will lead to serious changes in many rules of the game: the Russian Tax Code will have to be amended, the next is the budgetary legislation, and further, in sequence, the whole system of market regulation will have to be replaced. As a result, Russia may come much closer to Europe than the concept of the EU–Russian common spaces is providing for.

At the same time, at the level of Kaliningrad, the process of Russia’s Europeanization can be more painful. With Russia a WTO member, the region will lose its present “import-substituting” niches in the domestic markets and hardly obtain any new ones instead. On the one hand, Kaliningrad’s producers will find themselves in an equalized competitive position with actors from other Russian regions, which means they will mostly lose their artificial price advantages and, therefore, will be actually de-privileged. On the other hand, Kaliningrad will face a tougher import

competition on Russian markets due to their liberalization. The entire mechanism of the region's usual economic interaction with the mainland will be destroyed and, as a consequence, Kaliningrad will be spontaneously driven by market competition towards a start of serious structural shifts.

The following events will objectively contribute to this outcome:

- Adjustment of the SEZ regime to the WTO rules (partially done in the 2006 SEZ Law).
- The envisaged bounding of Russian customs tariffs with the European ones.
- Russia's liability to abolish the import VAT as economically illogical tax.
- Liberalization of domestic transport, fuel and energy tariffs in Russia.

The effect of bounding customs tariffs

As stated by President Putin as early as in 2004, Russia will join WTO on common grounds, i.e. without substantial exclusions from its standard requirements to be stipulated for some regions or industries. In particular, upon the accession, Moscow is expected to make a commitment to bound over 7 years Russia's effective customs tariffs with the European ones, which, according to estimates, will lead to lowering import duties in the country 2.5–2.7 times. This means that despite the formal life of the Kaliningrad SEZ for 25 years (as provided in the new Law), the region's monopoly privileges in import trade will be actually effective for another several years only. During that period, Kaliningrad will be trying to make money on servicing Russia's imports even more vigorously, but by the end of it, the rent-producing capacity of the SEZ regime will be largely exhausted (if only another domestic offshore zone does not emerge here).

The effect of abolishing the Russia's VAT on imports

The "import" VAT, just an absurd in economic terms (since it is charged when goods are imported, not when they are sold), is an artificial invention of Russian customs officials of mid-1997 in concern with the task to replenish the federal budget revenues. Noteworthy, this tax is not stipulated either in the Russian Tax Code or in the Russian Customs Code. Yet, in practice, it helped the RF Customs Service to sharply raise its annual contribution to the federal budget revenues, while generating, in parallel, many

vested interests related to rent-seeking and shadow activities³⁰. And the Kaliningrad producers have been enjoying the largest benefits from playing games around VAT, since, as noted earlier, they have been fully escaping both the import and the traditional VAT payments. The 2006 Law on SEZ has stopped this practice. And from 2007, upon Russia's applying only traditional VAT over the entire national territory, Kaliningrad will finally lose its longstanding advantage, which, in its turn, will negatively affect its present economic ties with Russia.

The effect of domestic Russian fuel and energy price liberalization

Russia has been always demanded by its potential WTO's partners to equalize artificially lowered domestic prices on fuel and energy with their average world levels, with the purpose not to violate the principle of fair competition through creating a sort of individual subsidies. Nevertheless, Russia has always managed to reject these claims³¹. But if the EU is allowed by the WTO rules to substitute now effective antidumping duties by compensation duties, just to cover the difference between the internal Russian price of natural gas and its export variant for Europe, Russia (and her regions) will lose many of the expected gains (Vedomosti, 2006, d).

However, even irrespective of agreements within the WTO framework, Russia will not be able to maintain for long high price subsidies for gas on the domestic market, especially in the light of the observed falling volume of gas extraction and the relevant threat of gas deficit in the country. Therefore, Russia will pass to a gradual liberalization of gas market and, as a result, to simultaneous regular jerky raising of regulated Gazprom's tariffs.³² Noteworthy, as mentioned above, Gazprom has postponed the prospect of constructing Kaliningrad's branch of the North-Western gas pipeline until the RF Government agrees to compensate this company's future losses from supplying the exclave at lowered tariffs.

The same story awaits the tariffs of other natural monopolies which will no longer enjoy subsidizing. As a result, the system of federal support of Kaliningrad's trade with mainland by means of lowered fuel, energy and transportation tariffs will be ruined. The exclusive tax preferences for SEZ residents, introduced by the 2006 Law, will hardly compensate to the full this rise in costs for the local companies.

Above all, Russia's accession to the WTO can provide the context for her European partners to launch antidumping procedures regarding Kaliningrad, in case any local exports are supported by price subsidies from the budget. This fully refers to individual federal preferences that for many years have been granted to the port of Kaliningrad. If WTO-members find this play discriminating in respect to other Baltic ports, Kaliningrad may lose the major part of its current transit export flow, let alone the prospect of attracting additional cargo traffic from Belarus, which fully rests on the argument of political expediency (by fair market rules, export trans-shipments of Belarusian products through the port of Kaliningrad are much more costly than through the Lithuanian port of Klaipeda) (Russian Exclave, 2006).

How to better enter the post-industrial European trajectory

For a number of objective reasons noted in our previous papers, the problem of reorienting Kaliningrad toward European export markets cannot be solved by either Russia or the EU alone.³³ Instead, Moscow and Brussels should recognise Kaliningrad as a challenge they have in common, and start seeking for joint and innovative policy measures helping to modernize the region in the safest possible way. This is what the idea of Kaliningrad as a pilot case for the EU–Russian cooperation or, to put it differently, the idea of the EU–Russian Kaliningrad partnership is originally about, at least in its experts' interpretation (*Kiel 2002; Smorodinskaya / Zhukov, 2003*).

Indeed, in the case of Kaliningrad, the issues of regional planning, let them concern structural or institutional reforming, cannot be separated from the issues of 'grand policy'. Prospects of finding optimal investment decisions for the local economy, including those related to transport infrastructure or communication projects, depend not just on traditional analysis of cost-effectiveness, but in the first place on the general improvement of the EU–Russian relations. This point makes Kaliningrad a typical challenge of the age of globalization, the so-called 'glocal' challenge, where a local task of economic restructuring of a single territory is becoming a global-like problem which demands several groups of international actors for a closer cooperation and networking.

The EU–Russian Kaliningrad partnership, though originally an official Russian initiative of 1999, has been backed by the moment by mere declarations and no substantial practical policies on the part of Moscow. Thereby, this initiative may seem overambitious and even misleading now, as compared, say, with developing the EU–Russian cooperation on Kaliningrad within the framework of the renewed Action Plan of the EU Northern Dimension³⁴. However, even if such impression does have its point, the pilot region idea has already played its positive political role, since it has moved the Kremlin towards making up its mind that Kaliningrad has no positive alternative to the prospect of its export-oriented integration into the EU economic space. Paradoxically but true, in order to retain Kaliningrad in the all-Russian political space, Moscow must decide on its accelerated economic Europeanization.

Though the prospect of Kaliningrad's structural move to developing exports doesn't look quite realistic today (especially considering the region's inability to broadly rely on traditional items of merchandise exports other than oil), the concerted actions of Russia and the EU for reforming the region could create a chance to re-shape its economic profile anew. The present vigorous efforts of Scandinavian countries to build a knowledge-based economy in the Baltic Sea Region and to turn it into a global frontrunner in the field of innovations would obviously benefit to this chance.

***To promote small service-based businesses instead
of big industrial plants***

The idea of the 2006 Law on SEZ to support large-size investment projects in Kaliningrad, meant to amplify the influence of Russian capital here, corresponds to the present (and mostly outdated) federal security priorities, as well as to the current (and mostly rent-seeking) business interests of several local majors. The Kaliningrad Government seems to welcome such sort of projects – in a hope that they can positively affect the total tax collection. Demonstrating a positive respond to the Kremlin's political appeal, the region's authorities plan to launch in this territory several big industrial projects worth up to USD 4 billion each and having a key stake of a Russian investor (like, say, a construction of a huge steel plant).

However, unlike the infrastructural and, particularly, the road construction projects, which are of vital need for the region and funded mainly

from budget sources, other large-size investment initiatives, as related to private capital and industrial processing, are of little use to the local economy – either from the perspective of its intelligent restructuring or in terms of its system-type convergence with the European environment. While widely resting on exclusive SEZ privileges (and therefore, lacking competitive incentives), such industrial entities will be only impeding the enclave's technological advance, even on applying the newest production technologies.

Even apart from the SEZ privileges, the idea of relying on something large-size or large-scale is misleading for today's Kaliningrad, particularly in connection with constructing big plants in mining and manufacturing, which are typical of the industrial age.

The economy-of-scale constraints

For a wide range of reasons, including the sizes of the local market, local energy-supply situation, the quality of local labour force, this territory is of little use for dislocation of large-size industrial enterprises relying on the economy-of-scale effects. Such entities could have been successful here only within a centralized soviet-type economy, whereas in today's European market environment they are lacking natural outlets and any development prospects. For instance, the Autotor assembly plant, considered one of the most successful projects in the region, can stay keeping on the surface only under guaranteed government procurements and large-scale SEZ preferences. Or, for example, a large industrial plant like oil refinery: it can reach a normal production capacity (3 mill. tons of oil a year) only if a transit oil flow from Russia is available, with export duties non-existent in Kaliningrad, otherwise the flow will choose other ports.

The employment-defined restraints

Along with economy-of-scale constraints, Kaliningrad is running employment-defined restraints.

Although Kaliningrad's unemployment rate is relatively low as yet (about 9.5 thousand jobless, or 1.6% of economically active population, or 4.5% according to the ILO assessment method, as of January 2006) (Kaliningradstat, 2005-3Q), the region faces an acute structural unemployment, and workforce adequate in quality for big industrial plants is totally lacking here. Even if the introduction of the new SEZ regime has de-facto enlarged

the workforce disengagement in trade and transport (as has been earlier forecasted), those new jobless will never go to work at industrial enterprises. For this very reason Georgy Boos is seeking for a wide attraction of modern personnel from outside and for a 5-fold increase in the region's population.

Anyway, contrary to numerous small businesses, several big industrial plants implementing modern technologies will hardly provide the region with a needed quantity of available workplaces.

The energy-supply restraints

Since Kaliningrad practically lacks energy-generating capacities (90% of energy is produced by the RAO "UES of Russia" and supplied in transit through Lithuania) and suffers from acute energy shortages, the local companies are supplied with energy on a restricted scale, on terms of individually rationing their annual limits of consumption.³⁵ And the regime of consumption itself is very ineffective, with losses per hour amounting to 17% of the currently consumed volume, according to local officials (Westrus, 31.10.2006).

A similar situation is typical of fuel supplies: natural gas in Kaliningrad is also rationed. And in winter seasons, when the local pipeline functions at the upper limit of its carrying capacity (1.8 bill. cu m per year), many industrial enterprises (for example, pulp-and-paper plants) have to pass to fuel oil. Moscow is now building in the region a gas depository to avoid seasonal dispersion in supplies, but as local officials claim, this will hardly reduce the level of risks for large-size industrial investors who are currently invited to Kaliningrad's SEZ (Stepura, 2006a).

At the moment, the prospect of a full-scale fuel supply of Kaliningrad is under question in principle. Since, for security reasons, Moscow does not admit any scenarios of supplying the region with non-Russian fuel sources, it has recently constructed here a huge thermal power station, TETS-2, meant to ensure the region's positive energy balance and, at the same time, its independence from European energy prices (since Lithuania is switching from the all-Russian to the European energy system and, therefore, to the EU tariffs). However, the first generator unit of the TETS-2, launched in 2005, provides only 70% of the region's rising volume of energy con-

sumption (the latter amounts to 740 million cubic meters now, but will grow up to 3.5 billion in a decade) (*Westrus*, 31.10.2006). Moreover, the very task of transporting the Russian gas to the TETS-2 is troublesome, since Gazprom finds the relevant infrastructure expenditures inefficient for itself.³⁶

Kaliningrad has also no guarantee to further obtain cheap Russian gas at lowered domestic prices. Due to its European-distance remoteness from the centre the region will, most probably, be one of the first in Russia to fall victim of higher Gazprom's tariffs. This implies that not just new investors to Kaliningrad but rather all local actors must be ready to face the world price level for fuel and energy and, therefore, to immediately start elaborating the energy-saving policies.

All the three varieties of economic constraints exclude any positive scenario of pushing the region along the path of traditional industrialization. On the contrary, the objective rules of the market demand Kaliningrad to lighten its industrial structure (in terms of lowering the volume of primary-intensive or power-consuming production) and to focus on relatively small forms of mass business activity. If Moscow really wants to see Kaliningrad strong and prosperous in the European environment, it should invert its present vision of its economic restructuring and start thinking in terms of post-industrial realities.

Considering these realities, the federal policy course towards Kaliningrad should go beyond the mere idea of promoting manufacturing exports and aim at cultivating in this territory a diversified cluster of small and middle-size entities able to effectively operate in the tertiary sector and in service-based export industries, including any types of incoming tourism.

***To rely on potential comparative advantages
in cooperation with the Baltics***

The above-proposed strategic option for Kaliningrad is dictated not only by objective constraints in its economic potential, but also by its comparative advantages as seen from the point of post-industrial and post-modern sources of development.

From this point of view, Kaliningrad can rely in its economic restructuring on three basic assets. Though at the moment this group of assets

runs either a negative value or no value at all, it will seemingly acquire its natural investment attractiveness as soon as Kaliningrad's economy starts moving towards integration into Europe.

The first asset is the region's rich natural landscape, its advantageous geographical location in the centre of Europe, and its unique cultural and historical heritage.

The second one is its dynamic neighbourhood of the rapidly growing Baltic states, its geographical proximity to Scandinavian countries – technological leaders of the new Europe, and its natural chance to get linked to numerous infrastructural and communication networks in the Baltic Sea Region.

The third one is the high market adaptability of the local population, deriving from its wide-range and long-lasting involvement in the small-business and individual entrepreneurial activities. This experience, accumulated in the region under many years of the SEZ regime, should be treated as a unique local resource and potential comparative advantage of the territory. Today, with a certain government assistance (by means of building industrial and technological parks for small business, extending preferential loans to start-ups, funding of retraining programmes), it could be renewed and substantiated with more productive economic functions related to developing flexible and innovative forms of economic activity.

Under a reasonable structural policy, all the three assets could be effectively capitalized in a way that would help Kaliningrad to actively develop cooperation with its EU neighbours, engage oneself in a broad range of development programmes and networking projects in the Baltic Rim, particularly, to join the Baltic Sea Initiative 2010 and, finally, find a sustainable niche in the European markets. It is this very way of promoting local small-business and service-based activities that would offer Kaliningrad a chance to get organically involved into the European technological setup and, in a broader sense, into the development trends of the 21st century.

To obtain economic sustainability in the era of hyper-competition, as brought in along with the process of globalization, Russia will need to link her industrial complex to the European post-industrial potential. Simultaneously, Moscow will have to pass to contemporary security thinking focused on promoting innovations, transformation and multidimensional

trans-border networking. The growing pressure of these interrelated challenges is now felt both at the federal and at the regional levels. But Kaliningrad, the Russian outpost in the EU, is facing them most directly. This is an additional argument to discuss Kaliningrad's development prospects in terms of the emerging post-industrial clusters in the Baltic Sea Region, but not in terms of launching individual industrial projects in the enclave territory as such.

Concluding remarks

Our study gives grounds to conclude that Kaliningrad's situation calls for updating the federal security thinking rather than for further furnishing the local investment climate. The concept of the 2006 Law on Kaliningrad's SEZ is basically running counter a consistent conceptual framework to ensure Kaliningrad's economic sustainability for the years ahead. Yet, federal plans of reforming the exclave have never been clearly announced and what was explicitly announced, leaves a clear message that Moscow seeks to raise the region's competitiveness and well-being up to average European levels. This goal must encourage all the parties involved, including the local Government itself, to be more particular in helping the region to move ahead and to adjust this moving with objective demands and opportunities of globalization.

A natural idea would be to involve Kaliningrad into different networking projects in the Baltic Sea Region and, perhaps, to apply to its development some promising principles and instruments of the new European Regional Policy for 2007–2013. Globalization and transition to knowledge-based economy, let alone the growing regionalization and the emergence of innovation clusters, are forming an absolutely new world order that can give a sudden chance of a rapid rise to different currently underdeveloped areas. This observation, made in the first place in concern of European regions, is also true for border territories of the Russian North-West. And regarding the case of Kaliningrad, the new global realities are simply a key to shaping successful modernization strategies. As Danuta Hübner, EU Commissioner for Regional Policy, puts it, “technological progress and social and economic pressures stemming from globalisation have an impact on the very concept of peripherality. Traditional support

policies have often failed to fully address these challenges. Today, we do not need policies that support, we need policies that dynamise” (Hübner, 2006).

Though the prospect that Moscow and Brussels ever decide on joint elaboration of such dynamising policies towards Kaliningrad looks today rather unlikely (as well as the EU–Russian Kaliningrad Partnership on the whole), the reality may promise more.

Firstly, Russia’s anticipated joining the WTO will inevitably accelerate its economic Europeanization, and all the more so, regarding Kaliningrad. *Secondly*, for the nearest future, the economic Europeanization of Kaliningrad as such will be remaining on the agenda of the renewed Action Plan of the EU Northern Dimension. *Thirdly*, as time passes by, Kaliningrad is objectively becoming a more and more provoking challenge not only for Europe, and not only for the EU–Russian cooperation, but for Russia itself. And as Pertti Joenniemi from the Danish Institute for International Studies fairly claims, “Kaliningrad invites and mandates Russia to view itself in increasingly post-modern terms with a piece of it being simultaneously linked to the EU” (Abelsky, 2006).

NOTES

- ¹ The paper is based on the case-study prepared by the author in December 2006 within the project “Industrial Restructuring in the NIS: Experience from the New EU Member States” (INDEUNIS, No. 516751) under the Sixth EU Framework Programme. In this paper, the terms ‘the Kaliningrad region’ and ‘Kaliningrad’ are used interchangeably: both terms stand for the whole region.
- ² Though Kaliningrad is exporting up to 10.5 m ton of oil and oil-products a year, 90% of this volume is made by Russian export transit flows. Meanwhile, the local oil industry has no development prospects, both in the field of oil-extraction (in 10 to 15 years the local oilfields will be exhausted) and trans-shipment (due to high tariff risks for oil transit via Lithuania, as well as due to Kaliningrad’s rivalry with Finnish ports). (Stepura, 2005).
- ³ As recommended in the International Kyoto Convention on Simplification and Harmonization of Customs Procedures (Appendix D of 1999 on Free Economic Zones), a free customs area must pay duties when exporting goods to the national customs territory, with any violation of this rule considered as legalized smuggling.
- ⁴ Figuratively speaking, Kaliningrad’s economy has been functioning like an aerodynamic pipeline through which immense trade and currency flows from Europe to

Russia and vice versa are pumped, but nothing is accumulated to develop the territory itself, either as fiscal returns or as capital investments. Meanwhile, a growing volume of shadow rents gets hoarded in private pockets.

- ⁵ The two forms of VAT of a similar rate of 18% are charged alternatively. Since Kaliningrad's producers were free from import duties on delivering goods to Russia (according to the 1996 Law on SEZ), they couldn't enjoy paying a reduced, "import" VAT and were demanded to pay "full" VAT (contrary to all the rest Russian importers), which induced them to evade VAT payments at all. The RF Tax Code ranks as small the enterprises that have a turnover less than RUR 1m (approximately 29,000 Euro) within 3 calendar months. Article 145 of the Code relieves such entities of paying VAT, except for importers. Meanwhile, Article 7 of the 1996 Law on the Kaliningrad SEZ provides VAT-deferral for importers (till the imported components be processed and delivered further to Russia's mainland). By combining these provisions, Kaliningrad's producers managed to legally avoid any VAT payments.
- ⁶ For example, in 2004, the machinery industry made 36.5% of the total industrial output, but only 7% of the total investment in fixed assets (*Usanov, May 2005*). And in the first half of 2005, when assembly enterprises were hastily putting into operation new facilities (to make better use of the existing rules of the game on the threshold of the adoption of the new Law on SEZ), Kaliningrad had got ahead of all North-Western territories in industrial production growth (an increase by 27% against the first half of 2004). Meanwhile, the share of taxes in its total budget revenues had simultaneously markedly dropped (from 72 to 63%), which required additional transfers from the federal budget (*Usanov, November 2005*).
- ⁷ According to our findings, federal subsidies for Kaliningrad have risen from the level of 18% in 1994 up to 25% in the late 1990s, and thereafter went up further to make 37.8% in 2003 (*Smorodinskaya, 2001a; 2004a*). In 2005–2006, they have been covering about 30% of the budget expenditures (*see Table3 in this paper*).
- ⁸ Today, the fact of Kaliningrad's bankruptcy of 2001 is not recollected, the annual budget figures having undergone a retrospective amendment in the official regional database (*see Table2 in this paper*).
- ⁹ In particular, in 2005, when the region's total budget revenues amounted to RUR 15,145 m, its tax receipts covered at best 70% of this sum, reaching 10.6 billion roubles, which corresponds to only 14.9% of the nominal Kaliningrad's GRP (over 71 billion roubles, in our estimation). In all likelihood, a similar picture could be observed in 2004.
- ¹⁰ According to the regional Ministry of finance, the level of federal transfers in Kaliningrad's draft budget of 2007 is lowered down to 22.5% of expenditure. Though Georgi Boos presents this fact as an achievement ("no more than one-fifth-percentage-share for federal transfers"), he simultaneously claims in his Budget Message that "the region's potential demand for additional federal subsidies is far from being exhausted" (*Budget Message, 2006*).

- ¹¹ According to our previous estimations, also based on official customs statistics and data of the Bank of Russia, as early as in 2004 Kaliningrad's imports have reached the value of \$3.68 billion, which made 3.8% of all-Russian imports. A similar figure of Kaliningrad's import share (of nearly 4%) is given by Finnish expert Kari Liuhto (Liuhto, 2005).
- ¹² In 2005, this sector received RUR 300 m (EUR 8.7 m) as budget allocations, RUR 1 bn (EUR 30 m) as bank credits, and extra RUR 70 m as the bank rate subsidies (Kaliningradstat, 2005-3Q). Despite this support, the annual agricultural output increased in total by only 0.5% (if any), and in the first months of 2006, it faced a decrease at the level of different branches (like meat production or milk yield), according to official regional data (Statistical Reference, Jan–Feb 2006).
- ¹³ These measures include subsidized railway tariffs for cargo transportation to and from Kaliningrad; overrated federal tariffs for transportation of Russian exports to alternative ports of Lithuania and other Baltic states; VAT exemption for the whole array of logistics services in Russia–Kaliningrad communication; customs favours for the region's export and import flows under the SEZ regime, etc.
- ¹⁴ By acknowledgement of Yuri Matochkin, the Governor of Kaliningrad in the 1st half of the 1990s, his successful endeavour of 1991 of putting the region under the SEZ regime was merely an attempt to get a higher administrative and legal status for this territory through utilizing its exclave position as an argument for political pressure on President Eltsin (*Matochkin, 1999*).
- ¹⁵ See, for example, Klemeshev et al. (2003), Tsikel et al. (2003).
- ¹⁶ Introduction of visas by Lithuania made Russia strongly afraid of a possible political and economic detachment of Kaliningrad from the mainland. However, in November 2002, after sharp debates, Moscow succeeded to agree with Brussels on a comprehensive package of measures that could ease transiting across Lithuania, including the introduction of the Facilitated Transit Document for cars and buses, and of the Facilitated Railway Transit Document (*Vinokurov, 2006*).
- ¹⁷ Since 2000, Kaliningrad's problem had been attracting a growing attention of both Russian and European experts whose research papers, joint papers including, gave a start to a separate research trend, the "Kaliningrad studies" (as a derivative of "regional studies"). See, for example, Joenniemi, Dewar, Fairlie (2000), Smorodinskaya (2001 a, b), Kuznetsova, Mau (2002), Kiel International Ad-Hoc Group of Experts on Kaliningrad (2002), Samson, Eliseeva (2003), Smorodinskaya, Zhukov (2003), *Strategiya sotrudnichestva* (2004), and others.
- ¹⁸ [www.regnum.ru / english / 638792.html](http://www.regnum.ru/english/638792.html). In his latest book on Kaliningrad, Lopata notes: "Russia prefers to discuss Kaliningrad matters with those European partners that favour a grand geopolitical game, instead of Kaliningrad's immediate neighbours, thus also asserting the superiority of interests of the federal centre over the local needs" (Lopata, 2006).
- ¹⁹ See, for example, the speech of Sergei Yastrzhembsky, Putin's Aid and Special Representative for the Relations with the EU, at the 7th Summit of the Baltic Development

- Forum in Stockholm in October 2005. (*BDF, 2005*). Similar statements were made by Kremlin a year later, in October 2006, on the eve of the EU–Russian Summit in Helsinki.
- ²⁰ As the local daily “Evening Kaliningrad” reasonably concluded, “the balance between the federal interests and the interests of the regional elite was disrupted so badly that the Kremlin determined to change the administration despite the fact that admiral Vladimir Yegorov was by no means the worst Governor” (*Kaliningradskaya Vechorka, 2005*).
- ²¹ Concerning this ambitious statement, “Der Spiegel” fairly remarked that “predecessors of Mr. Boos made similar promises, but Kaliningrad is still lagging much behind Vilnius and Warsaw in terms of per capita gross product” (“Der Spiegel”, 27.09.2005).
- ²² In particular, this concerns the abolishment of the planned Boos’ meeting with the President of Lithuania Adamkus in Vilnius in February 2006, or Boos’ not coming to Brussels in November 2006 to a planned meeting with the EU Commissioner Ferrero-Waldner to discuss the ways of joint promotion of Kaliningrad’s development.
- ²³ In September 2006, Kaliningrad’s Government suggested to amend the region’s budget plan for 2006 for purchasing some arable lands near Kaliningrad-city at RUR20 m. Commenting on this event, the ex-speaker of the Kaliningrad regional Duma Vladimir Nikitin claims that “the Government is busily engaged in commercial activities through buying private allotments to resell them later on by auction” (REGNUM, 14.09.2006).
- ²⁴ In 2007, Russia has adopted a federal law providing that since July 2009 all gamble houses in Russia must be located in four areas only. By the moment, the chosen areas include the Kaliningrad Region, the Altai Territory, the Primorsk (Maryland) Territory, and the border area between the Rostov Region and the Krasnodar Territory. However, the list of such locations is not finally settled and may be still amended.
- ²⁵ Import quotas, in the form of their auction sales to local importers, have been in force in Kaliningrad for a five-year period, from August 2000 till the end of 2005, covering 54 categories of foreign goods (as according to the RF Government decision of July 14, 2000).
- ²⁶ According to Maxim Medvedkov, the Russian Deputy Minister of Economic Development and Trade, the 2006 Law fully meets the WTO requirements in the part of tax favours for the SEZ Residents, while the system of customs favours for ‘non-Residents’ yet remains under question. (REGNUM, 16 May, 2006).
- ²⁷ According to amendments introduced in early 2006 into the Polish Law on special economic zones, the local SEZ investors can obtain plots of land for construction on privileged terms, get production facilities for free use and attract capital from the special Zonal fund for financial support of investment projects (BRE, 2006).
- ²⁸ As one of the leading local ministers put that situation, “changes in the normative base had made customs officials’ heads go round: governmental instructions were ‘cleaving’ the economic space” (*Stepura, 2006*).

- ²⁹ The following key measures have positively affected Kaliningrad's transit flows: introduction in July 2003 of **“facilitated travel documents”** for transiting of Russians via Lithuania (which have been operating ever since to the entire satisfaction of all sides); introduction of **simplified administrative procedures** by which Russian cargo transit declarations can be submitted directly to the New Computerized Transit System in Lithuania; adoption in April 2004 of the **Joint EU–Russian Statement on the EU enlargement and the EU–Russia relations** (which confirmed the basic principles of freedom of transit of goods and the general objective of keeping the cost of transit as low as possible); substantial financial support offered by the EU to Kaliningrad for **modernization of the border-crossing infrastructure** (€11 m already committed, and additional €20 m available in the coming years). (EC, 2006).
- ³⁰ Due to collecting VAT on imports (along with import duties), the RF Customs Service has concentrated in its hands almost the largest financial flow of the country, equal to over a half of the federal budget revenues. The Russian foreign trade participants have started to extract huge shadow incomes through merely evading import duties and VAT payments by means of false contracts or fake companies. In turn, the high-level state officials charged to control over these payments have got a strong lever of influence on the structure and composition of domestic market players: they can close or, alternatively, open the channels of minimizing such payments for individual companies, as according to the Russian analytical weekly “Expert” (*Gromov, 2006*).
- ³¹ Even in 2004, when Moscow and Brussels signed the Protocol on Russia's joining the WTO, Moscow managed to limit her liabilities concerning double price-formation to keeping domestic prices on natural gas at the level fully covering the expenses of gas-producing companies, including the investment component.
- ³² According to German Gref, the RF Minister of Economic Development and Trade, within the next 5 years Russia will be doomed to lift domestic gas prices at outstripping pace for the sake of energy saving (*Rosbalt, 15.07.2006*). Forecasts predict that by 2010, the average domestic gas price in Russia will double from present-day \$40 to \$80 per 1.000 cu m (for comparison: Gazprom's price for the home market is now \$56, the average export price for Russian gas is \$246) (*Vedomosti, 2006a*).
- ³³ One reason is that the local economy is in the ambiguous position of being simultaneously inside and outside the EU. The other is that at the moment, the majority of relevant vested interests in Russia and in Europe are wishing to see Kaliningrad's import intermediation continue, while at the same time this inertia is not in their strategic interests as it prevents the region's economic advance and prosperity.
- ³⁴ For example, Dr. Hiski Haukkala from the Finnish Institute of International Affairs asserts that “Moscow has been clearly unwilling to develop the concept of ‘pilot region’ any further”, and that “the Northern Dimension's low political and functional approach would help the partners to escape the overambitious yet vague notion of a ‘pilot region’, which has clearly made both parties more uncomfortable than excited” (*Haukkala, 2005*).
- ³⁵ Rationing is implemented by Russian state-own energy monopolies, actually by administrative decisions of federal bodies. In order to obtain the needed yearly ration,

Kaliningrad's consumers are frequently forced to make free investments into the Russian energy sector (to lay transmission lines, construct transformers, etc.), with getting no advantages in return.

- ³⁶ The supplies of Russian gas to Kaliningrad through the territory of the Baltic countries or Poland are concerned for Moscow with a tariff dependency and transit costs. And an alternative option, to lay to Kaliningrad a branch-pipe of the North-European Gas Pipeline (which is to be built along the Baltic Sea bottom and put into operation by 2011) is hampered by the lengthy payback period. Gazprom is reported to consider this idea only on condition that the RF Government introduces the European-level prices for gas deliveries to the exclave.references

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THE IDEA OF “SOVEREIGN DEMOCRACY” IN THE CONSTRUCT OF RUSSIAN-STYLE DEMOCRACY

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Abstract. The main question of this article is what does democracy become in Russia, i.e. what conception of democracy, invoking the idea of “sovereign democracy”, is being constructed in Russia? Attention is focused on the ideological level – on the conception and not on the actual implementation of democracy in Russia. It is analysed in detail what the idea of “sovereign democracy” offers in general and its perspectives in Russia in particular. By invoking public opinion polls it is shown how adequate the proposed concept of democracy is to Russia’s cultural particularities. Also, the role of “sovereign democracy” in domestic and foreign policy of Russia is commented on.

The conclusion is that although in the rhetorical battleground the idea of “sovereign democracy” deprives the West of the opportunity to criticize Russia, the potential of the idea of “sovereign democracy” in the international arena should be treated critically. A far greater influence it could make on domestic politics. Also, it is concluded that acceptance of democracy by Russian society can be achieved only with the help of a peculiar concept of democracy, while the idea of “sovereign democracy” just constructs this peculiar concept of democracy. It does not only mention traditional attributes of liberal democracy like elections, the rule of law, political rights, but also encourages restricting some of them.

Preface

There are several specific features that characterize post-soviet countries. They are politically, economically, socially and culturally unique. Also, they are in a certain stage of transformation. One of these countries, namely Russia, besides the above mentioned features, seems to show no clear trend towards democracy. It can be said that it really did not choose liberal democracy. On the other hand, it remains unclear what it did choose as it is insistently *claiming* that it is in favour of democracy, at the same time not *implementing* and even violating the fundamental democratic norms.

This contradiction prompts a different approach to democracy in Russia. *First*, from the level of the practical point of view, i.e. how democracy is implemented and what kind of regime exists in Russia. Russia's political regime in academic literature has been given various definitions: postimperial democracy shifting towards weak state authoritarianism¹, (semi-)authoritarian², authoritarian regime³, directed or "managed" democracy, façade democracy⁴. These are only several definitions, which are based on and come from evaluations of Russia's political regime and its transformation tendencies.

Second, Russia's political regime can be seen from another perspective, namely from the ideological level: how government and society estimate the regime that exists in the country and what ideal they are aspiring. One of the newest assumptions that reflects the attitude of contemporary authority is the idea of "sovereign democracy". It is actively discussed in official speeches of Kremlin officers⁵, articles⁶, in the statements of the Russian political party "United Russia"⁷, books⁸, and forums⁹. The idea of "sovereign democracy" reflects how the world and Russia's place in it are regarded, which values are advocated and which values are rejected at this stage of Russia's political development. The present stage of Russia's development reveals contradictory problems and unstudied questions: a shifting connection between the real state of democracy in the country and the democratic ideas declared by the government, specific attitude towards modernization of the country and its compatibility with democratization. The idea of "sovereign democracy" is incorporated and employed in implementing certain political decisions. "Sovereign democracy" is not a label or a new catchword. It is an idea with a content – provisions explaining Russia's social and political presence and development.

The main question of the present article is: what does democracy become in Russia, i.e. what conception of democracy, invoking the idea of "sovereign democracy", is being constructed in Russia? Thus, attention is focused on the ideological level, i.e. on the conception and not on the implementation of democracy in Russia. Speeches of Kremlin officers, the party "United Russia" and other main officers of the political system are analysed. It should be acknowledged that the conception of democracy – how democracy is understood and valued – is constructed not only by

what is said about it, but also how it is implemented (the variety of democratic procedures, the functioning of the political system). A more detailed analysis of the implementation of democracy will not be pursued in this article considering the great variety of researches on democratization. The novelty of the current paper is the analysis of Russia’s “ideological democratization”, i.e. how democracy is understood in Russia¹⁰.

To answer the main question of this research, the following steps are taken. In the *first* part, the conception of democracy is analysed. This will allow evaluating how democratic the idea of “sovereign democracy” is. In the *second* part, the development of the conception of democracy in Russia is reviewed. In the *third* part, the idea of “sovereign democracy” is analysed: how much it conforms to the traditional definitions of democracy and what uncommon features it has. *Fourth*, political attitudes of society are analysed and compared with the principles of “sovereign democracy”. This will allow evaluating the acceptability of the idea of “sovereign democracy” to Russian society. In the *fifth* part, the possible directions of Russia’s domestic and foreign policy, which are or could be induced by the idea of “sovereign democracy”, are named.

Definition of democracy

First, it should be defined what democracy is. Further, with reference to this definition, it will be possible to compare what kind of democracy is being constructed in Russia.

There are various definitions of democracy¹¹. From those narrowest to the widest, they emphasize the foremost procedures common to democracy. Joseph Schumpeter states that “democracy is a political method, that is to say, a certain type of institutional arrangement for arriving at political – legislative and administrative – decisions”¹². Democracy from other types of regimes is distinguished by elections. This is a procedural definition of democracy. The main shortcoming of this and similar procedural definitions is that they do not allow estimating the actual situation in the so-called pseudo democracies (regimes that simulate democracy, are characterized by the dominating ruling elite and absence of political competition). As Larry Diamond has noted, many regimes can appear as de-

mocracies when using electoral definitions, but they fail after further requirements are set¹³. As some regimes that formed during democratization end up according to their features between democratic and authoritarian, more specific criteria are needed to distinguish democracy from non-democracy. According to Farried Zakaria, the two strands of liberal democracy are coming apart outside the Western world: “Democracy is flourishing; constitutional liberalism is not”¹⁴, i.e. elections take place, but political rights, political competition are restricted, other violations of democratic procedures take place. These regimes are regarded as a result of the new global imperative of democratization and local illiberal traditions. Leaning of the regimes to be called democracy is explained by popularity of democracy: it has become a universally legitimate form of regime, thus countries feel pressure to become or at least to pretend being democracy. Authoritarian regimes quite often use the idea of democracy and pretend to be democracies in order to diminish the pressure from the international democratic community. This allows a paradoxical conclusion that emergence of “pseudo democracies” has been prompted by democratization. Also, we can note that for the estimation of these new democracies, procedural definitions of democracy and analysis of procedures do not suffice. It is more and more important to understand the conception of democracy that is constructed.

When talking about Western democracies, they are called liberal democracies. Liberal democracy is a political system with free and fair elections, the rule of law, separation of powers, protection of basic liberties of speech, assembly, religion, and property¹⁵. According to F. Zakaria, the latter freedoms might be termed constitutional liberalism, different and historically distinct from democracy¹⁶. The definition of liberal democracy will be used in this article, as it covers a wide variety of criteria characterizing democracy.

Russia's way towards democracy

After the collapse of the Soviet Union, Russia needed a new state ideology that would consolidate society, and indicate the guidelines of the further development of the country. There were several possible versions of the political, socio-economic scenarios for the country: to follow Western expe-

rience, to look for a more historically common model for Russia, or to combine both extreme variations. Russia discarded communism and started to copy democratic countries. The rights embedded in the constitution and legislation supposed to show that Russia is not minded against democracy.

Boris Yeltsin's era contributed to the discreditation of democracy, especially liberal democracy, in Russia: the unsuccessful economic development, the diminished prestige of the government. This made it easier to criticize democracy. For example, the political analyst closely related with Kremlin, Sergei Markov, affirms that democracy brought in anarchy in the Yeltsin era, those who had money and power received the biggest benefit, corruption took place in government, and this entire situation was called democracy¹⁷.

The unsuccessful reforms and dissatisfaction by society with democracy offered the ground for retreat from universal democratic norms and to create a national democracy model that would match the needs of the country and society. As an alternative, "managed democracy" was chosen by the new president Vladimir Putin. This first term of Putin's presidency is important because of two aspects. *First*, because of the way representatives of the government and people close to them explained the concept of "managed democracy". The author of this idea was the then Deputy Head of the Presidential Administration Alexandr Voloshin. It was regarded as a positive idea of a regime that can combine democratic and authoritarian practices. It was assured that temporary implementation of "managed democracy" would create the background on which democracy could be built. S. Markov has stated that the essence of "managed democracy" is a system in which problems could be solved in a democratic way, and those that cannot be solved by democratic methods are solved by other methods¹⁸. The latter are authoritarian methods that should strengthen democratic structures. The methods and ways to be used are decided by the president and his administration. It should be noted that the area in which democratic methods have been falsified and even regarded as an obstacle is economy. According to the member of the Yabloko party Bureau Andrei Piontkovsky, "managed democracy" has been explained by stating that Russia must commit civilization strides in post-industrial societies, because many countries

of Southeast Asia made their transition to democracy through restricting democracy¹⁹.

On the other hand, the West and the opposition to V. Putin criticized the existing regime because of “managed democracy”. In their opinion, “managed democracy” is understood as a regime when elections take place, political parties operate, but they are controlled by the ruling power. Thus, the main difference of “managed democracy” from authoritarian regime is that in the former the elite seeks not to monopolize the power like in an authoritarian regime, but to dominate in the competition for power.

Thus, adopting the idea of “managed democracy” and explaining it in their way its advocates felt pressure. Therefore they distanced from “managed democracy” and gave a negative meeting to it by stating that “managed democracy” exists not in Russia but in the countries that surrender to the United States’ influence: “managed democracy” is a cliché, a model of economic and political regimes controlled from the outside, imposed on all countries by certain “global influence centres”²⁰.

Lately there are two processes important to the future of democracy in Russia. *First*, it is the further consolidation of power by controlling parties, the media, business, the energy sector, by persecuting nongovernmental organizations, especially financed by or in some other way related to foreign countries. *Second*, these are attempts to define the present Russian political history and to create it according to the idea of “sovereign democracy”.

Actually, the principles of “sovereign democracy” have appeared in the public sphere before the concept of “sovereign democracy” that summarized them. In 2005, V. Putin in his speech to the Federal Assembly of Russian Federation stated:

“Russia is a country that has chosen democracy by its nation’s will. It has independently chosen this way and by considering all universally acknowledged norms it will decide on its own how – according to its historical, geopolitical and other peculiarities – it is possible to secure the realization of democratic principles. As a sovereign democracy Russia is able to be and will be independent in determining the terms and conditions of moving along this way”²¹.

In the interview for the foreign media, V. Putin stated that “democracy cannot be exported to some other place. This must be a product of internal domestic development in a society”²². Thus, in an indirect way he criti-

cized the foreign policy of the United States and showed the undesirability of US intervention into Russia’s domestic politics.

For the first time the concept “sovereign democracy” was voiced by the Deputy Head of the Presidential Administration Vladislav Surkov in his speech in the meeting of the organization “Delovaja Rossija” on May 17, 2005²³. The mentioning of the idea and related discussions intensified after one year. On June 28, 2006 V. Surkov asserted: “Our Russian model of democracy is called “sovereign democracy”. ... We want to be an open nation among other open nations and to communicate with them according to fair rules, without being controlled from outside”²⁴. The party “United Russia”, which actively declares the idea of “sovereign democracy”, explains it as a “right of the nation to make its own choices according to its traditions and laws”, as a possibility for the nation to “take part in creating a fair world”, to compete in the international arena²⁵. The precise definition of the idea has been offered after prolonged discussions in public space in the article of its main author V. Surkov: “sovereign democracy” is society’s way of political living, when the government, its institutions and actions are formed by the Russian nation, in seeking material wellbeing, freedom and justice to all citizens, social groups and nations²⁶.

The principles of “sovereign democracy”

This chapter is intended to evaluate what the idea of “sovereign democracy” offers in general and its perspectives in Russia in particular. Commonly, both “sovereign democracy” advocates and critics explain it by describing each of its assumptions – *sovereignty* and *democracy* – separately. President of Russia V. Putin described the difference between sovereignty and democracy in this way: “Sovereignty is the position of the country in the world when it is possible to implement domestic and foreign policy independently, without foreign interference. Democracy is an order of society and country’s organization. It is fully directed to the inside of the country”²⁷. Thus, sovereignty is related to the foreign issues of the country while democracy with the order of society and the internal operation of the state. Sovereignty and democracy are explained as different but compatible assumptions. Each of them will be discussed separately.

Sovereignty

After declaration of “sovereign democracy”, most discussion dealt with the assumption of sovereignty which is accompanied by the provision that “democracy becomes a universal motive to liquidate sovereignties in the framework of the global democratic revolution”²⁸. This assumption is made indirectly from discussions in the West on whether one country may violate the other country’s sovereignty in order to defend the interests of society in the latter country. Thus, the idea of “sovereign democracy” could be regarded as an idea of how Russia could sustain or even strengthen its sovereignty. The emphasis on sovereignty is put in order to stress that *others* (foremost the West) would not interfere in Russia’s matters. But it should be noted here that if sovereignty is understood as a guarantor of country’s self-sustaining, from the point of view of international law a more common term is not *sovereignty*, but *independence*²⁹.

In the idea of “sovereign democracy”, the term *sovereignty* means also the power of the state. Sovereignty is explained as an ability to compete in international relations, to create a free nation and a strong state when the country’s legitimacy does not depend on the external actors. Previously countries needed military power, now they need prosperous economy, because threats to sovereignty are not only military. “Speaking about sovereignty, gas, oil, railways, defense industry, television, financial system and strategic communications are mentioned”³⁰. It depends on the level of economy whether the country is able to remain sovereign. Strong economy allows the country to secure its sovereignty and cherish democracy. From here originates the proposition to counter the spread of foreign investments in national market and to increase the role of national government in the economic sector, to diversify economy, diminish its dependence on oil export, to seek modernization, innovative economy in Russia³¹.

It should be noted that sovereignty is regarded as vitally necessary and historically inevitable in Russia. Only a strong state believed to be able to have sovereignty, and Russia is exactly a country like that. It has a history of more than five hundred years of sovereign existence³², Russians are a “nation used to statehood”³³.

The construct of “sovereign democracy” contains also the notion of “non-sovereign democracy”. This notion appeared when some of the soviet re-

publics decided to change their loyalty, their master after the USSR breakdown³⁴. These are the Baltic States which have chosen membership in the NATO and the European Union (in this post-soviet region, democratization processes professedly controlled by the West take place) and countries that have experienced “colour revolutions”³⁵. Non-sovereign democracy is understood as a not independent country controlled by foreign actors, because its sovereignty is violated by another country or it resigns sovereignty by giving it to extra-national structures. Thus, Russia is opposed to independent and weak countries.

Democracy

It is explained that democracy in Russia is “a value originated in the natural way and in a certain historical moment”³⁶. V. Putin asserts that Russia has chosen democracy and did this without any pressure from outside. V. Surkov emphasizes that there was no defeat in Cold War, and Russia itself initiated democratization in the countries that are under its influence. Although democracy has been chosen independently, its implementation is regarded as being influenced by outside pressure. According to political analyst S. Markov, “this “bad” democratization was dependent – it was implemented in the state of foreign control and under foreign models, and “good” Russian democracy will be new – our own and without foreign teachers”³⁷. The contemporary development of the Russian political system is explained by noting that “should Russia keep a purely democratic way, the whole country would be damned to disintegration and collapse (territorial separations, corruption, etc.)”³⁸.

The emphasis on Russia’s independence in choosing democracy shows the willingness to stress Russia’s right to decide on its own how it will implement democracy. Russia declares an aim to develop classical principles of democracy, but no one mentions which principles exactly. The implementation of Western-style democracy is associated with losing national identity. It is regarded as something alien and enforced, not matching Russian culture. This means the denial of universal democratic principles. According to President V. Putin, “all modern democracy institutions – democratic principles should be adequate to the status of contemporary Russian development, to our history and traditions”³⁹. From the economic perspective, it is shown that democracy is not a proper choice for

countries existing in stages of different regime transformation. Threats to democracy are regarded as economic problems – poverty of society, corruption of democracy and economical dependence on foreign countries. Thus, the opinion is formed that firstly the state should take care of the welfare of society and then of democracy. Freedom and democracy should not be exalted above the economic welfare of the state and society, i.e. implementation of democracy cannot lead to a collapse of the state or impoverishment of society. In Russia, the influence of history on democracy can be seen through Russia's uniqueness – “memories of imperial power are essential and differentiate Russia from other European countries”⁴⁰. According to Russia's traditions, it is stated that Russians are not used to absolute freedom when there is no government playing a decisive role in their life. A paternalistic viewpoint is evident here.

It should be noted that the idea of “sovereign democracy” brings back to Russia's public sphere the notion of democracy. As it has already been mentioned, lately in Russia democracy has been associated with negative issues blamed for decreasing the wellbeing of the state and its citizens. Now democracy is not criticized, even positive consequences are seen: democracy helps to solve the problems of poverty, separatism, strengthens the economy, etc.⁴¹. The idea of “sovereign democracy” gives a positive, although at the same time very specific meaning to democracy. But it should be emphasized that positive evaluation is given not just to democracy, but to the national model of democracy.

Also, when speaking about “sovereign democracy”, more often not implementation of democratic norms but, on the contrary, their restriction (of those that F. Zakaria calls constitutional liberalism) is meant. Although it is stated that the essence of “sovereign democracy” is the freedom of each individual and the existence of a strong state for everybody⁴², it is also emphasized that freedom cannot lead to chaos, a decrease of society's economic wellbeing. Democracy is regarded as a threat because of the possible strengthening of bureaucracy and uncontrolled business.

Even if we could agree that no liberal democracy is possible in Russia because of its historical past, culture, traditions, the question how Russian specifics will complement the universal democratic principles remains unanswered, as is also the question what principles will be denied as inad-

equate to Russian characteristics. Until now, such attributes of democracy as elections, the rule of law and separation of powers, political rights and freedoms, civil society are not discussed.

The assumption of “sovereign democracy”

Evaluating the relationship between democracy and sovereignty, it could be noticed that in the idea of “sovereign democracy” the notion of sovereignty is given prominence. The keynote of this idea is that the state has to be sovereign and only then democracy can be implemented in it. Sovereignty and democracy are seen as influencing each other. The background of them is economy. It helps to secure sovereignty in the competitive international arena and independently shape democracy, because it allows avoiding possible dependence on external assistance. Also, it prevents the state from collapsing and creates the environment in which democracy could be implemented. Thus, it can be concluded that declaration of democracy and sustaining of sovereignty are the main premises for Russia’s modernization at present.

As alternative to the Western view of democracy as a universal value a national model of democracy is constructed and to the globalization and interdependence of states the notion of sovereignty is offered. In Russia, there dominates the view that the concept of democracy should be modified with regard to national particularity. An independent and strong state is needed. Democracy without sovereignty is impossible and intolerable, because national particularity would be lost.

With the help of the idea of “sovereign democracy”, a view that formerly democratization took place under foreign control and according to alien models is supported. The new model of democracy will be created without foreign regulations and adapted to Russian particularities (traditions, economy). The new “democratization” of Russia in seeking “sovereign democracy” takes place by isolating domestic politics of the state from foreign influence. Thus, the declaration of “sovereign democracy” means not that the Russian regime is democratic, but that attempts to deny or criticize it will be treated as an adversarial action – interference into Russia’s domestic politics.

Although there was no harsh criticism of “sovereign democracy” (as compared with the positive responses), several of the main critical ideas should

be mentioned here. One of the few liberal politicians, Vladimir Ryzhkov, declared “sovereign democracy” to be an “unconstitutional principle”. According to him, the authors of the concept opposed the two solid notions and values, although “*sovereignty ... is democracy*”⁴³. The first deputy prime minister of the Russian government Dmitry Medvedev has noticed that this term forces to think that it deals with some other, not traditional democracy⁴⁴. It has also been criticized that the idea of “sovereign democracy” ranks the rights of the state or elite higher than the human rights: it “means restriction of democracy and political competition, devotion to the will of the elite to sustain power in its hands by all means”⁴⁵.

It should be noted that the term “sovereign democracy” is not absolutely new. The fact that this term has been used earlier by the leaders of Western countries⁴⁶ is emphasized by the advocates of Russian “sovereign democracy” in an attempt to legitimate the notion (of course, without mentioning the huge difference between the assumptions used in the West and in Russia).

There are some restrictions of democracy in the idea of “sovereign democracy”, but in the denotation itself there is nothing anti-democratic. Sovereignty is an alternative to dependence on foreign actors, and democracy in an alternative to the authoritarian regime. The idea that this concept is aimed at changing the traditional understanding of democracy comes not from the denotation, but from a deeper look at the kind of democracy constructed with the help of the idea of “sovereign democracy”.

Political culture in Russia: values and political attitudes

Russia’s political culture, history, economic development are regarded as the main factors influencing the Russian model of democracy. In the previous chapter it has been shown how these three factors are explained in the concept of “sovereign democracy”. But the question how much adequate the proposed concept of democracy is to Russia’s cultural, historical, economic particularities remains unanswered. In this section, political culture is analysed, which is regarded as one of the most important premises for a special Russian-style democracy. History is commonly mentioned while

explaining why sovereignty is important for Russia, and economy is employed to show why some traditional norms of democracy should be restricted.

Political culture will be evaluated in analysing the values and political attitudes of Russian society. L. Diamond described political culture as “people’s predominant beliefs, attitudes, values, ideals, sentiments, and evaluations about the political system of their country, and the role of the self in that system”⁴⁷. The explanatory power of political attitudes and values stems from their influence on the functioning of governmental institutions.

The state of democracy in Russia is explained with the help of two viewpoints: first, “transition” or “rational choice”, and second, political culture according to which the authoritarian culture of Russia is incompatible with liberal democracy⁴⁸. The advocates of “sovereign democracy” base their assumptions on the second viewpoint, because it gives attention to the opposition between Russia’s political culture and liberal democracy. It should be noted that this opposition does not mean that Russia’s political culture is incompatible with democracy. From the theoretical point of view, there is no agreement on whether there could be exceptional and stable political values, convictions and understandings of people⁴⁹. If political culture can change, its relationship with democracy can also change. These changes are usually explained by the elite’s power to form the attitudes of society. In Russia, where the media are controlled, development of civil society is restricted and the elite has power enough to influence society’s attitudes. It also could be contemplated in another way, i.e. how democracy can be adjusted to Russian culture, because in another concept of democracy its relation with political culture would change. In this case, the elite also performs the leading role by constructing the concept of democracy.

When evaluating the results of public opinion poll, two positions can be seen: the aspects of “sovereign democracy” that match the main values of society, political attitudes, and those that are not supported by society. First, the attitudes that show that the idea of “sovereign democracy” would be backed by Russian society will be presented here.

When talking about “sovereign democracy” and why Russia needs a particular type of democracy, its distinctive culture is mentioned. Accord-

Table 1. Political attitudes supported by Russian population (%)⁵⁰

	February 2004	October 2005	October 2006
“Left” (social justice)	14	14	20
“Right” (market and democracy)	13	11	11
Russian patriots (Russia’s national values)	10	8	10
Favourable to the synthesis of the mentioned ideas	25	18	28
Not a single idea is favourable	31	34	22
No answer	7	15	9

ing to the public opinion polls, 67% of respondents think that the political culture of their country differs from the political cultures of other countries⁵¹. Therefore the model of “sovereign democracy”, which is characterized as a Russian-style democracy, should be acceptable to Russian society.

Analysis of the idea of “sovereign democracy” shows that it aims at combining rather opposite norms (freedom, economic wellbeing and the equality of individuals). The polls show that a fair part of population is in favour of the synthesis of political ideas, i.e. democracy, cherishing national values, market economy with social justice (Table 1).

It is believed that a democratic system should be effective only when it ensures citizens the proper living standards⁵². Most of the population favour the system based on “the synthesis of market relations and national values”⁵³. It is difficult to say what precisely is meant by “national values”, but it can be seen that the population supports “strong hand” politics and collectivism. Among those who approve market economy, 35% give preference to order instead of democracy, and 55% favour national consolidation more than individualism⁵⁴. Thus, the polls indicate that society sees as the main task of the government to secure order and not freedom (respectively 78% and 16%) and supports strengthening of the government instead of individual initiative (82% and 12%)⁵⁵. According to the same poll results, the inhabitants of Russia prefer social equality to freedom. Freedom is understood as a “safety net” securing from the possibility that oligarchs or bureaucracy will usurp the power in

the country⁵⁶. The negative consequences of freedom are also seen – it is disorder and chaos that accompany reforms in the state. From here originates society’s willingness of justice and order. For many soviet people, the paternalistic mentality, a low feeling of independence and self-sustaining are common. The initiative of population in Russia was restricted by the culture and social system that did not encourage innovation. Therefore, it can be expected that society would be favourable to a democracy model that would secure the principles of order and social justice. Social justice is more related to a strong state, social order and national interests (60%) than to democracy, solidarity and freedom (22%)⁵⁷. The values able to unite Russia are actually ideologically neutral ideas like stability (44%), legality, law and order (37%), strong state (35%) and the wellbeing of society (27%)⁵⁸.

The results of the public opinion polls casting doubt on the acceptability of “sovereign democracy” to Russian society and its potential to influence the domestic politics are related with fundamental notions of the concept, i.e. *sovereignty* and *democracy*. In case of sovereignty, only 14% of Russian population positively or negatively react to this notion, and for the rest it is not important or even not understandable⁵⁹. Therefore, although it is not viewed negatively, its comprehensibility and attractiveness, at least now, are doubtful. On the other hand, the fact that this notion has a potential to become understood and accepted by escalating it more often in the public sphere, by indicating the importance of sovereignty in withstanding the pressure of the West on Russia cannot be denied.

The case of the notion *democracy* is even more complicated: it is not only supported by a small part of the population, but there are even more of those who criticize it. Only 11% of Russian population support the idea of democracy development in Russia⁶⁰. The model of democracy which society has been faced with in the last decade of the 20th century is related to hostile powers seeking to sustain chaos in the country, is regarded as directed against order and thus negatively evaluated⁶¹. In choosing between order and democracy, most of the population prefers order.

Thus, viewed from the perspective of political culture, the idea of “sovereign democracy” shows a contradictory situation. First, the underlying notions of the idea, *sovereignty* and *democracy*, are less understandable to

society, weakly supported and even criticized. It should be noted that the political elite opposing the idea of “sovereign democracy” also criticizes mostly the notion of “sovereign democracy” and not its substance. However, it does not mean that the opposing elite does not accept the notion itself while its content is acceptable. Second, the political, social attitudes and values of Russian society correspond to the essential principles of the idea of “sovereign democracy”. This shows that acceptance of democracy by Russian society can be achieved only with the help of a peculiar concept of democracy.

Consequences of “sovereign democracy”

The role of “sovereign democracy” idea in domestic politics

Analysis of the idea of “sovereign democracy”, of Russian population values and political attitudes shows that the potential of “sovereign democracy” inside Russia – its influence on domestic politics and eventual consequences – depends on the acceptance of its underlying notions by the population. Another matter is the role of the idea of “sovereign democracy”. Here two spheres of influence can be distinguished: domestic politics and foreign politics. The influence on domestic politics would be the following.

First, it looks like a new idea of national ideology. The search of an idea able to consolidate society started in B. Yeltsin’s era. Lately the idea of Russia’s *surrounding* is being escalated: purportedly Russia is surrounded by domestic and foreign enemies, thus it needs to consolidate society⁶². The West, foremost the United States, is used as an enemy image for sustaining permanent insecurity of society. The idea of “sovereign democracy” extends and complements this governmental doctrine of Russia’s *surrounding*: it states that the former democratization was controlled from outside and was implemented according to alien models. In this way, the view that foreign actors interfere in Russia’s domestic politics is supported. However, also a vision how to protect themselves is offered to society: Russia’s sovereignty and compatibility have to be strengthened, and sovereignty will help to sustain the national identity of Russia. Democracy should be created without alien prescription and by adapting it to Russia’s particu-

larities. With the help of “sovereign democracy” it is sought to justify the sociopolitical organization of Russia – its difference from others, to promote patriotism, emphasize exceptionalism of the Russian nation and culture. This is necessary not only for consolidation of society, but also for the control of society by the ruling elite.

“Sovereign democracy” also extends the formerly declared idea of Russian exceptionalism: Russia is an extraordinary civilization, not belonging solely to Europe or to Asia, having a peculiar “Russian spirit”. At the moment, the objective “not to be eliminated from Europe, hold to the West, because it is one of the essential elements in constructing Russia” is emphasized⁶³. “Sovereign democracy” will allow anticipating Russia to join Europe by combining Western and Russian traditions: democracy is a Western invention, unusual to Russia with its imperial, totalitarian past, but it will be implemented by keeping the Russian values.

For the Russian political system to develop, it is important that when the Kremlin declares the idea of “sovereign democracy”, it becomes more difficult to characterize the democratic opposition as a clear alternative to the contemporary government. By not declaring openly the idea of democracy and not explaining it fully it is sought to make it acceptable to the possibly biggest part of society, to attract the opponents who blame the ruling elite from turning back from democracy and to convince society of the existence of democracy in Russia. Democracy should please those who regard themselves as belonging to the right wing, adaptation of democracy to the national particularities would please Russia’s patriots, and in general “sovereign democracy” would be preferable to those citizens who favour the synthesis of different political values. Also, the coming elections of 2007–2008 warn that a national idea / ideology will be needed. The new president will presumably not possess V. Putin’s charisma, thus he will need at least a new idea of state to consolidate society and keep power in his hands.

The emphasis on Russia’s sovereignty – independence, self-sustaining – could be a reference to its territorial integrity: sovereignty cannot be divided into lower (regional) levels. In this way any possible separatist claim is blocked.

The idea of “sovereign democracy” reflects the present situation in Russia: it is sought to justify the political organization and peculiarities of its

development. Also, it indicates the further possible directions of reforms (offers their argumentation and justification). It does not mean isolation; on the contrary, it could be regarded as an attempt, by shading with the idea of “sovereign democracy”, to integrate into the community of democratic countries.

***The role of “sovereign democracy”
in foreign policy***

When evaluating the role of “sovereign democracy” in the international arena, its influence on Russia’s relations with Western countries, it is obvious that this idea is sought to form a positive image of Russia in the world. The aim is to prevent the West from distancing from Russia because of the Russian regime. “Today Russia creates a strong democratic sovereign country and becomes an equal member of sovereign democratic community”⁶⁴. The regime existing in Russia is regarded by the West if not as leaning towards authoritarianism, then at least as a “managed democracy”. The official reaction of the United States to the “sovereign democracy” idea was reasonably favourable; president G. W. Bush, referring to the suggestions by Russian president V. Putin about Russia’s exclusiveness, stated that there is a “Russian-style democracy”, and because of different history and traditions he does not “expect Russia to look like the United States”⁶⁵. This does not mean conviction that there is democracy in Russia, but it shows that the United States loses an argument with which it can criticize Russia.

Declaration of “sovereign democracy” means not only that the Russian regime is democratic, but that any attempts to deny or criticize it will be regarded as a hostile action – interference into Russia’s domestic dealings. Emphasis on sovereignty does not mean self-isolation. It is sought to isolate Russia from critics about its “democracy” and by referring to this uncriticised “democratization” to become an equal member of international community.

“Sovereign democracy” could be regarded as a Russian response to more global processes in the international arena: the increasing interdependence, integration, and globalization. Russia’s dissatisfaction is caused by the fact that purportedly the sovereignty of state becomes secondary. Democratization is seen as a political-military doctrine that justifies violation of the

sovereignty of other countries by seeking to embed the loyal elite in these countries⁶⁶. An impression from this argumentation is that "sovereign democracy" should protect Russia exactly from this kind of "democratic dictatorship". In Russia, a model representing its political traditions and culture is formed. The promoted view is that there is no single model or standard of democracy. The mission of Russia is to fight against global monopolies destroying diversity in the world. There is a wish to see the world as a community of sovereign democracies. Therefore "sovereign democracy" could be not only an alternative to the ideology of the United States, but also an attractive idea for other countries. This function of "sovereign democracy" can be seen in the relations between Russia and the post-soviet region. It is prompted to defend countries not conforming to the democratic standards enforced by the West. The biggest potential to adopt the "sovereign democracy" model is seen in the post-soviet region. The former Soviet Union republics are criticized for implementing a democracy obeying to Western regulations and thus losing their sovereignty. Russia declares being ready to help them to regain and sustain their sovereignty. This means that obtrusion of "sovereign democracy" on the post-soviet region would allow Russia to diminish the Western influence on the region's countries, to promote their self-sustaining and gradually to strengthen its own control over the region.

The above-mentioned potential of the "sovereign democracy" idea to influence the international arena should be treated critically. In the rhetorical battleground, it deprives the West of the opportunity to criticize Russia for not being democratic as Russia asserts it is democratic. However, actually the democratic norms and freedoms are violated in Russia, and it could be fully and specifically criticized by the West. The potential of the "sovereign democracy" idea is higher in the domestic arena where it justifies the political, economic, social and cultural peculiarities of Russian development.

Conclusions

"Sovereign democracy" could be regarded as a new peculiar stage of democratization in Russia. However, in this case it takes place only on the ideological level – "sovereign democracy" becomes a new postulate of Russian

ideology. There is nothing anti-democratic in the denotation of the idea. Evidence that with the help of this idea not only a peculiar concept of democracy is formed, but also it is used to hide anti-democratic practices comes from the way democracy is explained. It can be stated that first and foremost the denotation of “sovereign democracy” is intended for foreign countries wishing to see Russia as a democratic country, and the content of this idea (its principles) is meant for the domestic audience wishing order, social justice and the cherishing of national values. These values provide the background for the conception of democracy in the “sovereign democracy” model.

Public opinion surveys show that acceptance of democracy by Russian society can be achieved only with the help of a peculiar concept of democracy. Also, the model of “sovereign democracy”, presented as a Russian-style democracy, should be accepted by society even if the very notion of democracy does not have much support in the population.

This is the democracy that should protect Russia’s sovereignty, but it is not democracy in the literal sense of the word: democratic norms (elections, rule of law, separation of powers) are not mentioned, and it is even prompted to restrict some norms of constitutional liberalism. The opinion is formed that the time for Western-style democracy in Russia did not come yet for economic reasons, and in general there are no time and place for democracy in Russia for cultural reasons. Thus, democracy is not seen as a universal model adjusted in the same form in all countries. When speaking about democracy, priority is given to national peculiarities and not to democratic norms and procedures. National peculiarities could be implemented by modifying the democratic norms and procedures: social justice would be more important than freedom, the government (elite) would play the dominant (controlling) role. In this concept of democracy, the equality of citizens is more important than freedom (freedom means preventing oligarchs and bureaucracy from usurpation of power), democracy has to ensure the proper living standards for people.

In domestic politics, the idea of “sovereign democracy” is used to restrict political competition (to level differences between the present ruling elite and the opposing democrats), to form the idea and ideology of the state enabling to consolidate and control society. From the international

perspective, “sovereign democracy” does not mean isolation; on the contrary, it could be regarded as an attempt to integrate into the international community of democratic countries. On the other hand, declaration of “sovereign democracy” by emphasizing isolation of domestic politics from foreign influence does not mean that the Russian regime is democratic; it means that attempts to deny or criticize it will be regarded as a hostile action – interference into Russia’s domestic affairs.

The potential of the “sovereign democracy” idea to influence the international arena should be treated critically. First and foremost it is designed for domestic audience.

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THE DYNAMICS OF MILITARY INTEGRATION BETWEEN RUSSIA AND BELARUS

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Abstract. The article aims at giving an in-depth analysis of the dynamics of military alliance of Russia and Belarus, its structure, potential and future perspectives. A military integration as a new independent variable in political science has been employed to explain the modalities of military cooperation between Russia and Belarus. Military integration has been divided into four stages – legal, institutional, instrumental phases and functional dependency. The article concludes that military integration between Russia and Belarus has almost reached the last stage – functional dependency. The countries created a joint infantry unit, the so-called “regional western grouping” and the system of common air surveillance and defense. The united defense industry, joint mobilization plans, threat assessments, joint strategic documents imply that the forces are becoming interdependable. Moreover, there have been intense negotiations on the use of air forces on the territory of the allies with no political command, demonstrating that military integration has become a decisive factor within the alliance, leading the countries to a deeper military cooperation despite misunderstandings in other fields.

Introduction

H. Timmerman indicates that the foreign and security policy of Belarus is based on one feature – its unpredictability¹. Unpredictability in the political field attracts social scientists, political analysts and strategists that tend to cover economic aspects of Belarus and political maneuvers of the Belarusian president. It is almost impossible to find a thorough analysis and veritable writing concerning the military processes in Belarus and its military integration with Russia. The dynamics of the Belarus–Russia military alliance, its structure and prospects have not been examined in the short or long terms. In addressing such a concern, Lithuanian political

scientists have analysed the security issues of Belarus and approached the problem from a different angle. Dr. A. Gricius carried out an in-depth analysis of the Belarus factor in the Lithuanian security agenda and has concluded that Belarus remains a source of regional instability and a concern for neighbouring countries in a short run². The analysis of its internal politics, close cooperation with Russia and the vectors of foreign policy only prove that Belarus is among the European countries that are unpredictable. Director of Institute of International Relations and Political Science Prof. dr. R. Lopata has touched upon the origins of authoritarianism in Belarus, the pattern of dependence in relations between Belarus and Russia identifying eventual threats to Lithuania³. These threats arise not only because of the existence of the authoritarian regime in Belarus *per se*, but also out of the unpredictability of this regime as regards its internal and external policy. The practitioner of foreign policy R. Davidonis, in his analysis of Belarus' impact on European security, points out that Belarus presents a very significant challenge for the European security⁴. Under Lukashenko's rule Belarus has lost its ability to pursue a relatively autonomous foreign and security policy. It could even be argued that Belarus is behaving not as an independent Republic but simply as a region of Russia. Moreover, Russia and Belarus have taken steps to implement a union that is contradictory in nature as the two countries have different expectations and perceptions of what each can bring to the union. More recently, Dr. G. Vitkus together with Dr. V. Pugačiauskas have published a monograph, entitled "The Paradoxes of Belarus Regional Security with a Transformation Limbo", which is a substantial contribution to Belarus studies⁵. An overall review of literature on the security problems of the Baltic Sea region shows that the Belarusian factor is either almost completely ignored or reduced to the Russian factor. At best, we encounter only brief "marginal" comments or exhortations driven by scholarly consciousness not to forget this additional factor. According to Dr. G. Vitkus, Belarus has focused on restoring the old soviet system; this has not come true to a full extent, resulting in a country balancing between two systems and two worlds. All in all, Lithuanian political scientists have not covered the modalities of military cooperation between Russia and Belarus. A couple of articles and publications have been produced by foreign researchers with

regard to the subject. S. Main has examined the Belarusian–Russian military cooperation in 1991–2002 which seems to be at a level adequate to meet the security needs of both countries⁶. According to him, a whole series of steps have been taken by Russia and Belarus to re-form an effective military relationship both to answer their own regional security concerns and to try to counterbalance the impact of the military expansion of others in the region. They share a common analysis of threat to the stability in the region and have responded accordingly. H. Timermann has added that along with economic relations, there is another field in which Russia and Belarus have a high degree of cooperation, namely military cooperation⁷. The policy of deepening integration in these fields reflects a convergence of interests. Russia is primarily interested in geopolitical advantage and in a military-strategic safeguard for its Western glaxis while the Belarusian leadership, on its part, puts the accent on the political and economic benefits: it hopes to gain from military intermeshing and its profile as Russia's closest brother-in-arms. D. Trenin has also agreed that cooperation in the military field is closely related to broader geopolitical interests of Russia because Belarus has become *de facto* the strategic western border of Russia. The Russian General Staff treats Belarus as a buffer country which is loyal and credible⁸.

With all this in mind, the Belarusian–Russian military cooperation has been discussed retrospectively in the lack of deeper studies regarding its military alliance, structure, the achieved progress and dynamics surface. The theoretical basis of international relations suggests employing alliance theory to thoroughly examine the behaviour of a state within an alliance and its intention to create or destroy the union. There are three main theoretical approaches to alliances, which are balance of power, balance of threats and balance of interests. K. Waltz has hammered the main tenets of balance of power and has said that states seek to balance and make alliances with weaker states in order to curb the stronger one⁹. S. Walt has coined the balance of threats and has argued that states give a priority to balance of threats. A state can either balance or bandwagon with a stronger one in order to survive¹⁰. And finally R. Schweller has expanded these approaches by introducing the balance of interests. He has pointed out that states should balance their security and non-security interests. As soon as secu-

rity interests have been balanced, the formation of alliance is the rational behaviour of a state to receive material goods¹¹. These approaches sort out a number of variables suggesting to employ for a research on alliances military capabilities, regional balance of power, military threats, offence–defense balance, geographical proximity, dependence on military assistance, historical lessons, economic relations, cultural, ethnical and ideological similarities. This article does not seek to verify or deny the mentioned variables. The theoretical approaches to alliances do not include military integration as a variable. Furthermore, military integration has not been used in political science in a broader sense to explain the states' behaviour and interdependence. Therefore it seeks to enrich political science and studies of alliances by employing a new variable – military integration.

The article is divided into three parts. The first part explains the unique role of military integration as an independent variable in political science and its inner structure. The second part of the research is devoted to an empirical case with a heavy emphasis on military integration between Belarus and Russia. The third part reflects the concluding remarks made in the research.

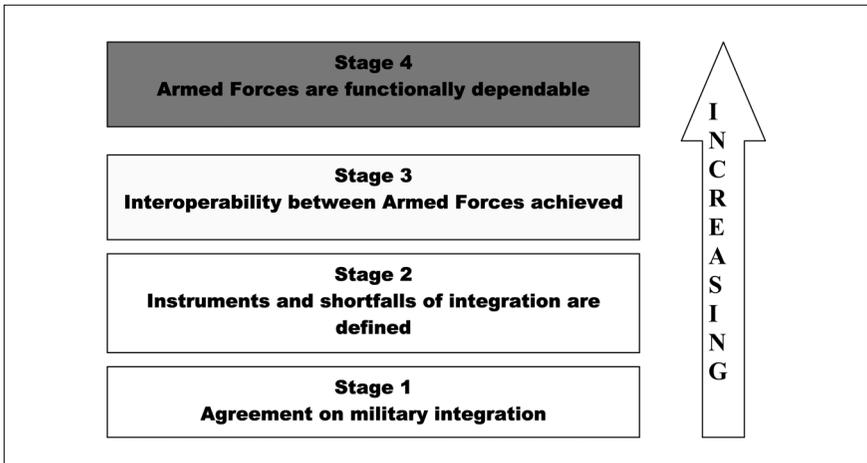
Military integration and its stages

There have been no political researches related to military integration and stages of a forming military alliance. Military integration can be defined as a multi-stage process during which the military potential of one country gains the maximum interoperability degree with the military potential of another country and their command is transferred to one structure.

Up to now, political scientists have not attempted to distinguish military integration stages and to apply them in researches. There are theoretical issues related to a possible military dependence of states and the national capabilities that are associated to the main postulate of realists regarding the supremacy of national interests and suggesting the ephemerality of military integration¹². Low-level military integration saves freedom of maneuver for national states which can withdraw from the alliance or restrict cooperation. For instance, when the NATO was created, France

offered that the NATO territory should be divided into the front and rearward zones. Only the front zone (including Western Germany) forces would have been integrated, and the rearward zone (including France) would have remained within the boundaries of national responsibilities¹³. Such decisions and proposals indicate that a deeper integration may usurp national decisions related to the use of military force and total autonomy in security politics. Integration of a higher level would influence the reforms of the armed forces, the creation of new units, and initiation of joint programs. Putting aside theoretical considerations about national states' objective to retain autonomy in military matters, the question arises how deep an integration should be to prevent members of alliance from acting separately. In the case of economic integration, it is easy to weight interdependence and benefit. Economic rates, common external taxes, absence of market barriers and similar indicators demonstrate the consolidation of states and preference of integration that helps implement obligations using fewer resources. In the case of military integration, the process is complicated and its stages can be distinguished considering criteria of military interoperability that make national states adjust to the concept of common military force and unite them to make their practical usage more effective. The interoperability is described as the ability of systems (units, or forces) to provide services to and accept services from other systems, units, or forces and to use the services thus exchanged to enable them to operate effectively together¹⁴. The main goal is practical cooperation and compatibility of task implementation that later can be moved to further stages of integration when there is a functional dependence among national military forces. The interoperability process can be achieved in several stages, the most important being general force planning, plans that are prepared together to achieve interoperability and to assure military preparedness. As the aim of integration is to form a joint unit of separate elements that is able to perform its tasks, hence the stages of the practical military integration would be related to rapprochement of national armed forces to pursue common tasks. This should be implemented through a common defense planning, joint command and headquarters, common training, training of bigger military units, creation of joint military units and their participation in joint operations. There is a need of a gradual approach identifying the first step to be taken to move

Figure 1. Stages of military integration



forward towards integration, including various means and tools to achieve the desired result. The process can be divided into four stages.

The first stage can be defined as a legal one. At this stage, national states begin legal cooperation and form a military integration base that defines strategic tasks, aims, military integration ambitions and requirements. Military collaboration documents are signed, military cooperation spheres and forms are foreseen. For instance, the Ogdensburg Declaration of August 1940, signed between the US and Canada, authorized the creation of a Permanent Joint Board on Defense and provided the fundamental condition for military cooperation – a full and systematic exchange of military information upon which joint plans, operations and logistics could be based¹⁵. Similar documents usually fix the level of integration. For example, according to the military cooperation agreement between Ministry of National Defense of the Republic of Lithuania and the Armenian Defense Ministry, the parties strive to develop military cooperation between the armed forces of the Republic of Lithuania and Armenian Republic in the following spheres: exchange of experience related to participation in the program “Partnership for Peace”; exchange of experience in democratic control in armed forces, creation of the legal base for armed forces, defense policy and strategy, etc. (Articles 1 and 2 of the agreement)¹⁶. In this case, the agreement clearly defines the ambitions of military cooperation and

boundaries that states will not overstep, and does not suggest the further integration elements.

The second stage of military integration is institutional, when states realize the provisions foreseen in agreements and work towards military integration. They establish common working groups that identify needs of interoperability / military integration and foresee the possible drawbacks. Inter-institutional relations are strengthened, and they start coordinating defense policy on the strategic-international level and plan actions on the tactical and operational level. Planners of defense policy prepare common documents setting out guidance for military cooperation and further actions. The main step at this stage is to evaluate and determine the instruments that will be used in the further integration. The preparation of military strategies and doctrines and their equal interpretation become an important task for planners of national defense ministries. Military integration traditionally is a problem of smaller states that actually participate with smaller capabilities and their national structures have to be integrated into structures of bigger states. Danford W. Middlemiss and Denis Stairs underscore that the US has been able to devote a much larger proportion of its overall military expenditures than its allies to equipment modernization and training improvement. This, in turn, made it increasingly difficult for the other partners to keep pace with the qualitative improvements in American capabilities. The holy grail of interoperability within the NATO is thus becoming notoriously hard to achieve¹⁷.

The third stage of military integration is instrumental. It is divided into three parts – common training, operations and united military units. At this stage, a state starts concrete actions to make cooperation practical and tangible. First of all, there are common training and instructions. During the training, states traditionally check and improve the command and control of military units, individual preparation of soldiers, standing procedures, means of communication systems that can be used in joint operations. For instance, there was the international training “Amber Hope” in Lithuania in 2005. More than 2000 soldiers from 12 members of the NATO and PFP countries took part. During the training, soldiers of land forces were trained to perform peace-keeping tasks in an international unit¹⁸. Intensive participation in trainings internationalizes military forces and gradu-

ally integrates them. Trainings harmonize the actions of different military units and assure a sufficient individual military preparation level which helps to overcome obstacles related to national military components, internal procedures and task interpretation that inevitably appear using military force in particular actions. Training gives possibilities to make one more step towards military integration and to implement common operations both in a national state and abroad. At present, multi-national units participate in military operations, therefore the harmonization and interoperability of procedures as well as essential elements that assure success of the operation are needed. For instance, in the Province reconstruction team led by Lithuanians in Afghanistan, Lithuanian soldiers work with Icelanders, Danes, Croats, and Americans.

The third phase of institutional stage is focused on creating joint military units. This process is multi-stage and includes integration of separate military components (land, sea and air forces) and creation of command and control elements. States that integrate their military units must agree upon the structure, personnel, logistics, command, jurisdiction and aims. For instance, the Baltic States established a tripartite battalion (BALTBAT) in 1994. In the establishing agreement they foresaw that in order to prepare and train soldiers of the BALTBAT and assure the work of the battalion in the future, the countries form national peace-keeping detachments of such structure and size that they would secure a permanent functional BALTBAT structure, considering changes in the personnel and continuous supply of equipment. Until the national peace-keeping detachments are transferred to a BALTBAT commanding officer, they are under the national command¹⁹. This has been a good example paving the way for integration in other spheres. The BALTNET project (Air Surveillance Network for the Baltic countries) was created on the initiative of the USA²⁰. The Regional Airspace Surveillance Co-ordination Centre (RASCC) was established in the Air Force Management Centre in Karmélava. The RASCC creates an integral airspace view over the region of the Baltic States and transmits this view to national centres in Lithuania, Latvia and Estonia, thus providing a possibility to observe the airspace in an effective way and assure its invulnerability and a safe movement of aircrafts. For the joint preparation of military officers there has been es-

tablished a common teaching institution – the Baltic Defense College (BALTDEFCOL)²¹. There are three teaching programs in the college: Joint Staff Officers, Civil Servants, Higher Command Studies Course. Naval forces cooperate in the BALTRON (Baltic squadron) scheme²². According to the intergovernmental agreement, each country has to appoint at least one ship to the squadron and officers to the common staff; 3–4 ships permanently patrol in the Baltic Sea to control the territorial waters and the economic zone, to perform mine-clearing operations, and to liquidate ammunition left in the Baltic Sea.

All in all, in creating joint, military units, states should agree upon and coordinate weapons, means of communication, host nation support, strategic air-lift, and sea-lift, etc. Often there arises a question whether national contingents can be oriented towards niche capabilities. According to G. Liska, military integration can take place just on the operational level, and an alliance is stronger when there is a specialization. Then one can transfer part of resources to other spheres and prefer just a certain sphere (for instance, strategic air-lift)²³. National states that create just niche capabilities actually are ready for a maximum military integration level because national security issues are subordinated to multinational interoperability. At present, there are states that are oriented towards niche interoperability²⁴ and treat the alliance as a guarantee of national security, and this confirms the statement that when military integration is deepened, states cannot function separately and this guarantees a lasting military union.

The fourth level of military integration is functional dependence when there are already formed common military units where command and control are transferred to a joint command. Military integration is a continuous process. Because of changes of the geopolitical environment, different tasks are given to national / integrated forces. New requirements appear and international operations become more complicated. A total military integration is possible, but it is difficult to reach this stage in multinational alliances. For example, the NATO unites many countries with a different geo-strategic background, and following the democratic principles it is difficult to achieve a unified result. In authoritarian states, decisions are made in a more effective and rapid way, hence it is likely that military alliances can be created more quickly in undemocratic states.

Integration stages of military alliance between Belarus and Russia

The legal stage

The first military integration stage provides a legal basis for military cooperation and determines ambitions and ceilings of the alliance. The Russian and Belarusian legal basis of cooperation includes 31 bilateral and multi-lateral documents²⁵.

The first document, which pretends to be a foundation for closer military relations between Russia and Belarus, was agreed upon on July 20, 1992. The countries signed the agreement on coordination of activities in military sphere²⁶. It was mentioned that new countries appeared on the international arena, and negative changes might be expected, leading to a deteriorating situation in the military sphere. In the course of the transitional period, both states agreed to keep national armed forces and to cooperate in the military field. The states would not allow using their territories for third countries with aggressive intentions aimed at the partner state. This agreement is not of integration nature, though some elements reflect the intentions for future cooperation and a possible military integration (i.e. common use of the military infrastructure).

The further documents defining the scope and aims of the military alliance of Belarus and Russia were adopted on the highest bilateral level and pretended not just to strengthening the military integration, but also to overall consolidation of the two states. The countries signed the agreement on the establishment of Belarusian and Russian Community on April 2, 1996²⁷. Article 3 of the agreement foresees that the countries will coordinate their foreign policy and positions related to international questions, act together ensuring security, and protect borders <...>. In order to ensure security, the countries will create common principles related to the establishment of a joint military structure and the use of the joint military infrastructure with accordance to national laws. These provisions are strengthened in the further bilateral agreements²⁸.

Following the positive tendencies in overall integration, states defined their needs in military sphere, and the Agreement between Belarus and Russian Federation regarding military cooperation was signed in Minsk on

December 17, 1997²⁹. Article 1 of the agreement indicates that the cooperation of states is based on respect for sovereignty and international responsibilities, but common actions are possible to resist armed aggression. The development of armed forces is oriented towards common principles of defense. The states agree upon cooperation in the following spheres: defense policy and strategy, unification of the legal system, joint procurement, military technology and production, creation of regional military groups, common preparation of military personnel, the use of joint infrastructure as set forth in Article 3. The further military cooperation is possible as soon as a decision has been made by Belarus and Russian Supreme Council and Executive Committee respectively. It is worth mentioning that defense ministries are obliged to work on bilateral cooperation plans adopted on an annual basis (Articles 5 and 6). This agreement lays the foundations for military integration because it agrees on creating common military components, prepare personnel together and unify military normative acts. Both countries agreed additionally upon dealing with regional security matters and using joint military infrastructure objects as set out in the documents³⁰.

These documents formed a solid basis for military cooperation of the two states, though ambitions of military integration and boundaries were strengthened by the decision of Belarus and Russia to create a united state. The countries signed the agreement on the establishment of a united state on 8 December 1999 in Moscow³¹. Article 2 of the agreement points out that one of the goals of the united state is “the implementation of concerted foreign and security policy, <...> assurance of security, <...>, strengthening of peace, security and useful cooperation in Europe and Commonwealth of Independent States (CIS)”. The agreement specifies exceptional competencies of a national state and the united one. According to Article 17, the united state exercises its exceptional competence in the field of procurement, supply and functionality of regional military grouping, while joint competence includes the common defense policy, military force formation, use of military infrastructure and other means that improve preparation for defense (Article 18).

All this provided a fundamental basis for military cooperation which might well lead to practical interoperability and the further military integration.

The institutional stage

At the institutional stage, the states strive to create national and united institutions able to implement the development of military integration foreseen in strategic documents. The legal base of the states is supplemented with military planning documents reflecting the implementation of bilateral military integration and its place within national defense policy. Belarusian defense minister Gen. Col. L. Maltsev has emphasized that common planning mechanisms and threat assessments are very important for the united state³². The armed forces are ready for cooperation and have practically solved all problems, though according to Russian defense minister S. Ivanov, not everything is smooth when creating the united state and its armed forces. "There are legal and financial restrictions, but we do everything we are expected to"³³.

At this stage, the countries created conceptual documents linking up the military planning and defense policy of Belarus and Russia, and established institutions dealing with defense matters at the strategic level. The Security Concept of the Russian and Belarusian Union, the Concept on Common Defense Policy, the Concept on Joint Procurement in Defense Sphere, and the Concept on Regional Grouping of Russian and Belarusian Technical Provisions³⁴ were surfaced and strengthened their military cooperation. The norms of these documents were incorporated into and expanded in the Military Doctrine of December 26, 2001 which was approved by the Supreme Council of the United State³⁵. The Military Doctrine is a strategic document of the united state which concretizes security perceptions of Belarus and Russia and provides for an integration of official attitudes and positions. The Military Doctrine has focused on the establishment of a military organization. The main directions of the military organization are as follows: unification of the military legal system; unification of command and control; preparation of military personnel; development of military infrastructure objects; optimization of military science and military scientific personnel. It is important to note that the doctrine calls for a deeper integration in specific fields. For instance, the states should undertake to implement a concerted military policy during periods of peace, to create the united state's military organization, commonly use the military infrastructure, prepare for common mobilization, form a common border

zone, and prepare officers while organizing civil resistance, etc., while in cases of threats and conflicts the states should undertake to adjust political-diplomatic means in dealing with the conflict, to take common decisions concerning preparation for military actions, the use of territorial and civil defense means (Article 1.6 of the doctrine). Any forced actions against one of the Union states will be considered as violation of the Union's integrity and will involve adequate responsive means with all available force and resources. The Russian nuclear weaponry is considered to be the deterrence against a wide-scale aggression against the united state. The latter may respond with nuclear weapon in case nuclear weapon or other WMD will be used against them and in cases of conventional aggression.

At the stage of this military integration, the states adjust the institutional and decision-making structure of the military organization. Article 1.9 of the doctrine points out that the military organization comprises a national authority institution and the Union's military management structure, military forces that are assigned to a regional military group, national armed forces used for protection and defense of the Union's states, the part of the industrial and scientific complex that fulfils tasks of the confederate state military organization. They also strengthened the mechanism of decision-making. Moreover, the countries established the institutional structure at the strategic level. There was a decision made in Minsk in 1997³⁶, setting the Board of Defense Ministries composed of defense ministers, their assistants and other officials of various levels. The board coordinates the international cooperation of defense ministries, prepares guidance for general defense policy, deals with the regional security and stability matters, and assesses the use of the joint infrastructure and procurement.

This set of institutions and strategic / tactical documents has yielded ground to further steps of military integration.

The instrumental stage

On establishing the institutions, integration tasks and legal background, the military integration plan should be implemented. Considering the identified needs, the countries should work on common military training, joint instructions, procedures, and joint units to be assigned for international operations in multinational contingents. Russia and Belarus have done much in this field to get their forces interoperable and compatible.

Much attention is paid to the preparation of personnel, which is based on mutual exchange of officers, adjustment of study programs and free studies in both states. This is not an equal cooperation, because unification of personnel preparation is done mostly in Russia. Both countries agreed on a bilateral program concerning military training “On Belarusian officers’ training in the military education institutions of the Russian Ministry of Defense”³⁷ which provides an opportunity for Belarus officers to get military education in Russia. The Collective Security Treaty Organization’s (CSTO) agreement provides an additional quota for Belarus to be educated in Russian military schools (up to 200 per year). This helps prepare officers of Russia and Belarus in a standardized way needed for the further integration and participation in joint military units.

Harmonization of the legal military system remains an important part of this cooperation. The countries gradually adopt legal regulations regarding active military service and the social security of officers. There are preparations for the concept of the common obligatory military service³⁸. Intense cooperation in this field has been extended with various initiatives in other areas. There has been a task to form a possible common mobilization and organization of common resistance that can become an additional strong power in preparing common response plans. This will require united institutions responsible for handling the conscript issues and serving a deeper military integration.

At this stage of military integration, a close cooperation in military industry is ongoing. In the evaluation of V. Slikov³⁹, the links between defensive industry and the country’s economy are obvious because the collapse of the Soviet Union and deformation of the military industrial sector raised social-economical problems in Russia and other countries. The recent cooperation in defense industry between Russia and Belarus partly compensate for what has been lost. The interaction of military industry complexes influences in a positive way the defensive potential of both countries. Military factories have received many orders and have monopolized the market in the Commonwealth of Independent States. For example, there was an exhibition of defense equipment and technique, “MILEKS-2005”, in Minsk where the Russian side presented an exposition with an emphasis on military-technical integration in the united state. Most of technical elements

were produced in Belarus, however, the final product was done in Russia⁴⁰. Not only joint defense industry elements operate in Belarus, but also it hosts two Russian military objects on its territory together with hundreds of Russian employees⁴¹. There is a Russian radar station close to Baranovichi, which is part of the missile warning system. Another military object controls Russian submarines in the Atlantic Ocean; it is located in Vileika. Russia does not pay for this, while Belarus gets Russian satellite information on a reciprocal basis⁴².

One of the main important elements at this stage remains cooperation between land forces is a joint military unit, the so-called “Western regional security grouping”. Though it has been derived from a multilateral mechanism (CSTO), both countries have praised it and emphasized it as one of the most successful projects in the context of both bilateral and multilateral military cooperation. This grouping covers the western boundaries of the united state and provides support for Kaliningrad Oblast in case of need. The significance of this group has increased when the NATO enlargement has materialized. Belarusian president A. Lukashenka points out that when the military political situation has changed in the region, qualitative changes are necessary in military cooperation. “Our main line is partnership with Russia, which is practically implemented with establishing a regional grouping, and we will ensure that obligations are fulfilled”⁴³.

The establishment of a joint military grouping has been supplemented with bilateral integration in the air forces, which is based on the agreement on air defense between Belarus and Russia, in force since February 25, 1994⁴⁴. The airspace is protected by Russian and Belarusian united forces which use a joint anti-aircraft defense (AAD) system which should serve well as soon as some technical issues have been solved. The establishment of an air-defense system in the western direction is of utmost importance to Russia and Belarus; they still look for enemies there. Recently Russia and Belarus have strengthened this system by placing the S-300 AA missile complex in Belarus⁴⁵. It will help reduce reaction time and reach the neighborhood⁴⁶. There are constant trainings between air forces of Belarus and Russia. The most important of them takes place in Asuluk where air force training includes AAD systems, the Russian radar plane A-50 and troops from both countries⁴⁷. The leader of the Western operational-tactical ADD

command post in Baranovichi Col. I. Izarenka has emphasized⁴⁸ that the Russian and Belarusian partnership in AAD is the only one that functions in the CIS space, forms close relations between the two states and also involves other republics of the ex-Soviet Union. The joint military training of Russia and Belarus includes land and air force elements making them interoperable. For instance, there were trainings entitled “Combatant Commonwealth – 2003” and “Clear Sky” in 2003 where 7000 officers, 600 units of armored equipment, 50 planes and helicopters participated⁴⁹. Moreover, the political elite encourages increasing the number of trainings. The Russian Duma chairman Boris Gryzlov has announced that it is necessary to increase the effectiveness of the regional grouping combat. For this reason they should more often organize common military training including combat shooting and missile launching⁵⁰.

This cooperation has been supplemented with various initiatives in other military fields. In 2006 the countries prepared a cooperation plan for 2006–2010 which included the communication system and its management⁵⁰. They approved a new program for technical interoperability among railways, supply of information for armed forces, establishment of a mobile regional group press centre. Chairman of the united state military cooperation committee K. Kidrasov has emphasized that the number and budget of military cooperation events are increasing. In 2005, the budget was 152 millions, and in 2007 they plan to have 420 millions⁵¹.

The stage of functional dependence

Intensive military integration can be very ambitious and intensive in its content, but every process has certain initial points and possible limits. In the case of military integration, the maximum level can be reached (1) when military forces are connected and (2) there is a united or integrated commanding structure. The joint military unit obeys the rules of the united command. This may be influenced by a wider integration of the states in the economic, social and political spheres that presuppose conditions to strengthen military integration and transfer part of autonomy of the military field. Additionally, joint units and the united command system might become an actor shaping its own future. This stage can be titled a phase of functional dependence. Functional dependence can become a strong con-

cern for politicians responsible for the integration process at the strategic level, which might minimize their influence.

Belarus and Russia may have reached this stage as they have created common military elements and units and worked in the direction of united leadership. The military doctrine of the united state says that the core of the formed military organization is command unification of Belarus and Russia (Article 1.11)⁵². It is difficult to judge about the advancement in this sphere, because officially there are no declarations regarding the established permanent joint staff. The hints about the joint command were seen in the article of Belarusian defense minister Gen. Col. L. Maltsev "Algorithm of the 21st century"⁵³. The minister has emphasized that due attention is paid to military preparation and command issues. The Russian and Belarusian joint training "Union Shield-2006" took place in August 2006 when they tested the united command and planning system of regional grouping. The minister said that it reached an appropriate interoperability in united command. This indicates that certain military elements of both states are controlled by a common endeavour using joint command and performing common tasks. Additionally, this year Belarusian and Russian officers have organized a united staff training in which they aimed at coordinating their actions and ensuring military security of the united state⁵⁴.

It is likely that in the sphere of air forces the Belarusian and Russian military integration can reach the functional dependence. Belarusian defense minister Gen. Col. L. Maltsev⁵⁵, when commenting on the possibilities of his state to be protected from possible hits from the air, claimed that the Belarusian anti-aircraft defense system is reliable and can detect and destroy even small aircrafts. The minister has also added that the Belarusian AAD is armed with the Russian air defense complexes S-300, their effectiveness being significantly increased. According to the Russian air forces commander assistant Gen. Lt. A. Bizev⁵⁶, the agreement regarding the use of Russian and Belarusian regional anti-aircraft defense has been already prepared and is ready for being signed. The agreement would allow increasing the Russian and Belarusian anti-aircraft effectiveness because it would operate with no united staff permission. This implies that the establishment of united staff can require a united instrument that would coordinate the functioning of separate military forces and thus increase military

integration. In the settlement agreement related to air space defense they noted that the states would avoid political decisions, and this confirms that military integration usurps political leadership and becomes not merely an engine of integration, but also an inevitable element that unifies both states despite contrasts in the economy or other spheres.

Concluding remarks

We have analysed the dynamics of military integration between Russia and Belarus, placing a heavy emphasis on the structure, potential and further development of this military alliance. Military integration was employed as an explanatory variable to answer the questions of the research.

The division of military integration into four stages reflected the depth of military cooperation and preferences of the states that determined the choice and behaviour in strengthening the alliance. The main logic here has been that when integration deepens, the functional dependence of states strengthens and in the final stage becomes a decisive factor in state's behaviour.

On assessing empirical data, the following arrived as the concluding observations. At the first military integration stage, Russia and Belarus concluded bilateral military cooperation agreements and further documents laying the foundations for military integration and providing clear guidelines and ambitions. This includes a coordinated defense and security policy, joint military units, military infrastructure, preparation of personnel, and joint military actions. The formation of the united state implicates the united defensive space that has to react adequately to changes in the international system and new threats.

At the second institutional military integration stage, we can draw a conclusion that the Russian and Belarusian defense ministries assessed the elements of military integration needed for their interoperability. It allowed formulating certain tasks to achieve the further integration (unification of the legal system, command unification of military forces, joint military personnel training, development of military infrastructure, optimization of military science and military scientific personnel, preparation of plans of common mobilization, joint decision-making in preparing for military actions, and creation of joint units). Military integration tasks are

specified in military cooperation agreements and plans. Expectations might slightly modify the integration policy, although no fundamental changes should be seen in the upcoming stages of military integration.

At the third military integration stage, constant training and instructions of military force dominate while implementing joint programs of standardization and interoperability, leading to the establishment of joint military force elements. Belarus and Russia introduce them at tactical and operational levels, therefore their military forces become interactive and capable of performing common tasks.

Upon evaluating the process of three military integration stages, we can state that the Belarusian military forces become functionally dependent, and a military strategist can usurp the decision-making process. Military forces of both states gradually move to the fourth stage – functional dependence. At present, they have established a joint military land force unit (Western regional grouping). Moreover, they organize air defense and negotiate the use of air forces without political decision. This indicates the highest stage of military integration when it becomes the engine, because in case of functional dependence autonomous actions are not effective.

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THE EUROPEAN DEVELOPMENT POLICY IN THE AREAS OF RURAL DEVELOPMENT AND FOOD AID / FOOD SECURITY: FRAMEWORK, STRATEGIES AND EVALUATION

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Abstract. European Development Policy is one of the fields of the European Union's activity that are relatively unknown and underestimated in the so-called new member states which Lithuania belongs to. Therefore, the main purpose of this article is to introduce the main objectives and instruments of this policy in the field of food security and rural development and to reveal some important flaws of this policy by critical analysis.

Introduction

In the year 2000, the European Union¹ adopted a new framework for its development cooperation. This framework was broadened by the Joint Statement by the Council and the Representatives of the Governments of the Member States Meeting within the Council, the European Parliament and the Commission "The European Consensus on Development" of 2005. This article attempts to illuminate the theoretical framework endorsed by the EU/EC and aims to analyse strategies employed in the areas of rural development and food aid / food security. Therefore, as the first step, the overarching framework of the European development policy is introduced, paying attention to political aims and priorities as well as to procedures and instruments of development cooperation. On the basis of these general provisions, a closer look will be taken at the EU/EC priorities and strategies regarding rural development and food aid / food security, which in turn are placed within the context of the overall development framework and are critically evaluated. Attention is furthermore drawn to obstacles existing in the European Development Policy and its practice.

The overarching framework of the European Development Policy

Due to the shortcomings and the lack of significant success of development cooperation in the 1970s and 1980s, a new global development paradigm gradually emerged in the 1990s². The new paradigm emphasised that development primarily concerns people, human beings, and raised the goal of poverty reduction and the respect of human rights to the centre of interest. At the same time, emphasis was increasingly placed on social and ecological sustainability³. The following section illuminates the theoretical framework the EU/EC has established for its development policy in the context of the new development paradigm.

Political aims and priorities

The new global development paradigm called for a renewed definition of political aims and priorities, which could serve as a framework for new procedures and instruments of development policy. As a response to new challenges in the developing world, the EU formulated its main political aims in the field of development policy and included them into the Treaty of Amsterdam (now the Treaty of Nice) and as a general framework of the cooperation with the African, Caribbean and Pacific countries (ACP-countries) into the Cotonou Agreement⁴. These aims are: sustainable economic and social development of the developing countries, and more particularly of the most disadvantaged among them, a smooth and gradual integration of the developing countries into the world economy, and the campaign against poverty in ACP countries. The element of poverty reduction, pointed out as the main objective of EU/EC development policy in the Statement by the Council and the Commission⁵ as well as of the Joint Statement by the Council and the Representatives of the Governments of the Member States Meeting within the Council, the European Parliament and the Commission "The European Consensus on Development" of 2005⁶ also in relation to the Millennium Development Goals (MDGs)⁷ has gained particular significance and entailed new priorities in development cooperation. The Joint Statement of 2005 *expressis verbis* has defined eradication of poverty as the overarching objective of the European Development Policy.

The number of priority areas of the EU/EC actions became limited in order to maximise the impact of the EU/EC Development Policy.

To the priorities of the EU/EC Development Policy belongs a link between trade and development, which is necessary in the context of globalisation and liberalisation. However, such a link is not the only part of the “innovatory approach”⁸ of the EU, and actually most of the priority sectors have to be at least partly compatible and connected with each other. Further priority areas of the EU/EC Development Cooperation with developing countries are: support for macro-economic policies, the promotion of equitable access to social services, regional integration and cooperation, transport, and food security and sustainable rural development⁹. Although the areas mentioned above are particularly relevant for the European Development Policy, coherence among various EU policies in the above-mentioned areas must be maintained in order to achieve the expected results.

Coherence¹⁰ is a matter of critical importance in development policy since it makes efforts in this field more efficient and enables building strategies leading to sustainable development and not only short-term results. The EU Member States and institutions have committed themselves to advance policy coherence for development in a number of areas to quicker and in a more efficient way achieve the MDGs¹¹. Two other rules, coordination and complementarity¹², also promote the efficiency of EU/EC aid. There are three levels of coordination¹³: coordination among the member states and the Community in their development policies and aid programmes, coordination of the activities of the EU and other donors, in particular the Bretton Woods institutions and the United Nations agencies, and finally coordination among the EU/EC actions and activities of the partner countries. Complementarity concerns the division of labour between the EU and its members and between the EU and other donors¹⁴. All of the above mentioned rules, as well as such rules as partnership, ownership, political dialogue, participation of civil society and finally gender equality serve a greater efficiency of development activities, (aimed at) creating better conditions for sustainable development in developing countries; they are also a pivotal part of the EU’s vision of development described in the first part of the Joint Statement¹⁵.

In the context of the above-mentioned rules as well as in the light of the new European Union Development Policy, the European Commission has been given, on behalf of the Communities, several new roles, namely: 1) global presence, 2) ensuring policy coherence in Communities' actions with the support of the Member States, 3) promotion of the best development practices, 4) facilitation and coordination, 5) delivery agent in areas where size and critical mass are of special importance, 6) promoting democracy, human rights and good governance, 7) putting into effect the principle of participation of civil society, 8) promoting the understanding of interdependence and encouraging the North–South solidarity¹⁶.

Procedures and instruments

The renewed definition of political aims and priorities of the EU/EC Development Policy elaborated above is accompanied by a changing focus regarding procedures and instruments of development cooperation. The Cotonou Agreement places a particular emphasis on political dialogue¹⁷ and ownership¹⁸. The focus on political dialogue is closely connected with the enhanced importance attributed to the political dimension of cooperation. The idea of ownership not only aims at ensuring the accountability of all state and non-state actors involved in development cooperation, but also encourages the developing countries to take themselves the leadership in the development of national poverty reduction strategies. The primacy of the role of the developing countries and the ownership of strategies becomes the “key to the success of development policies”¹⁹ in the EU/EC's current development policy framework.

Closely associated with the principles of political dialogue and ownership are the notions of participation²⁰ and decentralisation²¹. The engagement of non-state actors in the political dialogue is one of the most important innovations manifested in the Cotonou Agreement²². The explicit inclusion of actors of the private sector and of civil society in the political dialogue reflects the intention to achieve broad participation in the development process and should be seen as an attempt to foster democratisation processes. Decentralisation aims to bring services and decision-making closer to the citizens. Participation and decentralisation, however, are closely in-

terconnected. Decentralisation facilitates the opportunities of participation and makes use of the democratic rights of citizens. It is not only the extension of state power downwards but has also the potential to strengthen the voice of people upwards²³.

In order to adhere to the newly endorsed procedures of political dialogue, ownership, participation and decentralisation, the EU/EC gives particular importance to the instrument of poverty reduction strategy papers (PRSPs). The PRSP concept was originally launched by the World Bank in the 1990s in order to provide a framework for mainstreaming poverty reduction in government and to improve donor policies. It has now become central to all forms of development cooperation in low and middle income countries²⁴. The PRSPs ideally “embody” the ideas of ownership, political dialogue and participation as governments are responsible for the design process, which in turn is to be conducted in a participatory manner involving also non-state actors²⁵.

The other instruments closely related to the PRSPs are the Country Strategy Papers (CSPs) and National Indicative Programs (NIPs)²⁶. Being basically the European extension of PRSPs, the CSPs form a framework for development cooperation between the EU and a specific country. Each CSP is to provide an overview of the EU/EC strategy, government priorities, the country situation, and major partner activities²⁷. In sum, PRSPs and CSPs form the basis for a coherent coordination framework for donor and partner countries.

Rural development, food aid and food security: the European approach

Achieving the main goals of the EU/EC development policy, formulated in Article 177 of the Amsterdam Treaty²⁸, seems to be an extremely big challenge if the scale of problems faced by developing countries is considered. There are still about 800 million²⁹ people suffering from hunger or malnutrition. An estimated 1.2 billion people live in extreme poverty on less than a dollar a day³⁰. Most of the world's poor, about 70%, live in rural areas and for most of these 900 million people farming is the livelihood. The persisting high numbers of food insecure people and rural poor prove that

there is a huge need for action in order to achieve poverty reduction and in the long run its eradication as well as sustainable economic growth. If the achievement of poverty reduction is the major goal, food security and rural development must be considered as important elements.

The European strategy in the area of rural development

The main aims of the EU/EC Development Policy cannot be achieved without giving enough attention to rural development.

In the EU/EC Development Policy, agriculture and rural development are important for many reasons. Large-scale exploitation of the rural areas in favour of towns led to their stagnation and pauperisation and weakened or even stopped social and economic development processes. Such an abuse resulted in a situation in which most of the people living in rural areas are poor (70% of the world's population living in absolute poverty live in rural areas), they have no access to good education and healthcare and are exposed to the degradation of natural resources and water scarcity. Respect for human rights and equity are very low in rural areas of developing countries, and rural populations, as politically weak, are also often the first victims of poor governance. Paradoxically, the agricultural sector contributes almost 50% to the gross domestic product and forms around one-third of exports in the least developed countries. It is also the agricultural sector that employs about 70% of the labour force³¹. Therefore, rural development could be a stimulus for economic growth in developing countries if its potential was used in a better way³². This potential has become more and more relevant in the EU/EC Development Policy. However, the development of the agricultural sector with its problems and challenges cannot be measured only arithmetically. The strategies in the field of rural development in developing countries have to be built multisectorally. Although rural development primarily focuses on the increase of productivity of traditional agriculture, it simultaneously aims at the improvement of the situation of non-agricultural enterprises in rural areas. Without institutional, political and social reforms it is very difficult to achieve a sustainable economic growth in rural areas.

There are also big differences among various developing countries, which means that the EU/EC rural development strategies have to be country-specific³³. If the needs and specific conditions of a developing country are not recognised properly, the implementation of development projects in specific areas and broad participation of various social groups and institutions can be very difficult. The EU as one of the most important donors defined the main priorities for rural development which serve as a basis for Country Support Strategies.

These priorities are: (1) the scheduling of the transition from the current EC activities to the activities proposed, (2) selection of the most appropriate financial instruments, (3) identification of partners for the implementation of these activities and the forms of co-operation with them, (4) the means – in particular locally available means – that can be mobilised in support of the activities of developing countries, (5) assumptions underlying the expected outcomes of these activities and the risks that may endanger these expectations, and (6) the monitoring procedures of developing countries' activities and of evaluation of their outcomes, and a set of rural poverty indicators to be monitored³⁴.

Priorities, strategies and levels of actions

The EU/EC Development Policy in the field of rural development seeks the following results: more peaceful, equitable, open and democratic rural societies, more effective and accountable rural institutions, economic policies enabling rural growth, enhanced individual assets of rural dwellers, more sustainable management of natural resources and more coherence between the EU agricultural, trade, environmental and immigration policies and the EU/EC's purpose of improving rural livelihood³⁵.

To achieve the above-mentioned results, the actions supported and implemented by the EU/EC should have the following characteristics: they should aim at the enhancement of the livelihood outcomes of the rural population groups; they should take into account the differences across rural areas and rural livelihoods; they ought to take into account the lessons learnt from previous interventions of the EU/EC and of other donors and finally, they should be consistent with the policies of the beneficiary government³⁶. Ob-

viously. these activities need to be prioritised according to their impact on livelihood outcomes of as many target groups as possible³⁷.

To achieve above-mentioned results it is necessary to act multisectorally³⁸. One of the most important levels of actions in the field of rural development seems to be political commitment and building effective and accountable public institutions. The EU/EC will support institutional building efforts in rural areas where creation and support of civil society is indispensable. The private sector will also be supported by the EU/EC as a guarantor of competitiveness. Economic policy is also one of the levels of the EU actions in the field of rural development in partner countries. Economies of the poorest partner countries are usually dominated by agriculture, therefore, the EU/EC supports activities that take these special conditions into consideration.

Priority is given to a) abolishing discriminatory taxes on agricultural exports, b) dismantling price regulations and other market distortions, c) improving labour productivity, d) investing in public infrastructure, e) improving rural market efficiency for agricultural products and inputs, and f) developing secondary cities in order to assure rural population an easier access to public services³⁹. Support for the liberalisation process in developing countries without taking into account specific conditions of the rural sector cannot bring the expected development, it could even make the development of the poorest countries slower.

An important level of the EU/EC policy in the field of rural development is the coherence among various policies. The lack of such coherence leads to negative consequences for the rural development in developing countries. Therefore, the EU/EC committed itself to improve the coherence of its policies in order to avoid these consequences while implementing development projects⁴⁰. Agricultural research and extension services, although they do not belong directly to the main levels of the EU/EC actions, will be given by the EU/EC a special emphasis and will be supported at the international, regional and national levels because they are effective and have proven to raise agricultural productivity, conserve natural resources and tackle rural poverty. Their importance increases, which is related to the process of the changing structure of farming⁴¹.

Production on a large scale, as a result of globalisation and domestic investments, threatens more and more small-scale family farms, traditionally a backbone of agriculture in many developing countries, which needs innovative approaches to rural development policy, based on agricultural research, to raise the productivity of small farming and give it a chance to be competitive⁴².

Financial instruments

The EU/EC development strategies and actions in the field of rural development need adequate financial instruments to be efficiently implemented. There are, unfortunately, more plans, programmes and strategies in the field of rural development than definite instruments. In the context of PRSPs and SWAPs, the EU/EC will use in the dialogue on government budget such instruments as project aid subdivided by sectors, programme aid including food security, programme aid supporting structural and sector adjustment, including import support programmes, humanitarian assistance including food aid and aid to NGOs to strengthen participation of social actors in rural development policy⁴³. With regard to the ACP countries, most of the instruments mentioned above are financed by the European Development Fund (EDF)⁴⁴.

As an illustration of the necessity of simultaneous and co-ordinated actions on various levels serves the example of land reform. Land reform is an important issue since it improves access to production factors such as land, water, credit and various other inputs and leads to land re-distribution processes⁴⁵. However, to carry out a land reform successfully it is necessary that: a) there are laws to secure a status and right to land, b) the administrative capacities in rural areas are in place, c) the credit system and the functioning market enable land reforms, d) education, health, technical and management skills, and financial assets are adequate and allow land reforms to lead to sustainable development, and finally e) an awareness of sustainable natural resource management exists⁴⁶. Without the conditions mentioned above, it is impossible to carry out a land reform that could trigger sustainable rural development⁴⁷. This again points to the inevitable necessity of multisectoral actions.

Placement and evaluation

Fostering rural development is a very important element of fighting poverty in developing countries. It was, however, under-appreciated in previous decades, and became relevant in the last few years. The European Union takes into account the importance of reducing rural poverty and agricultural development and is setting priorities, developing strategies and implementing projects in this sector as part of its development policy. However, tackling rural problems in developing countries seems to be a huge challenge since building strategies and projects in this field need a multisectoral approach, more coordination, complementarity and, most notably, coherence among various EU policies. Since the approach to rural development has been present as one of the most relevant issues in the EU development policy for a relatively short time, neither a multisectoral approach nor coherence can be described as sufficiently taken into consideration by the EU development policy makers.

Furthermore, there is lack of cooperation between the EU and the governments and social actors of partner countries, which often leads to the overestimation of their possibilities in the field of rural development, particularly land reform, and delays necessary reforms in rural regions.

The European Union's strategy in the area of food aid and food security

Because about 800 million people are still suffering from hunger and malnutrition⁴⁸, actions in the field of food aid and food security are indispensable. Whereas hunger is a violation of human dignity and disrupts people from leading healthy and active life, it is furthermore an obstacle to social, political and economic progress. Pointing to the prevailing dimension of hunger does not deny that the progress has been made in the fight against hunger in recent years. However, the need for action remains because the improvement of livelihoods for the poor is vital. Food insecurity – as will be argued within this section – is one of the elements of poverty⁴⁹. Given that poverty reduction is the overarching goal of the EU/EC Development Policy and food availability, access to food and responses to food shortages and

nutritional problems are at the “heart of poverty reduction”⁵⁰, and the EU/EC policies in this sector are to be critically assessed.

Background, priorities and strategies

Any considerations about food aid and food security should be preceded by answering whether hunger and malnutrition prevail because globally there is an insufficient supply of food; or whether it is a result of the lack of access to food. It can be concluded that at present hunger and malnutrition are not merely a problem of food production but of access to food. From the viewpoint of a strict demand–supply scheme, hunger and malnutrition cannot be satisfactorily explained.

A common definition, also used by the World Bank, points out that food security is achieved “when all people at all times have both physical and economic access to sufficient food to meet their dietary needs for a productive and healthy life.”⁵¹

Before elaborating on the historical development of the EU/EC policy in the area of food aid and food security, it is necessary to differentiate between food aid and food security. Whereas food aid is the delivery of food – mostly produced in industrialised countries – provided to overcome severe food shortages in countries in need, food security describes a strategic approach aiming to improve the nutritional situation in developing countries in a sustainable manner for the long run. The EU/EC policy in the areas of food aid and food security in short can be characterised as having evolved from a focus on food aid to a focus on food security⁵². This evolution aims to achieve long-term access to food supply of good quality for everyone. According to the official position, the most vulnerable groups and the least developed countries are particularly targeted⁵³. The European food aid began in 1967 on the basis of the International Convention on Wheat⁵⁴. It was originally conditioned by the logic of management of Community stocks. European agricultural surpluses were basically dumped as food aid, thus making food aid a very unpredictable and questionable instrument of development assistance, which was not incorporated in an overall development strategy⁵⁵. Paradoxically, an agreement between the EU and the ACP countries existed, which was aimed at achieving food self-sufficiency for the latter. As increased financial efforts for agricultural and

rural development did not improve the basic trend of the food situation, the EU came to realise that a wider economic environment had to be considered. Once the EU realised this, a significant turn in thinking about food aid and food security occurred in the 1980s and resulted in the so-called Pisani Plan. As development thinking began to focus more upon concepts of food security, the EC policy gradually evolved towards an instrumental understanding of food aid as part of food security, which in turn was to be embedded in a comprehensive development framework. With the gradual adoption of the Pisani Plan, the “Community’s food aid policy became an issue of intensive debate”⁵⁶. The new thinking about food aid and food security led to the endorsement of the following principles: (1) concentration on financing all aspects of food security; (2) concerted definition and implementation of policies and greater integration of food security instruments; (3) strengthening of coordination among donors; (4) dissociation of food aid from European agricultural surpluses; and (5) encouragement of the progressive development of triangular and local south–south purchases⁵⁷. The reform process of the EU/EC policy in the area of food aid and food security was completed with the adoption of the regulation no. 1292/96 by the Council of the European Union on June 27, 1996. The regulation to date still forms the legal framework for the food aid and food security programme of the European Commission. On the basis of the regulation no. 1292/96, the EU/EC finally came to focus explicitly on a wider and cross-sectoral concept of food security. Furthermore, the EU also called for greater coordination, coherence and complementarity and put the difficult situation in developing countries in the centre of planning and activities.

Fields and instruments of intervention

Regulation no. 1296/96 enables the Commission to provide “assistance in the developing countries to overcome temporary food shortages, manage post-crisis rehabilitation and recovery, and address problems of long-term food insecurity”⁵⁸. It comprises the following three areas of support: food aid, operation in support of food security, and measures in support of early warning system and storage programmes⁵⁹. In the long run, food aid should ideally become superfluous.

Food aid is tied to certain criteria, namely in the case of severe food shortages, for instance in post-crisis situations, the per capita income of poor population groups, and the existence of a long-term policy on food security in the recipient country⁶⁰.

Community aid in the form of grants is either direct or indirect. Direct aid⁶¹, which now is generally used most often⁶², takes form either of budgetary support for government programmes or the support for private or public bodies on the local level. An important instrument used in the context of direct aid is the foreign currency facility, which was introduced in various country programmes in 1997. Direct aid is primarily managed by the recipient government who may enter into a partnership with local organisations such as the private sector and NGOs. Therefore, direct aid particularly adheres and is tied to the ideas of ownership and political dialogue. It is integrated into the pre-established national support strategy⁶³, thus into a wider development framework aiming at improving efficiency through better coordination, coherence and complementarity. Direct aid, however, can only be allocated to countries where institutional capacities are in place, political dialogue is possible and promising, and an overall coordinated strategy exists. Where these preconditions are not given, indirect aid is provided within the framework of a contract between the EC and implementing organisations including UN agencies and NGOs⁶⁴. Indirect aid is often termed as project aid⁶⁵ and thus differentiated from direct aid sometimes coined as programme aid⁶⁶.

Placement and evaluation

How far do the existing strategies and instruments in the area of food aid and food security adhere to the proclaimed overarching goals and objectives of the EU/EC Development Policy? According to the legal framework forming the basis for the strategies and instruments described above, ideas of political dialogue, ownership, participation of the private sector and of civil society are considered in the EU/EC's developing policy. In recent years direct aid, which is an instrument more adequate when aiming to adhere to the established principles, has increasingly been favoured over indirect aid.

However, the fact that a lot of criticism concerning the implementation of EU policies in the area of food aid and food security⁶⁷ has been voiced hints at the existence of a significant gap between theory and practice. Considerable delays between allocation and commitment of aid, and the fact that food security units are chronically understaffed are just two aspects among various others revealing significant deficits in the realm of operation and management procedures.⁶⁸ Furthermore, at country level, policies in support of food security often focus mainly on agricultural production and economic growth, whereas aspects of income generation, social and gender issues⁶⁹ are far less elaborated. To conclude, it has to be said that with regard to food security, putting multisectorality into practice also remains a major challenge.

The Joint Statement of 2005 is an expression of commitment of the EU Member States and institutions to increase aid budgets. Hopefully, it will lead to quicker and better achievements in the field of European Union Development Policy.

***“Multisectorality” in the European realm? –
Incoherence and discrepancies between policy areas***

The problem of incoherence between the EU/EC Development Policy and measures undertaken in the sectors of trade, agriculture and external relations deserves particular consideration, since it makes many of the EU/EC activities in the field of development policy inefficient or even deprives some partner countries of development possibilities, especially in the field of rural development⁷⁰. The EU Common Agricultural Policy (CAP) supports farmers from the EU member countries with subsidies. It also requires the European Commission to dispose of surplus product on the world market through the use of these subsidies⁷¹. Additionally, the EU market is protected from agricultural imports⁷². Such a situation gives farmers in developing countries hardly any chance of competitiveness on their own markets and has a negative effect on their trade and development possibilities. The discrepancies described in the area of the Common Agricultural Policy also appear in the field of the Common Fisheries Policy⁷³. Paradoxically, the EU is the main donor – particularly in the field of food aid – in the countries affected by the inconsistencies of European policies⁷⁴.

The EU/EC Development Policy seems to have a complex theoretical framework setting proper conditions for the EU/EC development activities, however, many of the most important theoretical issues still have not been turned into practice. One of these issues is multisectorality already described in this article. The multisectoral approach⁷⁵ is extremely important since it leads to sustainable development in various sectors and maximises results of actions undertaken in accordance to this approach. Unfortunately, multisectoral strategies and actions are very often difficult or even impossible to be carried through, which is connected to the big discrepancies between EU/EC policies in various sectors on the one hand, and to a weak preparation of partner countries to implement these strategies and actions multisectorally and take full responsibility for them on the basis of the ownership rule, on the other hand. One should not overestimate the possibilities of governments and social actors of developing countries, since also European actors have great difficulties in overcoming their own internal problems concerning coordination and particularly coherence among policy areas.

The gap between rhetoric and practice

It has become obvious within the context of this article that the fight against food insecurity as well as the fight for rural development is a fight against poverty, which demands action on numerous levels. Poverty reduction – as pointed out previously – is the explicit goal the EU/EC dedicates its development policy to. However, the fact that Community aid allocated to the poorest and least developed countries has declined from 70% in 1990 to 41% in 2000⁷⁶ sharply contrasts with the proclaimed focus on poverty reduction targeted at the poorest of the poor⁷⁷. In the period 1999/2000, the main recipients of European development aid were Yugoslavia, Morocco and Bosnia-Herzegovina, whereas in 1989/1990 development aid was allocated in the first place to the Cote d'Ivoire, Cameroon and Mozambique⁷⁸. This reveals that in the recent past⁷⁹ the EU/EC has been more concerned with its direct neighbours than with the poorest countries.

Also comparing the amount of money spent on agricultural subsidies with the amount spent for development assistance⁸⁰ – while being aware

of the negative impact of such subsidies on the developing world – furthermore calls the focus on poverty reduction and the intention of halving the number of hungry people by 2015 into question.

Another point of criticism to be voiced evolves around the newly and emphatically endorsed principle of ownership. There is a slight danger that the endorsement of the principle of ownership interpreted in a one-sided way disclaims the industrialised countries their responsibilities for a global development process. With regard to the areas of food security and rural poverty, a lot would be gained – just to give one example – if the revolutionary developments in information technology and biotechnology could be mobilised for the benefit of the poor⁸¹. This is only possible with contributions of developed countries and action on the international level.

In the context of the last two EU enlargements⁸² and the new financial perspective of 2007–2013, it seems understandable (to a certain extent) that the European Development Policy is not among the priorities on the policy agenda. Furthermore, the future of the European Constitution being an effort of blowing some new energy into the European Development Policy⁸³ still remains uncertain. Within the EU it seems that an improved theoretical framework designed for the areas of food security and rural development as well as for other multiple areas is now a rhetorical “stand-alone” project lacking the assets to be put into practice. It is, however, worth appreciating that the European Union is aware of its mistakes in the field of the development policy, and on the basis of scrupulous evaluations it undertakes measures to minimize them. A good example is the Joint Statement reflecting also changing circumstances of implementation of the European Union Development Policy.

Still, despite the criticism voiced, the existence of an adequate development framework is a necessary step to the right direction.

NOTES

¹ The European Union (EU) forms the so-called roof for the three pillars – European Community (EC), Common Foreign and Security Policy (CFSP), and Justice and Home Affairs. Being aware of the differentiation between EU and EC, for simplicity and consistency, from now on the European development policy will be referred as to the EU/EC development policy.

² Compare for a brief overview of the “development decades”: Nuscheler, Franz: *Lern- und Arbeitsbuch Entwicklungspolitik*, Bonn 1996, s. 43–67.

- ³ Compare for example: Kasch, Volker (VENRO): Statement at the consultation forum "EU und AKP auf dem Weg zu einer neuen Partnerschaft?" held on April 19th 1997 in Bonn. Documented in Holtz, Uwe (ed.): EU und AKP auf dem Weg zu einer neuen Partnerschaft? Konsultationsforum zum Grünbuch über die Beziehungen zwischen der Europäischen Union und den Staaten Afrikas an der Schwelle zum 21. Jahrhundert, Bonn 1997, s. 30–34.
- ⁴ The main aims of the EU Development Policy are emphasized in Art. 177 of the Treaty of Amsterdam. Art. 19 of the Cotonou Agreement repeats them as the central objectives of ACP–EU cooperation.
- ⁵ The European Community's development policy: Statement by the Council and the Commission, Brussels, 10 November 2000, p. 7.
- ⁶ The joint statement for the first time in 50 years set a single framework for principles of the EU Development Policy for the 25 Member States, the Commission and the European Parliament. Compare: Joint Statement by the Council and the Representatives of the Governments of the Member States Meeting within the Council, the European Parliament and the Commission "The European Consensus on Development" 2005, http://ec.europa.eu/development/body/development_policy_statement/docs/edp_declaration_signed_20_12_2005_en.pdf#zoom=125 (Accessed: 12 January 2007), also: Official Journal of the European Union, 24/02/2006, p. C 46/1–19.
- ⁷ For a list of the Millennium Development Goals (MDGs), which were passed at the UN in September 2000 compare: <http://www.un.org/millenniumgoals/> (Accessed 11 January 2007) or: VENRO (ed.): Globale Armut – Europas Verantwortung: Ein Vorschlag zur Reform der EU-Entwicklungszusammenarbeit, Bonn–Berlin 2002, S. 21.
- ⁸ Compare: Statement by the Council and the Commission, p. 4.
- ⁹ Compare: Statement by the Council and the Commission, pp. 3–5.
- ¹⁰ Compare: Statement by the Council and the Commission, p. 13; compare as well: Gabas, Jean J.: The Lomé Conventions and Food Security, in: The Geopolitics of Hunger 2000–2001, London 2001, pp. 329–330; as well as Urff, W., Development and agricultural policies of the European Union. More coherence is needed in: *Agriculture and Rural Development*, No 1/ April 2000, pp. 50–53.
- ¹¹ Joint Statement by the Council and the Representatives of the Governments, *Official Journal of the European Union*, 24/02/2006, p. C 46/6–7, also: http://ec.europa.eu/development/body/development_policy_statement/docs/edp_declaration_signed_20_12_2005_en.pdf#zoom=125 (Accessed 12 January 2007).
- ¹² Statement by the Council and the Commission, pp.11 f, see also: Joint Statement by the Council and the Representatives of the Governments, *Official Journal of the European Union*, 24/02/2006, p. C 46/6.
- ¹³ Compare: Alfonso, Cesar Debén, von Steekelenburg, Pieter: The current European policy and programmes on food security, in: Kracht, Uwe, Schulz, Manfred (eds.): Food Security and Nutrition: The Global Challenge. New York, 1999, pp. 591–600.
- ¹⁴ The European Community development policy: Statement by the Council and the Commission, pp. 12.

- ¹⁵ Joint Statement by the Council and the Representatives of the Governments, Official Journal of the European Union, 24/02/2006, p. C 46/1–7.
- ¹⁶ *Ibidem*, p. C46/7–8.
- ¹⁷ Article 8 of the Cotonou-Agreement elaborates the importance and aim of political dialogue between the partners of the agreement, thus reaffirming the central idea of (equal) partnership between the EU and the ACP countries. Engagement of the actors of partnership listed Article 4 – namely non-State actors such as actors of the private sector, economic and social partners, and civil society (Art. 6) – is also considered as vital in the context of the new agreement.
- ¹⁸ The necessity of ownership of the development strategies is emphasized in the fundamental principles of Article 2 of the Cotonou Agreement; see also: Joint Statement by the Council and the Representatives of the Governments of the Member States Meeting within the Council, the European Parliament and the Commission “The European Consensus on Development” 2005, http://ec.europa.eu/development/body/development_policy_statement/docs/edp_declaration_signed_20_12_2005_en.pdf#zoom=125 (Accessed: 12 January 2007), also: *Official Journal of the European Union*, 24/02/2006, C 46/1–19.
- ¹⁹ Statement by the Council and the Commission, p. 6.
- ²⁰ Compare Article 2 of the Cotonou Agreement.
- ²¹ Compare Art. 33 of the Cotonou Agreement, particularly paragraph 3f; with respect to financial cooperation compare Article 70f.
- ²² Compare: Weiland, Heribert: Von Lomé zu Cotonou: Das neue Abkommen zwischen den AKP-Staaten und der Europäischen Union, in: *Afrika-Jahrbuch 1999*, Opladen 2000, S. 48–57.
- ²³ Compare for a similar argument: Goldman, Ian: Community-based planning: a way forward for local governance? *The Courier*, no 195 November–December 2002, pp. 48–49.
- ²⁴ Compare: Annual Report on the implementation of the European Commission’s external assistance. Situation on 01.01.2001, Luxembourg 2002, p. 10. Further: The European Development Policy: Targets and Indicators. Seminar held by the European Parliament 26. 02. 2002, p. 12f. Available at: http://www.europa.eu.int/comm/development/sector/poverty_reduction/infopack_target_indicators.pdf (Accessed February 4, 2003).
- ²⁵ Further on PRSPs papers compare: http://www.europa.eu.int/comm/development/sector/poverty_reduction/index.htm (Accessed February 4, 2003).
- ²⁶ Whereas PRSPs are primarily produced within the recipient countries, CSPs and NIPs are primarily drawn up by the EU.
- ²⁷ Compare: The European Development Policy: Targets and Indicators. Seminar held by the European Parliament 26.02.2002, p. 40f. Available at: http://www.europa.eu.int/comm/development/sector/poverty_reduction/infopack_target_indicators.pdf (Accessed February 4, 2003).

- ²⁸ Also after the changes undertaken through the Treaty of Nice, which entered into force in February 2003, the targets of development cooperation are still manifested in Article 177.
- ²⁹ For statistics concerning the dimensions of hunger, compare: <http://www.wfp.org>; <http://www.fao.org> (Accessed January 7, 2007).
- ³⁰ Communication from the Commission: Fighting Rural Poverty COM (2002) 429 final, p. 4. For further information and data on the dimension of poverty, compare: <http://www.worldbank.org/data/databytopic/poverty.html>, (Accessed January 8, 2007).
- ³¹ Policy Orientation Paper 05/03/02, p. 6, available at: <http://europa.eu.int/comm/development/rurpol/outputs/policy/index.htm> (Accessed 6 February 2006).
- ³² Data from a study of 42 developing countries indicate that each dollar increase in agricultural production generates an average of 2.30\$ in overall growth. Data taken from CGIAR 1999. Available at www.cigar.org/ifpri (Accessed 11 January 2007).
- ³³ In a rapidly industrialising country with a healthy balance of payments, the priority may be to supply cheap food and raw materials, while in a poor country with a large number of rural landless, the priority may be to generate a diversity of services and enterprises needed to create and sustain rural livelihoods. See: Policy Orientation Paper 05/03/02, p. 7.
- ³⁴ Guidelines for the formulation of RD strategies, Dec 2000. Programming guidelines for Rural Development, Nov 2001.
- ³⁵ Policy Orientation Paper 05/03/02, p. iii.
- ³⁶ Compare: Thomson, Anne M.: *Food Security and Sustainable Livelihoods: The Policy Challenge*, The Society for International Development. SAGE Publications, London, Thousand Oaks, CA and New Delhi 2001, pp. 24.
- ³⁷ When several rural development actions meet these requirements, preference will be given to those that continue actions successfully implemented or supported by the EC under previous action programmes. Priority should also be given to activities that either contribute to the strengthening of co-operation among developing countries at the regional level or that are likely to have a cross-border impact.
- ³⁸ Compare: Thomson, Anne M.: *Food Security and Sustainable Livelihoods: The Policy Challenge*, The Society for International Development. SAGE Publications, London, Thousand Oaks, CA and New Delhi 2001, pp. 24–28.
- ³⁹ Policy Orientation Paper 05/03/02, S. iv; compare as well: International Food Policy Research Institute (IFPRI): *Reaching Sustainable Food Security for All by 2020. Getting the Priorities and Responsibilities Right*, Washington D.C., May 2002.
- ⁴⁰ Compare: Statement, Communication, p. 20, Policy Orientation Paper 05/03/02, S. iv, compare: International Food Policy Research Institute (IFPRI): *Reaching Sustainable Food Security for All by 2020*, p. 11, as well as: *Agricultural Sub-Sector Strategy Paper* (October 2000), pp. 20f, 37, 54.
- ⁴¹ International Food Policy Research Institute (IFPRI): *Reaching Sustainable Food Security for All by 2020*, p. 11.

- ⁴² Compare: “Reaching Sustainable Food Security for All” and Holtz, Uwe: “IFPRI’s Visions: Future Should Be Faced with Confidence”, International Food Policy Research Institute, Available at: <http://www.cgiar.org/ifpri> (Accessed 6 February 2003).
- ⁴³ Compare: Support for economic policies enhancing economic growth in rural areas, Available at: <http://www.europa.eu.int/comm/development/rurpol/outputs/policy/html/>.
- ⁴⁴ For data connected to the EDF role in the European Development Policy: 2000/770/EC: Internal Agreement between Representatives of the Governments of the Member States, meeting within the Council, on the Financing and Administration of Community Aid under the Financial Protocol to the Partnership Agreement between the African, Caribbean and Pacific States and the European Community and its Member States signed in Cotonou (Benin) on 23 June 2000 and the allocation of financial assistance for the Overseas Countries and Territories to which Part Four of the EC Treaty applies, *Official Journal L 317, 15/12/2000, p. 0355–0372*.
- ⁴⁵ Studies of the outcome of virtually every land reform programme carried out in the Third World since 1945 show land distribution to be a very effective way to improve rural welfare and distinguish between “re-distributive” (quality land is redistributed to the poor) and “non-egalitarian” (poor quality land is given to beneficiaries) reforms. Compare: Winfuhr, Michael: Agrarian Reform and Rural Development, *Development and Cooperation*, No 2/2002, p.12.
- ⁴⁶ Compare: DSE2001: Zimmermann, Willi: Fair Access to Land and Security of Land Rights. An Updated Strategy on Land Reform, in: Access to Land, Innovative Agrarian Reform for Sustainability and Poverty Reduction, Documentation of the International Conference in March 2001, pp. 27–31.
- ⁴⁷ There are also many other problems which have to be faced in this context, for example, the problem of land speculations or a distance from villages to cities where almost all institutions responsible for land ownership are settled. Compare: Winfuhr, Michael: Agrarian Reform and Rural Development, p. 14.
- ⁴⁸ For further data on the so-called hunger facts see: <http://www.wfp.org>. (accessed 9 February 2003). Due to the lack of food, for instance, about 200 million children are endangered of suffering mental retardation and physical stunting.
- ⁴⁹ For a closer elaboration on the multiple dimensions of poverty compare: Killick, Tony, Asthana, Roli: Poverty: A Multi-dimensional Concept, in: Cox, Aiden, Healey, John: European Development Cooperation and the Poor, London, New York, 2000, pp. 179–183.
- ⁵⁰ Communication from the Commission: Fighting Rural Poverty, COM (2002) 429 final, p. 16.
- ⁵¹ Definition adopted by the Agency for International Development in 1992. Compare as well: Tweeten, Luther G.: Food Security, in: Tweeten, Ludger G., McClelland, Donald G. (eds.): Promoting Third-World Development and Food Security, Westport 1997, pp. 225–256.
- ⁵² This shift is a process still ongoing. In recent years, food aid in-kind has declined from

- 90% of all funds allocated in 1993 to roughly 40% in 1999. Food security support accounted for 57% of allocated funds in 1999, early warning system and storage programmes for the remaining 3%. Compare COM (2001) 473 final, p. 3. However, food-aid operations in the context of food security programmes have to be differentiated from, but ideally are complementary to, humanitarian aid managed through ECHO. The International Food Aid Convention from 1999 provides a frame of reference for food-aid allocated in kind.
- ⁵³ Compare: Annual Report, p. 28.
- ⁵⁴ Compare: http://www.europa.eu.int/comm/europeaid/projects/foodsec/introduction_en.htm (Accessed 8 February 2003).
- ⁵⁵ Compare: Meyer, Sabine: Rinder mit Pferdefüßen. Nahrungsmittelhilfe nährt Versorgungskrisen, in: Telkämper, Willi (ed.): Zwischen Hegemonie und Partnerschaft. Zur europäischen Nord-Süd-Politik, Brüssel 1998, S. 29–33.
- ⁵⁶ Communication from the Commission to the European Parliament and the Council: Evaluation and future orientation of Council Regulation (EC) No. 1292/96 on Food Aid Policy and Food Aid Management and Special Operations in Support of Food Security, COM (2001) 473 final, p. 6.
- ⁵⁷ Compare: Alfonso, Cesar Debén, von Steekelenburg, Pieter: The Current European Policy and Programmes on Food Security, pp. 591–600; as well as: [www.http://europa.eu.int/comm/europeaid/projects/foodsec/introduction_en.htm](http://www.europa.eu.int/comm/europeaid/projects/foodsec/introduction_en.htm) (Accessed 8 February 2003).
- ⁵⁸ COM (2001) 473 final, p. 3.
- ⁵⁹ Measures in the area of early warning systems and storage programmes, only undertaken in countries receiving food aid, are e.g. research studies, the establishment of infrastructure, etc.
- ⁶⁰ Compare: [www.http://europa.eu.int/comm/europeaid/projects/foodsec/introduction_en.htm](http://www.europa.eu.int/comm/europeaid/projects/foodsec/introduction_en.htm) (Accessed 8 February 2003).
- ⁶¹ In 2000, direct aid amounted to • 196 million.
- ⁶² Compare: Le Programme Communautaire d'Aide et de Sécurité Alimentaire. Available at: http://www.europa.eu.int/comm/development/sector/food_fr.htm (Accessed 8 February 2003).
- ⁶³ PRSPs and CSPs referred to previously in this context also play a decisive role.
- ⁶⁴ Among the main implementing organisations receiving money are the World Food Programme (WFP) or the International Emergency Food Reserve (IEFR). Indirect aid allocated to NGOs either takes the form of a financial contribution to EuronAid or to single NGOs for specific projects on the basis of a call for proposals. In 2000 the total amount of indirect aid was 213.65 million •. Compare: Annual report, p. 30 f.
- ⁶⁵ Compare: COM (2001) 473 final, p. 11 f.
- ⁶⁶ *Ibid.*, p. 10 f.
- ⁶⁷ COM (2001) 473 final, p. 21 f.
- ⁶⁸ *Ibid.*

- ⁶⁹ The education of women and girls, for instance, is of vital importance for the achievement of food security on household level and for progress in the realm of food utilisation.
- ⁷⁰ There are many examples showing a negative impact of a lack of coherence between the EU development policy and its Common Agriculture Policy or its policy in the field of trade, see: Martina Schaub, Handel(n) gegen den Hunger, DED-brief 4/2001, S. 8–10; von Urff, Winfried: Development and agricultural policies of the European Union – more coherence is needed, pp. 50–53.
- ⁷¹ For general information about the CAP: Urff, Winfried von: Agrarpolitik, in: Weidenfeld, Werner, Wessels, Wolfgang (eds.): Europa von A bis Z, Bonn 2000, pp. 63–70. Compare for a survey assessing the impact of the Common Agricultural Policy on cereal markets in African countries and drawing devastating conclusions: Cramon-Taubadel, Stephan, Werheim, Peter, von Braun, Joachim, Koester, Ulrich: Assessing Coherence between the common Agricultural Policy and the EU Ddevelopment Policy: The Case of Cereals in African ACP countries, Kiel 1996, pp. 3–5.
- ⁷² Compare: Fritz, Thomas: Market Access Problems for Developing Countries in the Agricultural Sector, Bonn 2001, pp. 8 ff.
- ⁷³ Compare: Brandt, Hartmut: The EU's Policy on Fisheries Agreements and Development Cooperation: The State of the Coherence Debate, Reports and Working Papers 1/1999, Berlin 1999, pp. I–V; as well as OECD/DAC: Peer Review of the Development Cooperation Policies and Programmes of the European Community, 6 June 2002, pp. 66–69.
- ⁷⁴ Compare: OECD/DAC: Peer Review of the Development Cooperation Policies and Programmes of the European Community, 6 June 2002, pp. 64 f.
- ⁷⁵ A theoretical basis for the multisectoral approach can be found in the European Community Development Policy: Statement by the Council and the Commission, pp. 3–6 (priority areas and horizontal aspects).
- ⁷⁶ OECD/DAC: Peer Review of the Development Co-operation Policies and Programmes of the European Community, 6 June 2002, p. 5.
- ⁷⁷ Compare as well: VENRO (ed.): Globale Armut – Europas Verantwortung, pp. 7–14.
- ⁷⁸ *Ibid.*, p. 12.
- ⁷⁹ The globalization process and the end of the Cold War drastically changed the conditions for and the interest of the EU and had a significant impact on its development policy. Previous to the negotiations of the Cotonou Agreement there was a lot of skepticism voiced whether this traditional partnership would still prevail. Compare: Weiland, Heribert: Von Lomé zu Cotonou, *Ibid.*, p. 49.
- ⁸⁰ World-wide 50 billion US\$ are spent on agricultural subsidies and only 50 billion US\$ on development aid.
- ⁸¹ Pinstrup-Andersen, Per, Pandya-Lorch, Rajul: Who will be fed in the 21st century?: Solutions and Action, in: Wiebe, Keith, Bellenger, Nicole, Pinstrup-Andersen, Per: Who will be fed in the 21st century?: Challenges for Science and Policy, IFPRI: Washington 2001, pp. 81–85, p. 82 f.

⁸² Enlargement In May 2004 when Poland, Czech Republic, Slovakia, Hungary, Slovenia, Lithuania, Latvia, Estonia, Malta and Cyprus accessed the EU, and enlargement in January 2007 when Bulgaria and Romania became members of the European Union.

⁸³ There are, however, critics claiming that proposals on the EU foreign and security policy in the European Constitution risk not only marginalising development policy, but instrumentalising development instruments, such as aid. Compare: www.europe.eu.int/futurum/index_en.htm; (Accessed 11 January 2007).

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