

THE SENATE

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**CANADA, RUSSIA AND UKRAINE:
BUILDING A NEW RELATIONSHIP**

Report of the Standing Senate Committee
on
Foreign Affairs

Chair

The Honourable Peter Stollery

Deputy Chair

The Honourable Raynell Andreychuk

June 2002

Ce rapport est disponible en français.

MEMBERS

The Honourable Peter Stollery, *Chair*

The Honourable Raynell Andreychuk, *Deputy Chair*

and

The Honourable Senators:

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*Sharon Carstairs, P.C. (or Fernand Robichaud, P.C.)

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*John Lynch-Staunton (or Noël Kinsella)

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In addition to the Senators indicated above, the Honourable Senators David Angus, Norman Atkins, Joseph Day, Sheila Finestone, P.C., Ross Fitzpatrick, George Furey, James Kelleher, P.C., Colin Kenny, Marie-P. Poulin (Charrette), Marcel Prud'homme, P.C., Douglas Roche, Terry Stratton, James Tunney, Nicholas Taylor, and the Very Reverend Lois Wilson were members of the Committee at different times during this study or participated therein during the Second Session of the Thirty-Sixth Parliament or the First Session of the Thirty-Seventh Parliament.

Staff from the Parliamentary Research Branch of the Library of Parliament:

Peter Berg, Research Officer
John Wright, Research Officer

Line Gravel
Clerk of the Committee

ORDER OF REFERENCE

Extract from the *Journals of the Senate* of Thursday, March 1, 2001:

The Honourable Senator Stollery moved, seconded by the Honourable Senator Taylor:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report on emerging political, social, economic and security developments in Russia and Ukraine; Canada's policy and interests in the region; and other related matters;

That the papers and evidence received and taken on the subject and the work accomplished by the Senate Standing Committee on Foreign Affairs during the Second Session of the Thirty Sixth Parliament be referred to the Committee;

That the Committee submit its final report no later than June 28, 2002, and that the Committee retain all powers necessary to publicize the findings of the Committee contained in the final report until July 31, 2002; and

That the Committee be permitted, notwithstanding usual practices, to deposit its report with the Clerk of the Senate, if the Senate is not then sitting; and that the report be deemed to have been tabled in the Chamber.

After debate,

The question being put on the motion, it was adopted.

Paul Bélisle
Clerk of the Senate

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FOREWORD

This Senate Report is the first ever in depth study of Russia and Ukraine by a Canadian Parliamentary committee.

Canada has longstanding interests in Europe in trade and investment and defense. The Senate Foreign Affairs committee has closely followed these interests for some years. We have completed two reports on Canadian trade and investment relations with the European Union. We know about the eastward expansion problems of the EU and their potential impact on Canada.

Canada is a founding member of NATO and when the committee was asked to look at NATO and peacekeeping about which we reported in April 2000, our enquiries led us repeatedly to questions about what was happening in Russia and Ukraine. So this report is the result of years of work in which we saw European affairs moving further and further east and committee members' increasing concern about what that means for Canada.

The Senate formally referred the subject to the Foreign Affairs Committee and we started our main hearings in March 2001 with the intent of visiting Russia last October and completing our report early this year. Unfortunately the World Trade Centre disaster and the disruption that followed made it impossible to visit Russia and Ukraine. We will correct that in the future.

In the meantime, though we couldn't go to Russia, in a way, Russia came to us.

Important people took the time to meet, sometimes with all the committee members and sometimes, because that was impossible, with some senators. I have to say that Russian Ambassador Churkin went out of his way to ensure that if possible, committee members got to meet and question whoever came to Ottawa from Moscow. Of course, as we became more knowledgeable, our questions got better.

Some senators met privately with President Putin. We met with current Prime Minister, Mikhail Kasyanov; current Deputy Prime Minister, Victor Khristenko; former Prime Minister, Sergei Kiryenko; current Speaker of the Duma, Gennady Seleznyov. Conversations were free-ranging. In the case of President Putin, when protocol people told him he had another appointment, he waved them away, in favour of continuing the meeting saying, " We have good questions and I want to answer them properly".

Not only are these men some of the most prominent men in Russia today, impressive intellectually, but think of their ages. Duma Speaker Seleznyov is the oldest at 54. President Putin is 49. Prime Minister Kasyanov is 44 and so is Deputy Prime Minister Khristenko. Former Prime Minister Kiryenko, who is now Presidential Representative to the important Volga Region and Chairman of the Russian Chemical Disarmament Commission is 39 years old.

Russia is moving forward. There is no doubt about that. Probably the most immediate international impact is on the oil and gas business. Russia is now the world's second largest exporter of oil after Saudi Arabia. It is seen in Western Europe as the secure supply of natural gas that Canada is to the United States. As our report points out, the Caspian Basin represents the most significant gas and oil discovery in the past 30 years. There will be even more intense competition for pipeline routes. Azerbaijan, Iran, Turkmenistan, and Kazakstan share the Caspian with Russia.

Does Canada not have an interest in a successful Russia? I think we do because a successful Russia should be a more stable Russia, good for everyone. Our report describes the mostly dismal legacy of the Soviet regime but the democratically elected government seems determined to improve the standard of living of Russians.

In a world of bad news stories, I think Russia is a good news story.

I am sorry that we did not go to Ukraine. We had some good witnesses. There is great interest in Ukraine, by Canadians of Ukrainian descent. One of the numbers that stands out in my mind is that nearly 50,000 visas were issued last year by the Ukrainian Embassy for Canadians visiting Ukraine. But I will let our chapter on Ukraine speak for itself.

On behalf of the members of the Foreign Affairs Committee, I would like to thank our staff. They worked very hard. Ms. Line Gravel, our clerk, was a model of efficiency as she managed our administrative, budgetary and logistic operations. Together with her colleague, Mr. Till Heyde, she expedited our labours greatly.

Likewise we were supported by capable and diligent research staff. We could not have done our report without Peter Berg and John Wright of the Parliamentary Library and David Murphy from my office.

Peter Stollery, Chair

PREFACE

Russia and Ukraine have emerged from the collapse of the Soviet Union to present Canada and Canadians with opportunities as well as a complexity of issues generated by the two countries' ongoing political and economic reforms. A comprehensive survey of the two states is not the purpose or intent of the Committee's investigation. Rather, the Committee has chosen to examine certain topics selectively. These deal primarily with the relative newness of Canada's emerging relationship with a new Russia and a new Ukraine.

This report is less about where Canada has been with regard to long-standing issues between our countries common bonds such as agriculture, climate, geography, custodianship of the North, family ties, and sports – for often those issues were subsumed under relations with the Soviet regime. Rather, this report focuses on the internal dynamics that shape reform in Russia and Ukraine, what those dynamics might entail for Canadian interests and, ultimately, how best we can offer assistance and advice. Ultimately, the goal is to create a healthy, long-term relationship with two potentially important partners in international affairs.

The Committee heard a considerable amount of testimony. There were 17 officially recorded meetings comprising 59 witnesses. In addition, Committee members met with some of the most important and senior Russian officials, including President Putin himself,¹ former Prime Minister and current Presidential Representative Sergei Kiryenko, Deputy Prime Minister Viktor Khristenko, and Co-Chairman of the State Duma Gennady Selezney. The Committee also travelled to Washington to hear testimony from Canadian and U.S. experts from research centres and government departments. This trip comprised an additional six meetings with 20 further witnesses. This report contains the Committee's reflections on the priorities expressed by this wide collection of witnesses.

The Committee, after reflecting on the information, observations and analysis provided by the various witnesses who appeared before it, as well as by the materials that we have received, has arrived at a number of recommendations concerning Canada's future relations with Russia and Ukraine. We strongly believe that by implementing these recommendations, Canada can play an important role in working with the two countries toward building a solid, secure and mutually beneficial partnership for the future.

1 This meeting was held *in camera*.

PART 1 – RUSSIA

INTRODUCTION

Soviet foreign policy and military capacity were historically of great concern to decision-makers and analysts throughout the world. With the collapse of the Soviet Union, however, much attention has been paid as to what this might mean for Canadian foreign policy and for international politics. The expansion of NATO (the North Atlantic Treaty Organization) in the light of Soviet collapse certainly brought post-war Western Europe – and North America – to the borders of Russia. These new developments prompted the Standing Senate Committee on Foreign Affairs to undertake a review of NATO and Canada's position within this Alliance.²

As Russia continues with the difficult tasks of economic and political transformation, Canadian engagement with Russia should involve a more complex range of issues than the traditional military/security ones. For Canada and the world, Russia presents opportunities and challenges across a wide range of issues as diverse as trade, international finance, technical assistance, co-operation against criminal activity, international security, as well as difficult domestic issues (e.g., the growth and spread of multiple-drug resistant tuberculosis³ and the link between economic growth and political stability) which may impact Canadians directly or indirectly.

During the course of its study, the Committee has become increasingly encouraged about Russia's evolution and its contribution to the world. For example, Russia is a source of dynamic, educated, skilled entrepreneurs and workers. It is a key partner in the international space station, providing irreplaceable experience and skills. It is a potential partner in stabilizing difficult international situations and remains crucial to managing multilateral security regimes. Russia has demonstrated its importance in a positive manner, most recently through President Putin's support in the "war against terrorism." There is also an opportunity to change Eurasian relations fundamentally for the first time since the inception of the modern state system and to bring Russia fully into the fold of what Boris Yeltsin described as the family of civilized states. Opportunities now exist, at multilateral and bilateral levels, to work with Russia as it attempts to integrate more fully into contemporary global society.

Transformation in Russia changed the world in 1814, in 1917 and again in 1991. And yet transformation never fully took root. Ten years after the collapse of the Soviet Union, the Committee is asking the most difficult question: whether a fundamental transformation is

2 *The New NATO and the Evolution of Peacekeeping: Implications for Canada*, 7th Report of the Standing Senate Committee on Foreign Affairs, 2nd Session, 36th Parliament, April 2000.

3 Tuberculosis is reasserting itself as a public health issue in Canada. See, for example, "Efforts Against Tuberculosis Not Good Enough," *Globe and Mail*, 24 April 2002.

occurring in Russia this time. The bulk of this report, therefore, comprises observations made on the nature, direction and state of Russia, particularly under the new leadership of President Putin.

To traverse the entirety of Russian politics would be as difficult as to traverse the country itself. This report is not intended to be encyclopaedic. As travellers do when they have limited time in such a huge country, the Committee has had to “fly over” large sections of Russia – either glimpsing them briefly from afar or noting their existence. There are many aspects of Russia the Committee has not yet seen: aspects that would merit a study in themselves. Absent, as yet, is evidence on many important issues – the question of nationalities, the unique strains and varieties of Russian nationalism, Northern policy, indigenous peoples, Russia and the near abroad, the environment, labour relations, gender issues, arts, and cultural industries – to name but a few. This report can but represent an interim stop on the journey of Canadian-Russian understanding. Its focus is not limited to studying traditional ties and understandings built up through and beyond the Soviet era, but rather to explore the development of normalized relations with a new, emerging economic and political partner.

This report focuses on the major theme presented to the Committee by the witnesses, and the one question to which all issues in Russia tend to be subsumed: what President Putin’s presidency might mean for Russia, and therefore for Canada. His proclaimed goal is to transform Russia into a liberal-democratic state with a viable, rules-based, market economy. The assumption is that the world needs Russia to become more fully functional, viable, democratic, economically prosperous, and a keystone in the arch of a peaceful and prosperous world. We would all be the better for it.

RUSSIA TODAY

A. Geography and People

When the Committee met over the course of the study, there were salutary reminders of the complexities and contradictions involved in such an ambitious undertaking as the examination of Russian affairs. The sheer size alone of Russia is impressive. It spans 11 time zones from Poland to China, and extends as far north as the northern reaches of Canada and as far south as Turkey.

Yet this description of Russia's size is, in some ways, misleading. If maps were drawn to economic scale, Russia would be approximately the size of the Philippines and dwarfed by its neighbours in Western Europe. Depending on which estimates are used, the Russian economy is a mere one-third to one-half of its 1991 level.⁴ Alternatively, if maps were produced to the scale of population, with its 146 million people Russia would be less than half the size of the United States and only 1½ times (and shrinking) the size of the now united Germany.

The Russian Federation comprises 89 regions, each with varying degrees of independence from the centre. At one extreme is Chechnya, in open conflict with the federation. At the other is Moscow, the centre of politics but a city that is often erroneously equated with Russia as a whole. For some regions, what happens in Moscow is as remote today as it was 100 or 300 years ago.

Furthermore, Russia is officially a multinational state. Although Russians themselves comprise slightly over 80% of the population, the Russian census recognizes more than 70 distinct nationalities across the country. In all, there are over 100 languages spoken. Officially, Russia has four state-approved religions.⁵ Orthodoxy comprises 75% of the population, Islam 19%, and other religions 6%.

B. Culture and Identity

Questions of culture and identity are addressed in greater detail later in this report. To presage those sections, here it can be stated that whatever Russians feel themselves and Russia to be, there is a strong sense that Russia represents a unique culture that is neither Western nor Eastern. Much of Russian identity has been shaped by its size and the ferocity of its history. The Committee was told that Russians believe strongly their country should assume the role of a great power, with a natural sphere of influence from Eastern Europe through to Asia and with influence on the global stage. This belief could provide a strong framework within which Russian politics might have to operate.

4 Russian GDP stood at \$US 310 billion in 2001.

5 The four are Orthodox Christianity, Islam, Buddhism, and Judaism.

C. Social Conditions

The Committee heard considerable testimony on the challenges facing Russia and the resulting strains placed on Russia's health care system, on Russian living conditions and on the Russian social safety net.

1. Health and Demography

The Committee heard evidence to indicate it would be no understatement to describe Russia's socio-demographic condition as one in crisis. Indeed, the declining quality of life for Soviet residents contributed to the collapse of the Soviet Union. Since 1991, there has been little progress (apart from the definite progress on liberty) in reversing this downward trend.

Murray Feshbach (School of Foreign Service and the Centre for Political and Strategic Studies, Georgetown University) stated that by 2050 the Russian population was projected at best to fall by approximately one-third to about 100 million people. Already, according to Larry Black (Professor, Institute of European and Russian Studies, Carleton University), Russia is drastically under-populated for the territory it must manage. Moreover, the average lifespan for a Russian male now stands at a mere 58 years. Keith Bush (Director, Russia and Eurasia Program, Centre for Strategic and International Studies, Washington, D.C.) indicated to the Committee that the absence of labour supply and consumer demand stimuli normally required for economic growth could soon become a critical, if not insurmountable, barrier to Russian economic development.

Mr. Feshbach informed the Committee of several serious diseases prevalent in Russia. For example, AIDS is running unchecked, particularly in the prison population. This epidemic often occurs in combination with multiple-drug resistant tuberculosis. In Russia as a whole, it is projected that after 2005 10 million males between ages 15 and 29 will die from these two factors alone. Other diseases causing concern owing to their prevalence include malaria, syphilis and other sexually transmitted diseases, and hepatitis C and B.

Stunting and wasting are becoming prevalent among Russian youth, with only some 10-15% of the under-15 population healthy according to leading Russian paediatricians. The head of the Moscow military district indicated that 40% of draft-age men available to him were not sufficiently fit to serve.⁶ The age cohort of young women that traditionally provides the bulk of births in Russia (19-29) has suffered a dramatic drop in fertility owing to illness, poverty and sexual diseases.

6 This statistic potentially outlines a class division in the health of Russians. Fully one half of Moscow draft-age males are university students and also ineligible for the draft. In essence, 80% of the remaining are not fit enough to serve.

Of concern to the Russians and other countries are transmission rates for many of these diseases, now that the opening of Russia to travel and emigration has increased contacts with the outside world. Trafficking in women – the sex trade – is of particular concern. Not only is sex slavery reprehensible in itself, it is also a vehicle for the spread of Russian organized crime⁷ and it spreads many sexually transmitted diseases with it.

Russian resources to deal with the issue are limited in several ways. One is an absolute shortage of money. Of the 500,000 cases of AIDS last year, the government could afford to treat only 1,000, according to Murray Feshbach. This problem might be remedied most directly by addressing improvements to the economy, by using more efficient revenue-gathering methods and, where relevant and welcome, by enlisting the resources and expertise that the international community could provide.

The second limitation has to do with the delivery of services. Most factors contributing to improved health (e.g., health care, waste management, municipal infrastructure, education) are in the hands of local government. As John Young (Professor, University of Northern British Columbia) told the Committee, some of these functions need to be placed with regional or federal authorities.⁸ Other functions do not present jurisdictional problems but require additional resources. In the context of the delivery of services, municipal organizations are particularly affected by an acute shortage of available resources.

Third, a demographic shortfall could be addressed by immigration. This hope was expressed to the Committee by Deputy Prime Minister Khristenko, who indicated that Russia should have a new immigration policy within the year. Should Russia achieve economic and political renewal, net immigration is not an unrealistic expectation over the long term. It was noted that there are some 14 million Russians living outside Russia in post-Soviet regions, many with useful skills and the desire to return. In the short term, however, net immigration continues to be low.

Migration might also raise other issues. Certain Russian statements on immigration appear aimed predominantly at encouraging Russians to return home. The non-Russian population of the country is growing whereas that of ethnic Russians is not. There also exists in the Russian Far East a large population of illegal immigrants from China.

2. Income

GDP/capita is estimated at US\$1,700, a figure less than one-tenth the Canadian level. Russia now has a considerable polarization of wealth. A few Russians, the so-called “New Russians,” are wealthy beyond the scope of most people (Russian or Western),

7 See the section on crime and corruption for more details on the nature of Russian organized crime.

8 See the section on local government for the full context of these remarks.

whereas many others live in poverty. According to World Bank figures, approximately 30% of Russians actually live below the poverty line.

Another point to consider is that whereas official unemployment for 2001 is a projected 10%, the real extent of unemployment may be hidden and unemployment benefits are meagre. Andrea Chandler (Professor, Institute of European and Russian Studies, Carleton University) told the Committee that once unemployed, it is difficult for a Russian to break the cycle of unemployment. Economic shrinkage and restructuring have different consequences for most Russians than they do for most Canadians.

A critical fact brought to the attention of the Committee was that the Russian middle class was approximately 10-15% of the population. According to Stephen Grant (Chief, Russia, Ukraine and Commonwealth Branch, Office of Research, U.S. Department of State), this percentage would be insufficient in a Western country to sustain the core constituency necessary for a liberal democracy. By comparison, socio-political elites as a whole comprise 4-20% of the population, depending on how the measurement is made. Most estimates fall in the low end of that range.

D. Transparency

Many Russians look to Vladimir Putin to address their concerns about crime and corruption. These issues comprise part of what Russians think of when they complain about the “anarchy” of the Yeltsin years.

The Committee received little evidence from witnesses on the prevalence of ordinary crime. Indeed, statistics on crime and other issues are difficult to ascertain in Russia, because the resources to collect and report standardized data are inadequate and incentives to misreport may be prevalent. Furthermore, Soviet social statistics are highly suspect, so comparative analysis is doubly difficult. Nonetheless, it seems evident that crimes against property and crimes against people are of genuine concern.

We were also told that more resources and training are required for the Russian police. As with many other basic functions of the state, the most important actions taken by the Putin government are those aimed at stabilizing and increasing revenue (i.e., tax reform).

On organized crime and corruption, the Committee heard that genuine organized crime emanating from Russia has established a global presence. Angus Smith (Criminal Intelligence Directorate, Royal Canadian Mounted Police) told the Committee that the Soviet gulag system was the breeding and training ground for a large, criminal network with a close and strong criminal culture. In this culture, crime represents survival for a people who have endured Stalin, Hitler and the gulag.

The necessity of breaking the law to get things done in the Soviet economic system augmented a criminal presence in Russian society. With the collapse of the Soviet

Union, these criminal gangs were well positioned and extremely capable. As Angus Smith testified, Western agencies were initially unprepared for the speed, ruthlessness and violence with which Russian gangs entered the West. “In its North American manifestation, Russian organized crime has come out of nowhere. They have transformed themselves from faceless underworld thugs to major international criminals in less than a decade. They have managed to avoid that process that we so often see with organized crime – Italian or Asian, outlawed motorcycle gangs – of gradual assimilation, entrenchment and multi-generational evolution. This has meant that the learning curve for the police has been steep. We have not had a chance to observe, adjust to them, get used to them and grow up with them, in effect.”

The close culture of Russian gangs has made them more difficult to penetrate and police agencies are playing catch-up, although not without success. Angus Smith went on to describe how, in co-operation with American and Russian authorities, the RCMP completed an investigation that led to the deportation of Vyacheslav Sliva, an important figure in Russian organized crime, who was then a resident of Toronto.

E. Education

The legacy of the Soviet Union is one of a well-educated and literate society, although Murray Feshbach suggested to the Committee that from his personal experience, Soviet and Russian statistics may overstate literacy rates. The Committee was apprised as to the difficulties such an evidently literate and scientifically able society seemed to be facing in translating these skills successfully to create a liberal-democratic state.

The Committee heard from Piotr Dutkiewicz (Director, Institute of European and Russian Studies, Carleton University), who has been an education consultant to the Russian government. He indicated to the Committee that the current state of the Russian education system is suffering from the financial shortfalls that bedevil Russia as a whole. As much as 65% of the Russian education budget is eaten up by maintenance costs, and while teachers are in general receiving salaries, large arrears have occurred.

With regard to the content of current education programs, the federal government effectively directs the current curriculum both through regulation and through control of resources. Russians and the Russian state continue to see education as a vehicle for advancement. However, Professor Dutkiewicz noted that there is an effort to inculcate “Russian values” (e.g., the values of collectivism, orthodox religion and traditional respect for the state and authority) through the curriculum. This objective certainly seems to be in accordance with general sentiments within Russia as well as sentiments expressed by many Russian public officials. The Russian education system seems to reflect the ambivalence of Russian society with regard to transition by promoting the (sometimes) contradictory messages of Westernisation and Russification at the same time.

Mechanisms are available for the state to exert pressure on individual educators, mainly through the requirement for regular re-accreditation. Overt censorship does not seem to be the issue it was in the Soviet era. Rather, the requirement to build a whole and functional Russian society can cast challenging questions that are uncomfortable for many Russians and that are perhaps difficult to deal with. Therefore, the possibility arises that educators will be less interested in questioning authority than in accomplishing their educational goals.

Finally, it should be noted that the majority of educators in the system are products of the Soviet era. Younger teachers coming into the system are more flexible and energetic in their approach. This intergenerational tension manifests itself in a struggle between flexibility and rigidity in pedagogy. The challenge for Russia is to overcome conservative elements within the educational system that resist new techniques and material. The Committee recognizes that this is not an issue or a mindset unique to Russia, but it does bear noting that current educators in Russia who have more than 12 years' experience were previously teaching in the Soviet Union.

F. Social Welfare

While the Committee did not gather full evidence on the details of social welfare programs, a broad picture has started to unfold. Andrea Chandler presented pension reform to the Committee as one example of the difficulties involved in social welfare reform.

These difficulties can be summed up as follows. First, little money has been injected and the problem of pension arrears has, only recently, been addressed. Inflation, made worse by the sudden devaluation of the rouble in 1998, has also eaten away at fixed incomes. Pensions were separated from the general budget in 1991 in order to insulate them from general budget problems. However, this has made them vulnerable in that they are now expected to be self-financing.

Second, social welfare reform is strongly contested in Russian politics. Several witnesses informed the Committee that Russians see a legacy from the cradle-to-grave system promulgated, if not fully delivered, under the Soviet system. Many Russians view attempts to reform the system with suspicion as World Bank and IMF impositions.

Third, whereas the Soviet system was an integrated whole in the planning and delivery of services, the same institutions became dysfunctional with the removal of central planning. Services are now spread across three levels of government with their concomitant regional variations. The capacity to develop effective programs and the accountability to deliver responsible ones has been severely diminished. In short, "the government administrative apparatus has too many entities, performs many functions that

could be considered for devolution to the private sector, and is over-staffed with poorly remunerated and disciplined employees.”⁹

G. Chechnya in Russian Domestic Politics¹⁰

The issue of relations with the Chechen peoples has been a part of Russian politics since the time of Catherine the Great. Politics in the Caucasus, with its overlapping national conflicts, has always tended to be complex. Soviet policy furthered this complexity by creating awkwardly drawn boundaries that aggravate irredentism within Russia and across the Caucasus as a whole. Chechnya presents an almost intractable problem for Russia and for President Putin.

In Russia, Chechnya is viewed as a matter that is internal to the Russian Federation. Foreign policy toward Russia has raised issues of human rights, a general lack of transparency, and the exclusion of observers from the region. However, Russia’s stated position is that no state would tolerate problems of lawlessness or instability within and across its borders. The Committee was informed that Russia justified the second Chechen conflict by citing NATO out-of-area operations.

There is also the issue of oil. Chechnya is important to Russia’s plans to export Caspian Sea oil through Russia to the West. Chechnya abuts a crucial section of pipeline leading to the oil terminal at Novorossisk. As Bohdan Klid (Professor, Canadian Institute of Ukrainian Studies, University of Alberta) informed the Committee, ‘Part of the reason for the war in Chechnya is that the Chechens wanted a cut and the Russians claimed it all for themselves. That is a simplification of the matter.’

The current situation remains unresolved. Meanwhile, as Fiona Hill told the Committee, Chechnya is harming Russian politics. First, the cost of dealing with the conflict in Chechnya is virtually equal to what Russia earns in hard currency through arms sales.

Second, Chechnya has complicated the status of Russian democracy and the credibility of the state. The involvement of the security forces in Russia and in Chechnya is of concern, as has been the government’s handling of the media regarding Chechen issues. Third, there have been human rights abuses in Chechnya, although Russia has recently launched a few high-profile trials against alleged abusers.

9 Memorandum: The President of the International Bank for Reconstruction and Development and the International Finance Corporation to the Executive Directors on a Country Assistance Strategy of the World Bank Group for the Russian Federation (<http://www.worldbank.org.ru/eng/group/strategy/strategy5.htm>).

10 The Chechen issue is handled here with respect primarily to its Russian domestic policy implications. For the impact of Chechnya on Russia’s relations with the West, see the sections on Russian foreign policy and the Post September 11th situation.

Fourth, Chechnya has created problems for the Russian military. According to Fiona Hill, there are morale issues and conscription problems, compounded by recruitment procedures that disproportionately affect only certain Russian regions.

Finally, the Chechen issue could become a problem for Vladimir Putin. While the main military campaign is over, the longer Chechnya remains mired in conflict the greater the potential for his support to decline. At the same time, however, the political solution will require compromise. Any attempt at moderation by Putin that is seen to accommodate Chechen separatists or to damage Russian prestige will be punished in the polls, argued Clifford Gaddy.

POLITICS AND THE PUTIN EFFECT

A. Russian Culture and Democracy

On the surface, re-establishing “the politics of order” or “reclaiming the state,” however it may be put, has echoes from Russia’s past. As Russians themselves observe, Russia has had 1000 years of authoritarianism and only 10 years of democracy. Witnesses before the Committee disagreed on the extent to which the Tsarist and/or Soviet heritage had led Russia or Russians towards autocracy. However, the inference from most of the testimony to the Committee on this subject is how ancient and recent historical experience have combined to invest the authority of the Russian President in the person rather than in the office of President. The role and character of the President of Russia should not be readily discounted.

When questioned, all witnesses indicated that Russian culture was somewhat different from that of the West, and that this difference did have an effect on how Russians went about their daily lives and how they practised their politics. However, even expert testimony had difficulty expressing clearly or adequately the exact nature of these differences, which signals to the Committee how careful one needs to be when introducing the deeper elements of cultural behaviour into the equation. Nonetheless, a sketch of the cultural picture emerged.

Historically, Russians have valued the state for providing order. Russia exists in “a rough neighbourhood,” as Sergei Plekhanov (Professor, Centre for International and Security Studies, York University) said. Therefore, the Tsarist state created security from outside at the expense of the protection of the individual from the state itself. In Russia, the costs of both security and development have been historically very high. In the words of Sergei Plekhanov, this reality made it absolutely inevitable that the Russian state that emerged had to be extraordinarily strong, especially at the expense of society.

Furthermore, the Committee was told that Russian legal and social traditions have come in part from the Orthodox Church. Western Christian and Russian Orthodox traditions have developed differently over the past one thousand years, in particular since the Renaissance and Reformation. According to Dr. Magosci, this difference has resulted in differences in the way that people of these religious traditions have historically thought and acted. The Orthodox Church never competed with the secular forces for political power. Rather, the Orthodox Church was integrated into the state. This removed an element of independent civil society and of legal training that existed in Western Christian traditions. Larry Black pointed out also that one of the basic props of our society is Roman contract law, which was transmitted to us through the Catholic Church but which did not come to Russia through Byzantium.

Later in Russian history, serfdom was a fact and the state was a remote, poorly conceptualized, and distant entity to most Russians. When thought of, the state was personally embodied in the Tsar.¹¹ According to Margaret Paxon (Visiting Scholar, Kennan Institute for Advanced Russian Studies and Researcher, Department of Anthropology, University of Montreal), local and personal matters were (and maybe still are) handled through the village, the family and the community, not through the state. Therefore, Russians have historically come to expect little from involving the state in their personal affairs, and their relationship with the state has been as applicant not citizen. Authoritarianism as an instinct pervades the system, according to John Young.

However, according to Blair Ruble (Director, Kennan Institute for Advanced Russian Studies), individual Russians responded much as their Western counterparts did to pollsters on how they value certain indicators of democracy, such as freedom from state interference, freedom of expression, and freedom to pursue economic and leisure activities.

There is also the issue of the legacy of the Soviet Union. The Soviet period was one of intense modernization, urbanization and collectivization. The Committee was told that many traditions were lost and, in some cases, there was a complete break with history, with virtually all of Russians' present-day intuitive preferences and work habits being shaped by 70 years of being governed by the political bureaucracy of the Communist Party of the Soviet Union.

Other witnesses differed in their view. John Young suggested that much of Russia outside the major cities retained some links with traditional rural life. Margaret Paxon informed the Committee that one of the current stabilizing strengths of Russia was that large sectors of the economy remained outside modern Russia and that much of the country was therefore self-supporting in both the economic and the communal-spiritual meaning of the term. Old practices continue and remain relevant in everyday life. Other witnesses cautioned against simplistic urban-rural/modern-traditional classifications. Many Russians, even in large towns, kept one foot in the country and one in the city. Moreover, livestock was a regular feature of urban life.

Joan Debardeleben (Professor, Institute of European and Russian Studies, Carleton University), who has conducted extensive polling in Russia, was perhaps best able to place these general characteristics back into the context of political-cultural behaviour. First, there is the expectation that the state should have a broad scope and be a patrimonial state. Second, there is an emphasis on collectivism over individual

11 Boris Yeltsin echoed this notion when he first came to power in 1991. He refused the offer of the democratic factions to lead them, claiming that the President should sit above politics in order to unite Russia. In reality, this decision furthered the alienation of the Presidency from party politics, in particular weakening democrats and potential, allied, coalition-building in the legislature, culminating in the armed confrontation of 1993. Arguably, Russian party-building has yet to recover from the effects of this development.

achievement. Third, there is a strong spiritual element to Russian life that tempers notions of material comfort and personal gain. It also gives Russians a sense of human solidarity that brings with it a tremendous capacity for endurance. All of this adds up to political choices that may privilege equality and solidarity over greater wealth and individual disparity.¹²

Professor Debardeleben was also quick to point out that this could change as Russia transforms. In some sense, the revolution may be yet to come.

Another aspect of Russian culture and democracy concerns the idea of what democracy actually means in practice to Russians. The answer has two parts. First, many Russians identify democracy with their current situation, not with an abstract notion. Their experience with democracy has not been the same as ours. For these Russians, therefore, democracy is associated with the collapse of the state and of community, and with

12 Professor Debardeleben's exact words are worth quoting:

First is an expectation that the state should have a broad scope, what Richard Pipes calls the "patrimonial state," with the state as owner as well as governor. That strong neo-liberalism concept of getting the state out of everything is not familiar to the Russian mentality.

Second, the same importance is not placed on individual achievement, action and profit gain, and a much stronger collective identification exists which goes against the market idea of people seeing their own personal economic gain as the primary goal of their lives. This collectivism is very strong, even among younger Russians, although weakening to some degree, especially among some of the economically successful younger people.

Third, what I would call a very strong spiritual element to Russian life, the Russian soul, is very much there. ... The love of poetry, art, culture, is related to the spiritual. ... This runs in concert with the collectivism, but somewhat in contradiction to the notion of individuals as rational economic actors. I do not think Russians view themselves that way, that that is their primary motivation in life. They like to live comfortably, but they do not have that same kind of view of personal economic gain as the primary goal of life, ... They can put up with a lot because they have a very strong sense of a different meaning, a different level of meaning, a level of human solidarity which enables them to endure a lot of suffering.

This point is more or less the one that I am trying to get at. There is an element in Russian culture that does not look at it quite that way. Other values are at play here that relate to solidarity and to collective identification. If one asks the classic question, would you rather have both you and your neighbour being poor, or both of you better off but your neighbour significantly richer than you, the Russian inclination is to choose equality and solidarity rather than large differentials, even though they might be a bit better off than they were. The cultural predisposition is different, and it is not all considered in terms of the rational economic actor.

poverty. They link it with crime, lawlessness, corruption, and with wealthy oligarchs and powerful regional bosses. They also associate it with crumbling social services and public infrastructure, with heating shortages and housing crises, and with the advancement of a few individuals' well being at the expense of social decency.¹³ Second, there might be a generational aspect to how democracy is viewed. Younger Russians could be less likely to compare current conditions with Soviet ones and may perhaps be more engaged with what current Russian politics has to offer. In short, however, reminding Russians that contemporary Russia is democratic may not necessarily be the best advertisement for democracy.

This is not to say that most Russians wish to return to Soviet Communism for most do not, despite the evident existence of a hazy nostalgia for the Brezhnev era when “we pretended to work and they pretended to pay us.” The Committee was told that Russian history and culture have provided Russians with great resilience. Recent polling indicates that 50% of Russians say they and their family have adapted to current conditions. Fifty-three percent of respondents said life was difficult but bearable. By contrast, 20% said life was unbearable. Moreover, Russians feel cautiously optimistic about the future: a majority felt that Russia would be a “normal” society within 6-10 years.¹⁴

Witnesses before the Committee were less clear as to whether traditional Russian endurance and fatalism represent a sufficient commitment to, or condition for, democracy, should crises erupt. As previously mentioned, Margaret Paxon informed the Committee that many rural Russians are insulated from the failures of transition by being completely outside the economy – existing in a “natural economy.”¹⁵ This may be good for stability and personal well being, but it is hardly a ringing endorsement that Russians are actively participating in, or have a stake in, formal political and economic life.

Perhaps of some significance for the future shape of Russian democracy, the Russian description of a normal society placed heavy emphasis on the importance of economic stability and basic material comfort over purer notions of democratic rights. Polls indicate strong support for the ideas that people should be able to retire with economic security, that they should be able to find work if they want it, that their wages should not be eaten away by inflation, and that the streets should be safe. Over 70% of Russians feel that government should be strong. Only 58% are of the view that freedom from government or fair treatment by government was important.¹⁶ Then there is the tricky

13 That many of these problems were chronic by the latter years of the Soviet Union and were critical in forcing Gorbachev's reform attempts is for some Russians less relevant than the record of the past 10 years.

14 *New Russian Barometer*, VIII, 19-29 January 2000. Russia Votes: www.russiavotes.org.

15 Until recently, many Russians had limited confidence in the formal, monetized economy (i.e., in the exchange of money).

16 *New Russian Barometer*, VIII, 19-29 January 2000.

issue of “Westernization.” This issue resonates with an age-old question of whether Russians are, or believe themselves to be, European or of the West. Although the Committee cannot play Solomon on this issue, certain observations are possible and, indeed, were made during testimony.

For many Russians, contemporary democracy is linked to Western policy. Emil Payin (Director, Centre for Ethnopolitical and Regional Studies, INDEM Foundation, Moscow) informed the Committee that democracy for some is considered a Western (i.e., alien) concept that is overly harsh, chaotic and destructive to Russian ideals. It was Western economic advisors who helped craft privatization and Western-based multilateral institutions that set, and continue to set, the structural conditions of Russian fiscal and monetary policy. Some Russians see these institutions and policies as actively attempting to destroy Russia, to make it weak and subservient to the West. According to Joan Debardeleben, this opinion is particularly popular among supporters of the Communists and the Liberal Democratic Party of Russia led by Vladimir Zhirinovsky’s party (the two parties from the so-called Red-Brown coalition of Russian nationalism).

This issue of democracy arises also with regard to foreign policy.¹⁷ Russian identity is bound up with an image of Russia as a Great Power. For example, Victory Day (9 May) celebrating the defeat of Germany in The Great Patriotic War (WWII) remains perhaps the single most important national celebration in Russia, and the symbolism of this celebration should not be underestimated.

While some Russians link democracy and Russian weakness negatively, a majority of Russians consider the West more indifferently. According to Stephen Grant, most Russians perceive the West to be neither friend nor foe. Rather, it is a place with which Russian interests can be negotiated. There is potential for ties to grow based on areas of mutual interest.

Therefore, domestic policy, foreign policy, democracy, and Russian identity are inextricably linked by Russia’s declared goal of transformation into an economically strong, liberal-democratic country. The question of whether Russians under President Putin’s leadership can remake a Russian identity that somehow includes the West is vital but remained unanswerable to the Committee’s witnesses. As noted above, public opinion findings compared with Putin’s actions show him to be only slightly and cautiously in the lead of the average Russian regarding movement in this direction.

There is one other question concerning Russian culture and identity on which the Committee has heard little evidence: the role of the Russian Diaspora. For the first time in Russian history, there are significant Russian communities living outside of Russia. Russians in the former Soviet republics form a numerous and significant polity. There are growing Russian communities in Canadian cities such as Toronto and Ottawa, and.

17 See also the section on foreign policy.

Brighton Beach in New York is a well-established centre for the Russian Diaspora. Russian appeals to this community, particularly with regard to the question of return, indicate that there may be developing an attenuated idea of Russian-ness outside and independent of the boundaries of the Russian state. For example, Paul Magosci (Chair of Ukrainian Studies, University of Toronto) and David Marples (Professor, Canadian Institute of Ukrainian Studies, University of Alberta) informed the Committee that ethnic Russians in Ukraine identified themselves as Russians in ethnicity and Ukrainian in citizenship.

B. The Yeltsin Years

Boris Yeltsin's primary concern was the prevention of a return to Soviet Communism or the rise of right-wing authoritarianism. In particular, he manipulated the political system to prevent a return to power of the Communist Party through the ballot box. Central power was divested to the regions, in part to seek political allies, but also in part because the centre had no resources to deal with regional issues in the face of an unravelling federation. The legislature was dissolved by force and a new constitution put in place to give the Presidency a prime position of authority.

To prevent a return to power by the Communist Party,¹⁸ the largest political grouping in Russia, Boris Yeltsin created, co-opted and discarded allies and competitors with considerable frequency.¹⁹ As was evident during Boris Yeltsin's long stretches of incapacity, the personal authority of the President was crucial to the proper functioning of the Russian state. The economy was privatized quickly and in a manner that favoured the development of oligarchic monopolies rather than competitive industries and sectors. At the time, the importance of the state in transforming the economy was underestimated. Crucially, the sequence of economic liberalization and privatization initiated by Mikhail Gorbachev and completed by Boris Yeltsin favoured the existing *apparatchiki*, allowing for development of the large, sectoral monopolies²⁰ and oligarch-controlled financial-industrial groups still present in the Russian economy of today. The oligarchs, in turn, became involved in politics to protect their interests.

18 The successor to the Communist party of the Soviet Union was the Communist Party of the Russian Federation (KPRF), headed by Gennady Zyuganov. Several smaller Communist factions are also aligned with the KPRF. The KPRF consistently attracts around 25% of the popular vote. Its core of support is firm, but its capacity to grow may be limited. Yeltsin spent considerable effort ensuring that he would face Zyuganov in a two-person Presidential race: Communist supporters were sure to vote for Zyuganov, thus ensuring victory for whoever ran against the Communist leader. Yeltsin's fear was to face a non-Communist candidate who could build a coalition – perhaps of Russian nationalists – of Communist and non-Communist supporters.

19 For example: Boris Yeltsin had as Prime Ministers Viktor Chernomyrdin (1993-1997), Sergei Kiriyenko (1997-1998), Yevgeny Primakov (1998-1999), Sergei Stepashin (1999) and Vladimir Putin (1999-2000). Other well-known politicians, including Anatoly Chubais, Yegor Gaidar and General Alexander Lebed, rotated in and out of Yeltsin's cabinet or the Kremlin.

20 Gazprom and Lukoil in the energy sector are two examples.

Political and economic life in the 1990s was dominated by networks of influence and personal access based on the old mentoring and patronage relationships of the Communist Party of the Soviet Union. These are referred to colloquially as “clans,” “tribes” or even “mafias.”²¹ Russians refer to this patronage network as *krysha*, the roof under which one presumably takes shelter.²² In talking to a Russian official or businessman,²³ it could (and still can) be more important to know with whom he is connected than what his formal title or function is.

The one legacy Yeltsin did give Russia was a lasting framework for free elections and the relative freedom of expression. The constitution, perhaps questionable in the legitimacy of its origins, has held to become a commonly observed set of rules. Elections, although structurally biased in favour of the government with regard to money and access to the media, have been free and fair. Ironically, Russia has yet to have a change of government through the ballot box. Such an election will be a critical test of democracy.

President Yeltsin was reluctant to name a successor until he was certain that reversion to Communism was impossible. The Committee heard evidence that this certainty is now apparent. To quote Patrick Armstrong (Directorate of Strategic Analysis, Department of National Defence):²⁴ “The toothpaste cannot be put back in the tube.” Too many levers of power have disappeared from the Russian state for these to be reassembled.

Important to the Committee’s consideration of President Putin’s regime, the instrument Boris Yeltsin left for the task of democracy and transition is a powerful, top-down presidency that operates as much through personal authority as it does through institutional mechanisms. The task for Vladimir Putin is to reassemble enough levers to govern effectively, while retaining and building on those positive developments from the Yeltsin era. The challenge is an age-old Russian one.

Do President Putin’s attempts to reinvest central authority into the Russian state represent either the attempt or the inadvertent capability to re-create an authoritarian regime in Russia? This question lies at the core of the Committee’s initial phase of investigations. The answers must be discerned, as far as possible, from evidence the Committee heard in the following areas.

21 The latter term should not be confused with the “real” mafia of Russian organized crime. (See the section on organized crime.)

22 In the 1995 Duma elections a poster of then Prime Minister Viktor Chernomyrdin was circulated showing him in a position of thought, with his hands joined together at the fingertips in a triangle in front of him. Intentional or not, most Russians read this as the “roof” sign: indicating that he had real power and authority under his roof.

23 Russian political and economic elites, with very rare exceptions, are almost exclusively male.

24 Patrick Armstrong appeared as an individual, not a representative of his department.

C. Russian Electoral Politics

The Russian political spectrum is more kaleidoscope than spectrum. Most political parties are not parties in the Western sense. There is little permanent organization or professional party activity at a constituency level.²⁵ As a result, there has been little coherence, consistent issue linkage or prioritization in Russian politics amongst either the electorate or the elected. The public face of Russia's democracy is hyper-kinetic and fractious.

Although President Putin's efforts to improve the standard of living in Russia appear to be positive, the long-term verdict on the President's political reforms is unclear. Certainly, many of his policies attempt to correct difficulties introduced by transformation in Russia since 1991. On the other hand, some would argue that President Putin's methods and chosen instruments, especially his reliance on the security services and on personal authority, do little to display an understanding of the state being based on the law rather than the law being based on the state. President Putin's effectiveness appears to rest on his personal authority and popularity. As long as a large degree of presidential discretion remains and it appears unclear that habits of law-based democratic governance have been fully instilled, the future of economic reforms and democratic values will continue to be uncertain.

This analysis is troubling for some observers. Witnesses noted that set in the context of Russian history, a number of the Russian government's recent actions could appear to cast a negative light on hoped-for democratization. John Young stated, "When you combine some of these changes with Mr. Putin's war on the media, the *Kursk* scenario and the imbroglio of spies with the United States, there is a fair amount of discussion as to whether or not President Putin is reforging an autocratic system and Russia is headed backwards". He did, however, add that, on balance, this was not in fact the case.

1. Free Elections

Most witnesses were of the view that, for the most part, Russian elections are reasonably free and fair. Indeed, Patrick Armstrong was an observer of elections in the 1990s and he noted that he had no problems with the technical veracity of the results. It is less clear, he went on to elaborate, whether those results match our interpretation of them. Russians, the Committee was told, like to know whom they are supposed to vote for. Only one election resulted in strategic voting.

25 The exception would be the Communist Party of the Russian Federation (KPRF), which inherited the bulk of the Communist Party of the Soviet Union's (CPSU) assets. Another exception, though more thinly spread, is Yabloko, Griegory Yavlinsky's liberal-democratic party. For a list of Russian political parties and their representation in the Duma, see Appendix C.

In regional and local elections, it seemed clear that people knew whom they were to vote for. By inference, Russians like a strong, authoritative figure. They also like to vote for parties and people that represent connected elites, namely people in positions of influence. Russians call this preference the search for a “party of power.” This echoes what the Committee heard from other witnesses about Russians’ cultural interpretations of democracy.

2. Electoral Support for President Putin and the Duma

Vladimir Putin is the most popular politician in Russia.²⁶ Set against the legacy of Boris Yeltsin, he is seen by many Russians as a “law and order” President and a “moral values” President. He came to prominence and power through his handling of the Chechen brief, first as President Yeltsin’s Special Envoy to the region and then later on an electoral campaign promising to get tough with Chechen terrorism.²⁷ His image embodies a mixture of personal discipline and a commitment to public values and service to the state. In policy terms, this aspect of his image translates into anti-corruption strategies and the rule of law, a strengthening of the capacity of the state, and the instilling of values in public life.

However, as Clifford Gaddy (Fellow, Economic Studies and Foreign Policy Studies, The Brookings Institution) and Fiona Hill (Fellow, Foreign Policy Studies, The Brookings Institution) informed the Committee regarding the Chechnya issue, this platform constrains President Putin as well as supports him. Where he has attempted to move away from his core message he has found his flexibility circumscribed. Fergal O’Reilly (Export Development Corporation) noted that President Putin has been extremely cautious in order not to move from positions that could damage his popularity. These observations could not be overestimated: several witnesses indicated that much of President Putin’s policy-making has been based on maintaining his popular support.²⁸

Compared to the Presidency, political parties and Duma politicians do not fare well in popularity. Many Russians see them as largely irrelevant and ineffective. Forty percent of all Russians identify with none of the political parties on offer. The largest faction in the Duma – the Communists – captured 24.3% of the 1999 vote. The two centrist parties, Unity and Fatherland–All Russia, garnered 23.3% support and 13.3% respectively.²⁹

26 President Putin’s popularity has consistently polled above 70% for the duration of his Presidency (since 1999). Latest polling puts him at a 75% approval rating, according to nationwide VCIOM polling as reported by Russia Votes: www.russiavotes.org.

27 This rise in status occurred in the wake of bombing attacks in Moscow in 1999 that Russian authorities claimed were carried out by Chechen rebel groups.

28 This reality has implications for Putin’s support of the United States in the wake of the September 11th World Trade Centre attacks. See section on post-September 11th events.

29 Russia Votes.

A key factor in these results is the institutional balance between the Presidency and the legislature. In the wake of the 1993-armed showdown between the legislature and the President, Boris Yeltsin crafted a constitution providing overwhelming powers to the President. The Duma's role is consequently a more consultative one. It can defeat the government, it can block the appointment of ministers, it must approve the budget and it can impeach the President. However, some of these actions, if taken, would also invoke the Duma's own dissolution. Most deputies must also consider whether they would wish to face the Russian electorate in such circumstances. Finally, it is the President who appoints the government, and to date the Cabinet and the Prime Minister have never represented the largest party – the Communists.

The electoral system has also contributed to a somewhat dysfunctional domestic political situation. It is a 50-50 party list and individual candidates system, which has distorted representation. Many parties failed to make the 5% (of the popular vote) threshold required to gain a seat in the Duma. Therefore, a significant section of the electorate saw its vote come to nothing. Several parties over the 5% threshold have been over represented (or underrepresented) through the list combination. This development, together with the weakness of parties in the parliament and the introduction of many new politicians, has resulted in Duma politics having been less effectively policy-oriented than it might otherwise have been. Party and party-platform development have suffered somewhat. New legislation on political parties was passed in the fall of 2001, but its impact remains unclear.³⁰

The Committee heard that the weakened Duma is important to how Russians view democracy. As Joan Debardeleben noted, Russian citizens are disillusioned with party democracy as it currently functions, in part because they do not see a connection between whom they vote for and what kind of government they get. By contrast, the Presidency under Putin is seen as active, vibrant and effective.

The Committee was also informed that the association Russians make between democracy, the West and their current condition compounds this problem for the Duma parties. Democracy and democratic parties have been affected by the failures of the Yeltsin regime as much as they have by their own ineffectiveness. In short, as Professor Debardeleben indicated, the condition of peoples' lives has left little patience or support for politicians who advocate Western democracy by name.

However, other witnesses informed the Committee that Russians do support many of the elements associated with liberal democracy. They value freedom of expression, for example, and believe that the removal of the command economy is irreversible. There was little evidence for, and much evidence against, the capacity of the state to “turn back the clock” to Soviet-style communism. Rather, what people react most strongly against

30 President Putin has since addressed the issue of party building as part of his reform package of legislation. A new law on political parties will effectively eliminate smaller party organizations.

are the perceived cruelties of a system based on individual gain at the expense of the weaker members of the community. The values of collectivism run deep and currently appear hostile to the fortunes of those who advocate Western, liberal, economic policies.

3. Presidential–Duma Relations

The Committee was made aware that co-operation between the Presidency and the Duma has been a hallmark of the Putin period. Many witnesses commented that President Putin has enjoyed co-operation where President Yeltsin did not. This has enabled President Putin to lay the groundwork slowly and effectively for major reforms, such as the ambitious package of legislation (i.e., land reform, tax reform, deregulation and transportation infrastructure) that was put to the Duma in May 2001 and successfully passed.³¹ Fergal O'Reilly described what he termed an 18-month period of laying the groundwork, culminating in the crystallization of policy. The Committee was also informed that any one of these aforementioned bills would constitute the major work of a government's electoral cycle.

This heightened level of co-operation can be attributed to three factors. One is President Putin's popularity in combination with the clarity of his overall message. The second is the establishment, for the first time, of an effective pro-presidential party in the Duma – Unity. The third is a maturation of party politics. The most recent Duma has seen a reduction in the number of parties and the establishment of a political centre consisting of Unity combined with the other centrist party Fatherland–All Russia. Between them they represent the major factions of those aligned with Russia's political and economic elites and are, in essence, the “party of power” many Russians want.³²

In opposition, the Democrats have consolidated into two factions – Yabloko and the Union of Right Forces. The Union of Right Forces is generally pro-administration. Yabloko, while retaining its independent position as an opposition party to the Government, will support moves to reform the economy and politics in a liberal direction.

The Communist Party of the Russian Federation (KPRF), while still the largest single faction, has occasionally sought the role of constructive opposition in order to retain electoral viability for its leader, Gennady Zyuganov. The Liberal Democratic Party of Russia (LDPR) remains as the sole and minor presence of the Russian extreme right.

Several witnesses expressed a note of caution about the current formulation of Russian politics. For these witnesses, President Putin's solution to the Duma, namely Unity, is another example of a top-down management approach. As Joan Debardeleben noted to

31 See the section on the Russian economy for more detail on these issues.

32 This faction is now constituted as the political party United Russia.

the Committee, “these kinds of elite coalitions that you are talking about may give Putin some tools with which to pass some of his initiatives, which may be a good thing, but that power may not reflect the ability of Russian citizens to see the Parliament as any kind of vehicle for representation. It is a double-edged sword.”

After the Committee heard testimony on this issue, political parties gathered in January 2002 to bring their structure and documentation in conformity with the law “on the parties.” More effort is being placed by the major parties on establishing a broad presence across the regions. The opposition parties have expressed concerns about a new term or understanding: “managed democracy.” According to the opposition, in managed democracy the government and the law serve the state, the media is subject to too much control, the centre has too much influence over candidates and elections at the expense of the regions, and too much power has been transferred to the Kremlin.

D. The Regions

According to testimony, President Putin has been largely effective in the short-term in achieving his policy of reclaiming federal authority and rebuilding the capacity of the state.

1. Centre-Periphery Relations: the Restoration of Power at the Centre

The Committee was told that when Vladimir Putin became President, the authority of Moscow, specifically that of the Kremlin, could not always be said to extend widely or deeply into the country. The reality of post-Soviet Russia was that fundamental elements of economic and political transformation were in the hands of the regional and local authorities. For an average Russian, the experiences of transition could be shaped primarily by local circumstances.

There are 89 “regions” of the Russian Federation. These range from the largest cities (Moscow and St. Petersburg) to autonomous regions, which are based on a nominal ethnicity, to administrative regions larger in area than most countries (see map in Appendix A). These jurisdictions are legacies of internal Soviet divisions, often drawn up to meet Soviet criteria. They have differing powers and responsibilities, with republics and autonomous jurisdictions nominally possessing greater powers (including their own constitutions and presidencies) and independence than do most regions (i.e., oblasts).

As many witnesses informed the Committee, under President Yeltsin the regions were encouraged to “bite off as much (power) as they could swallow.” Indeed, some regions came under the control of powerful governors. In the case of Primorsky Krai in the Far East, corruption and mismanagement reached the level of a national scandal.

More significantly, Russian federalism was fractured, with each region using its leverage (usually a natural resource and tax base) to negotiate separate powers with the centre. Tax and duty collection has been problematic, enforcement of federal laws haphazard and standardization an issue.

For investors, this uncertainty is telling. Not only does one have to deal with central authorities, but one also has to deal separately with regional authorities. Mr. Ivany (Executive Vice President, Kinross Gold) outlined the importance of understanding local (regional) workings in ensuring the success of the company's operations. Almost all of the facilitation on the ground came ultimately from the local level.

It is against this backdrop, the Committee was told repeatedly, that President Putin has attempted to work with the regions by "restoring the power vertical." He has created seven "super-governors" or Presidential Representatives, each with jurisdiction over all federal laws in their region. Specifically targeted were those areas crucial to the provision of political and economic means of renewal to the federal Russian state, such as tax inspection, treasury officials, federal prosecutors, and the security forces. Ideally, these seven representatives were to become a consistent voice for Moscow in the regions and to insulate the financial, judicial and security arms of the Kremlin from powerful local governors.

To discuss these (and other) issues, members of the Committee met with Presidential Representative to the Volga Region and Russia's representative on the Chemical Weapons Convention Sergei Kiriyyenko. He described his regional role as one of persuasion, coordination and ensuring the standardization of federal jurisdiction across his region. He refuted the notion that the Presidential Representatives were plenipotentiaries or "super-governors."

These Presidential Representatives are recent innovations and it remains too soon for witnesses to assess whether, in the long-term, President Putin may have created another tier of government to little effect. In the short-term, they appear to have been an energetic addition to federal-regional relations.

President Putin has also ordered that all republic and regional laws be brought into line with federal laws in cases where the former are deemed to be unconstitutional. Many regional laws were aimed directly at negating a federal presence in the region. For example: Mr. Kiriyyenko related how important oil- and gas-rich Yakutia (Republic of Sakha) passed a law declaring only Yakuts and English as official languages.

This attempt to harmonize existing laws has exceeded all others before it. Apart from symbolic importance, this initiative helps clarify the jurisdiction and the administration of federal bureaucracy, notably law enforcement, across the country. Administratively, Putin has created a State Council, comprising all the regional governors, which meets quarterly. The Russian leader has also concentrated revenues in the centre when, according to John Young, one-half of these should be returned to the regions. The

President has also obtained the power to dismiss regional governors, though in practice such action would be politically difficult and time-consuming.

President Putin has also adjusted the role of regional governors in the central government. Under President Yeltsin, regional governors were invested in the Federation Council (the upper house of the Russian Parliament, with the lower house being the Duma), in order to strengthen Yeltsin's hand. Over the course of 2002, representatives from the regions chosen at the regional level will replace governors through a process of gradual rotation. This switch both defuses the potential leverage that regional governors may hold against the Kremlin and tempers the role that they may play on the national stage. It also removes what might possibly be less effective *ex officio* members from the council (i.e., those regional governors who might rarely be able to make time to come and sit) and replaces them with full-time representatives.

Witnesses informed the Committee that one emerging pattern of President Putin's approach was that he has promoted solutions that centralize problems in the federal system, rather than encourage the sort of co-operative, intergovernmental relationships that tend to be associated with an effective federal system. Under President Putin, the process has been consultative, but there is no guarantee of the same under a different leader. As some witnesses noted, while rules and mechanisms have been put in place, the authority continues to remain with Putin. A change of Presidency could lead to the regions re-asserting their independence.

2. Local Politics: Neglect of the Third Tier

If little attention has traditionally been paid to regional politics in Russia, even less has been paid to local government. Yet since it is local governments that deliver state services, this level of government maintains a strong potential to greatly shape many Russian citizens' experience of transition. Recent pronouncements by President Putin indicate that he has recognized the need to bring the municipal tier into some effective order to further reforms. The social welfare of Russians, in the end, is somewhat dependent on the local delivery of services.

Local government is more a transmission belt for federal services than the model of local self-government as we know it in Canada. Witnesses explained that the average Russian considers that local governments cannot be relied upon to provide even the most basic services. However, this is the level of government that is supposed to deliver such services as housing, education, health, social services, and transportation, among others. The problem is that the federal and regional governments have no vested interest in reallocating funds to balance fiscal problems, with the result that there tends to be a 30-40% shortfall in funds. According to John Young, one way to get around this dilemma is to relocate several services (e.g., health care) from the tertiary tier to the regional or federal one.

As a result, many rural and municipal conditions can be extremely trying outside the large urban centres. As an example, Murray Feshbach estimated that simply repairing the water pipes of Russia, many of which currently comprise unlined lead tubing, would cost in the hundreds of billions of dollars. Roads outside the major cities can be impassable, the Committee was also told.

Certain municipalities, many of which serve as company towns with factories that defy economic logic in a market economy, are simply not viable. Eastern and northern towns are especially negative inputs in the economy, according to Clifford Gaddy. To help deal with this situation, the International Monetary Fund (IMF) and Russia have introduced a US\$80 million pilot project to shut down three northern towns by providing housing vouchers for those who wish to move.

On the positive side, other municipalities have demonstrated how they can use the powers granted to them to promote investment and growth where there is cooperation between the secondary and the tertiary tier levels of government. The Committee was told of the town of Novgorod Veliky, which possesses clear lines of authority and a clear division of powers. That clarity (and stability) in evidence there brought a fair amount of investment to the city, particularly through 1994-1997. According to John Young, a Cadbury chocolate plant was built by the municipal government in partnership with Cadbury and with the regional backing of the *oblast*. This confirms the emphatic statement of Hans-Martin Boehmer (Country Program Coordinator for the Russian Federation, World Bank) that the crucial factor for investment in Russia is “transparency, transparency, transparency.”

In some cases, local vulnerabilities create problems for municipal administrators and legislators. For example, a lack of resources may leave them vulnerable to the regional governors. John Young gave the example of the Komi Republic: “The President of the Komi Republic comes to the city council and he says, here is my nominee for mayor, and the city councillors ratify [the choice of mayor]. I know of two cases where city councillors said they didn’t agree. In response the president of the republic strong-armed the men and withheld revenues until they complied. (And) in some cases, there is still this local elite connected to this apparatus within the republic. In those cases, it is not just a question of money.”

It should also be noted that Canadian municipalities fund services from property taxes, and local boards and council administer those funds. To do so in Russia would first require wholesale property reform. Some legislation has only just been passed and implementation remains to be accomplished. For the foreseeable future, Russian municipalities will be wholly reliant on the other two tiers of government.

The combination of poor resources, little ability to develop local self-government, electoral apathy and a potential for corruption or mismanagement makes reform of local government critical to the eventual success of Russia’s transformation. Municipal successes such as Novgorod Veliky, Samara and Nizhny Novgorod highlight this point.

E. Human Rights

Considerable time was spent by the Committee on a series of issues that fall under the broad rubric of democracy and human rights.

1. Curbing the Media and the Oligarchs

The Committee heard testimony that journalists and newspapers faced difficult times. Aurel Braun (Professor, Centre for Russian and East European Studies, University of Toronto) indicated that his journalists in Russia were feeling a chill. Another witness, Larry Black, referred to the situation as more of a voluntary self-censorship by the media, not a stifling of the freedom of the press.

It should also be noted that scrutiny by even the most casual observer would reveal a vibrant, irreverent press representative of a literate and politically aware society. Censorship of the Soviet style seems relegated to the past. Andrea Chandler told the Committee, “There have been several dramatic changes. Speaking anecdotally from my own experiences, they are very open to free ideas. They are avid readers, and they are very critical of what they read. They are more outspoken politically than they used to be. They are probably much more aware of politics and events in their own country than many Canadians. These are very positive signs. I have not seen any deterioration.”

In contrast to the Soviet era, freedom of expression is flourishing. However, the Committee was frequently made aware of an important area of concern. Under President Putin, who has shown little appreciation of the role of “loyal opposition” or the fourth estate,³³ Russia has moved strongly against elements of the independent media.

The state retains interest in two major television channels, namely ORT (Russian Public Television) and a majority share in RTR (All Russian State TV and Radio Company). Other media sources are typically controlled by the country’s oligarchs. Attempts by the media to criticize the Kremlin over Chechnya in 1999 led to vigorous criticisms of the media by the state.

The most high-profile case is that of Vladimir Guzinsky, owner of Media-MOST and its subsidiary NTV. NTV offices have been raided, and Guzinsky arrested and then released on bail. He now sits in *de facto* exile in Spain with charges of corruption pending should he ever return to Russia. As for the company, NTV was to be turned over to the huge federally controlled gas company Gazprom but a Russian court forced NTV into liquidation earlier this year. Guzinsky’s oligarchic counterpart, Boris Berezovsky, is also under investigation while in exile in London.

33 During his election campaign Putin refused to release his policy platform because he said it would only be attacked by the media.

The Committee was informed that the above actions, together with threatened arrests of the owner of the nickel giant Norilsk and other enterprises, are part of President Putin's attempts to undermine the position of the oligarchs in the economy and in politics. It is against this background that witnesses told the Committee that the oligarch-based media empires should not necessarily be thought of as defenders of freedom and democracy, nor Putin's campaign to be one against the media. In principle, removing the influence of oligarchs and media giants that have close personal or economic ties to the state could be interpreted as progress towards normalizing the economy.

There remains the possibility that the oligarchs who work with the President and for his programs are left untouched. According to Stephen Grant, many Russians have read the situation in such a manner and therefore remain little concerned over the fate of the media. While current developments in the world of media should not be seen as a silencing of the press *per se*, they may represent the side effect of Putin's campaign against the oligarchs.

2. Other Media Concerns

Other Committee evidence suggests that more regular concerns exist for the media. For example, the Russian media has to deal with market forces. Media outlets, particularly those outside Moscow and St. Petersburg, are experiencing financial difficulties. There is little money to spend on advertising and distribution networks are uneven at best, especially in the countryside. Moreover, the costs of inputs have risen to reflect real-world pricing, and necessary inputs such as newsprint or ink are sometimes hard to come by. Many people cannot afford to buy magazines and newspapers at true market costs.

There have also been reports of journalists and newspapers being targeted by local authorities. More subtle pressures have been used to silence unwelcome scrutiny as well. Licenses, fire regulations, building codes and building designation (zoning) are all tools local authorities can use to disrupt local media outlets.

The cumulative effect of all of these issues has been a shrinking of local media outlets, rendering the significance of national media issues such as the Media-MOST/NTV affair that much greater. Most Russians receive their news from national, state-owned television and radio. The potential for state-owned media to affect Russian attitudes was evident during the NATO campaigns in Kosovo, where Russian state-run media coverage was heavily slanted towards portraying NATO's actions as those of the aggressor. The Committee recognizes the value of the media to a functioning democracy and expressed its concern when testimony on the media was presented.

3. The Role of the Security Forces

The Committee heard evidence calling into question the extent and role the security forces have in Russia. There are several security agencies in the country, with the one of primary concern being the FSB (Federal Security Service).

Witnesses raised two general types of concern. The first of these was the connection of Vladimir Putin, an ex-KGB and FSB agent, to the security forces. Amy Knight (Adjunct Professor, Department of Political Science, Carleton University) drew attention to President Putin's career path and to the fact that he tends to appoint former colleagues from the KGB and the FSB, whom apparently he trusts. Five of the seven Presidential Representatives to the regions are former FSB personnel. Sergei Ivanov, ex-Chief of the Security Council and current Minister of Defence, worked with and for President Putin in the FSB in St. Petersburg. Professor Knight expressed concern that a security-first mentality would colour the operations of government and signal a return to some form of a security state.

The second issue of concern mentioned by witnesses is a perceived reliance on the security forces to implement policy, in combination with the sometimes heavy-handedness of their actions. Perhaps most troubling is the case of Igor Sutyagin, a researcher for the Russian Academy of Science's Institute of Canada-USA Studies who was charged with treason in light of his co-operation with Canadian (Carleton University) and British colleagues. The FSB objected to Sutyagin's analyzing and comparing open-source (publicly available) material on civil-military relations, claiming that analysis "creates" state secrets.³⁴ This experience was similar to that of environmentalist Alexander Nikitin, whose case was eventually dismissed but only after a considerable period of imprisonment and appeal.

Civil society groups are generally treated with suspicion by the state.³⁵ Human rights groups and other NGOs must register with the government in order to be active. Those who do not are vulnerable to prosecution. Patrick Armstrong indicated to the Committee that these actions undermine President Putin's goals. In his opinion, such actions reflect a poor understanding of the law and legality by security organizations, rather than reflecting official Russian policy.

34 On 21 March 2002, the Supreme Court of Russia rejected an appeal to release Igor Sutyagin while he waits for the FSB to reinvestigate his case. Sutyagin's lawyer plans to complain to the European Court of Human Rights.

35 President Putin is on record as claiming environmental NGOs were agents of foreign intelligence agencies.

4. Judicial Reform³⁶

Most of the evidence on judicial reform before the Committee concerned economic matters, and will be dealt with in the section of the report on the Russian economy.

However, some information was provided on issues regarding human rights and the independence of the courts. Perhaps the single most important statement heard was that the defendants won the majority of human rights cases ending up in front of the courts. Peter Solomon (Professor, Centre for Russian and East European Studies, University of Toronto) placed the success rate of a citizen against a public official at around 80%.

He also emphasized that there is a credibility lag between public perceptions and the proposition that individuals can receive a fair trial. This lag has led to what can be termed an insufficient demand for law. The courts are not turned to because they are seen, incorrectly in many cases, as not being fair or effective. This issue needs to be recognized and addressed.

³⁶

Since 1991 Canada has taken a lead role in supporting legal reform in Russia – see section on Canadian Involvement in Russia.

THE RUSSIAN ECONOMY: CURRENT DEVELOPMENTS AND REFORM CHALLENGES

A. The Existing Economic Situation

For the most part, the economic record of the post-Soviet period in Russia can be categorized as disappointing. Output declined by 40% in real terms between 1989 and 1998, inflation rose significantly and the country had to endure several economic crises.

Recent Russian economic indicators have been considerably more favourable, however. The economy registered strong year-over-year growth in 2001 (5.2%) and the central government expects the country's GDP to rise by 4.3% in 2002. Although this growth is below the 8% rate of growth Russian President Vladimir Putin believes is required over a 15-year period to catch up to the current economic status of certain European Union countries (e.g., Spain, Portugal), it is still a considerable improvement over the economy's performance of the 1990s.

Russia is also one of the few countries displaying strong growth during the current global economic downturn. One could add to this achievement that a fiscal surplus has existed recently at the national level,³⁷ that the trade ledger continues to be in a surplus position of approximately US\$50 billion,³⁸ that gold reserves are at extremely high levels, that personal income has now recovered to the pre-1998 level, and that inflation has fallen to 18.6%.

Many of the witnesses appearing before the Committee stressed that Russia's favourable economic performance could be primarily attributed to a number of temporary factors. First and foremost, the August 1998 financial crisis led to a drastic and uncontrolled devaluation of the Russian rouble. The value of the currency dropped by roughly 70% of its previous exchange rate, making the cost of imports much higher and providing domestic manufacturers with an opportunity to compete with imported products. Domestic demand thus rebounded at the expense of imports.³⁹

The second contributing factor was the existence of high commodity prices, especially oil, caused by the success of the Organization of Petroleum Exporting Countries (OPEC) in restricting oil production. Oil and gas exports, accounting for 70-80% of total exports, are a major source of foreign exchange earnings. As Roger Ebel (Energy Director,

37 Contributing factors include higher oil prices and corporate tax revenues.

38 The trade surplus was projected to fall to US\$40 billion in 2001, owing to somewhat lower oil prices, growth in imports and the effects of the current global economic downturn on export demand.

39 Vladimir Popov (Professor, Institute of European and Russian Studies, Carleton University) questioned the usefulness of this orientation toward import substitution, preferring a policy to stimulate exports.

Centre for Strategic and International Studies, Washington) informed the Committee, Russia is a major and reliable supplier that does not play games with oil – for the most part, it sells as much oil as it can. It is the number two exporter after Saudi Arabia, and the Caspian Sea represents the most significant find in the past thirty years.

The experience of successful transition economies demonstrates that the attainment of structural reforms typically comprises the single largest contribution to economic growth. It is considered by many unfortunate that Russia did not use the breathing room accorded to it by devaluation and high oil prices to put in place more quickly the necessary economic reforms. The appreciation of the rouble's real exchange rate and the decline in international oil prices following the events of September 11th have already resulted in an easing of economic growth.

Until recently, analysts had given less credit to the structural reform efforts currently under way in Russia for the economic recovery that the country is now experiencing. However, the recovery is presently on a more sustained footing now that it is being driven by domestic demand (i.e., household consumption) rather than external demand. Moreover, the positive economic impacts of the government's tax reform (easing) are starting to take effect.

Russia's eventual entry into the World Trade Organization (WTO) should be another factor exerting a positive impact on Russia's economic growth, exports and on the country's living standards. Russia plans to have all of the legislation required for the WTO accession passed by the Duma by the fall of 2002, paving the way for accession in 2003. Once the legislation is in place, efforts will turn to implementing and enforcing the new laws. This process is expected to be finalized by mid-2003, which coincides with the expected completion of the tasks of the WTO working party on Russia.

A key issue facing the country is the WTO requirement that average import tariffs decline below the 10% acceptable threshold. The Russian government has asked the WTO for a seven-year transition period to reach this objective and claims that its long-term goal is to lower tariffs to the 3-4% levels found in the United States and European Union.

When asked by a Senator to identify the key Canada–Russia issue, Deputy Prime Minister Sergei Kiriyenko stated that it was accession to the WTO. It appears that efforts to assist the country in this process have intensified as a result of Russia's co-operation in the current war on terrorism. However, Mr. Kiriyenko noted that Russia was not requesting privileged status, and that it would want to join in the same way as other countries do. The Committee wholeheartedly supports Russia's speedy accession to the WTO.

Achieving sustainable economic growth will depend largely on the extent to which domestic citizens, and to some extent foreign residents, invest in the country. While Russia has undergone a short-term investment revival, most of this investment was financed out of companies' retained earnings and thus was heavily dependent on

continued positive corporate profit results. The reality is that the country has experienced a marked slowdown in the level of investment. Enhancing the investment climate in Russia remains a key challenge for the economy and for the country's policy-makers.

It should be no surprise that Russia's investment figures have been less than optimal, given the need for an accommodating business climate. Many Russian producers, lenders and borrowers have traditionally not had the desired level of confidence in the economy and specifically in the protection of their investments.

The fact is that there have historically existed too many regulations in the country and not enough enforcement of the rule of law. Few Russians have risked starting new businesses as long as they have had to contend with a corrupt bureaucracy, unenforceable contracts and restrictions on owning land.⁴⁰ Taxation and bureaucratic inefficiencies have been other challenges facing investors, although reform is under way to deal with these impediments. Crime and corruption have been widespread,⁴¹ with foreign investors sometimes subject to extortion or seizure of assets. Angus Smith referred to estimates suggesting that up to 85% of Russia's commercial banks and up to 40% of its private companies were under either direct or indirect criminal control.

Mr. Kiriyenko indicated to the Committee that the level of domestic investment was insufficient to sustain economic growth and that foreign investment was valued by the Russian government. He outlined a number of steps that the government had taken or was taking to attract more of this investment:⁴²

- bringing regional legislation into conformity with the Constitution;
- reforming the domestic taxation system to lower tax rates, resulting in the most liberal tax system in the G8;
- privatizing ownership of non-agricultural land; and
- undertaking reform of Russia's judicial system.

A key obstacle to economic development has been the lack of a nascent small business sector of the magnitude experienced by more successful countries. Hans-Martin Boehmer noted that employment from small businesses in Russia totalled only 20%, whereas it would optimally be up around the 50% mark. His evaluation of the growth in the small business sector was not encouraging.

40 The issue of private, urban land ownership has recently been addressed through legislation.

41 DFAIT officials told the Committee that Russia placed a very poor 83rd out of 91 countries on Transparency International's corruption index (Year 2000 Index). Russia now ranks 79th in the Year 2001 index.

42 See the section on legislative reform and the challenge of implementation for more details.

Another symptom of a weak business climate is that Russian individuals and companies have been exporting capital at a rate of approximately US\$2 billion per month. Root causes of capital flight from Russia have typically included the presence of an unsettled political environment (not a factor any more), macroeconomic instability, relatively high and unevenly enforced tax rates (these have been reduced), an insolvent banking system, and weak protection of property rights. To this mix can be added the ability of Russia's large natural resource monopolies and other large industrial firms to force their will on smaller enterprises. As Angus Smith told the Committee, there is also a substantial criminal (organized crime) element to this diversion of funds. The outflow of capital imposes a significant economic cost, given that it redirects investment funds away from productive uses within Russia itself.

There is general agreement that capital flight needs to be halted and reversed, but, according to Keith Bush, such a reversal will take years. The Russian authorities have been attempting to limit capital flight through an economic reform program as well as, albeit unsuccessfully, through the use of capital controls.

Finally, government debt represents a significant drag on the economy. Larry Black brought to the Committee's attention what has been coined the Year 2003 problem. According to Professor Black, this is the date by which some \$17-\$18 billion⁴³ in debt repayment will have to be made⁴⁴ without additional rescheduling, a demographic crisis will appear,⁴⁵ and the ongoing decay of the country's infrastructure will be most widely felt. He saw an important role for Canada to play in facilitating the rescheduling of Russia's debt. Keith Bush echoed this view, noting that repayment of debt was hampering important domestic spending initiatives such as the much-needed revitalization of the country's infrastructure. On the positive side, a thawing of Russia's relations with the United States, accentuated by Russian security co-operation in the wake of the terrorist attacks of September 11th, augurs well for any necessary future debt rescheduling.

B. Legislative Reform and the Challenge of Implementation

Over the years, Russia has made progress in eliminating central planning and establishing a market system, liberalizing prices and privatizing the bulk of the government's assets. These are all typically important elements of a successful transition to a market economy.

43 According to Viktor Khristenko, Russia's first Deputy Prime Minister, the figure could actually be as high as \$19 billion. However, DFAIT has noted that the expected 2003 debt crunch may have been reduced (by \$3-\$5 billion) through a repurchasing of Ministry of Finance and IMF debt by the Russian government.

44 A number of large IMF loans come due at this point.

45 It is expected that there will be too few Russian workers to support the country's pensioners.

However, institutional roadblocks to development remain. The Committee heard that the country will have to make important progress in its reform efforts to improve its legal/judiciary system, its excessive and stifling bureaucracy, its non-market-based agricultural sector, its financial system, corporate governance,⁴⁶ and other key institutional elements. Renewed determination has now succeeded in pushing a number of important reforms through legislative channels. The government has produced a wide-ranging package of structural reforms, the most concentrated reform effort since the process began in 1991. The Duma's spring 2001 session resulted in the adoption of over 150 laws touching on virtually every aspect of day-to-day life. These included several important reforms involving a second tax reform, a land code affecting urban land owners,⁴⁷ currency liberalization measures, and a number of measures designed to lighten the regulatory burden on business and reduce bureaucracy.⁴⁸

Ambitious additional reform plans were put in place for the autumn session of 2001 encompassing a number of more contentious reforms. Such initiatives included changes to the judicial system, a reform of the banking sector, agricultural land reform, reform of the natural monopolies (e.g., power and electricity), corporate governance and competition policy, the revamping of production-sharing legislation for foreign investors,⁴⁹ a new pension scheme, and a new customs code.

This year, more liberal laws on licensing and a curtailment of state inspections and audits entered into force in January. The new labour code, which entered into force in February, allows greater flexibility for companies to dismiss employees. It also increases worker protection regarding collective bargaining rights and increases the minimum wage. The newly passed draft of the customs code should also enter the statute books in 2002.

Compared to these big headline reforms, the agenda for 2002 is narrower and more technical, but nevertheless important. The focus is on areas such as bankruptcy legislation, the law on standardization and certification, small business taxation, and electricity sector reform. Little has yet been broached about reforming the civil service, although President Putin has established a working group on the issue.

46 According to James Gillies (Professor, Schulich School of Business, York University), Russia's lack of reliable corporate governance makes investors "loath to continue to put money into Russian firms or to make other relationships for joint ventures with Russian companies." Moreover, the rule of law is "fundamental to the existence of any form of real governance and certainly to corporate governance. Until the judicial system is firmly in place it will be difficult to see good governance in the corporations in Russia." A common problem is the lack of respect given to minority shareholders.

47 While this code covers only 3% of the land area of the country, it does account for a full 75% of industrial production.

48 While this measure has already been partially successful in reducing the number of licences required by business, more reform is still required.

49 In this context, one should note the recent announcement by U.S.-based ExxonMobil of the formal launch of the \$12-billion Sakhalin-1 investment project, the country's largest foreign investment.

On the negative side, these reforms could encounter significant opposition and be even more difficult to implement than President Putin's first round of reforms, given the relatively weak administrative capacity in place. With legislation for many reforms now in place, the focus is clearly shifting toward their implementation and enforcement. The problem is that without real implementation by Russia's bureaucracy, the passage of the legislation will have been for naught. To put these reforms in place, and then to enforce them effectively, will take a bureaucracy able to cope with the government's ambitious agenda. Finally, the Committee asked several witnesses whether Russian economic reform would perhaps benefit from a more authoritarian government to provide stability. The answers were almost all universally negative. Russians would not accept a return to heavy government interference and any attempts to do so would upset domestic reform expectations, as well as the expectations of the international community.

Aurel Braun informed the Committee that given Russia's past and its current institutional arrangements, a Pinochet-style government would be inappropriate. Joan Debardeleben noted that the question was moot since Russia was not China and the sequence of reforms could not be reversed. Vladimir Popov told the Committee that institutional strength, not the form of government, is the key. He noted that there were relative economic successes among both democratic and authoritarian post-Soviet states, with the criteria for success being the ability to regulate effectively. John Young emphasized the importance of having clear rules when discussing investment at the local level. Hans-Martin Boehmer stressed the importance of rule of law and transparency.

1. Reforming the Legal System

The Committee heard from witnesses that Russia's legal system remains in a state of transition. The list of challenges that the system faces is long: major areas of law are incomplete; there is a need to streamline the legal system and to complete the task of harmonizing the often conflicting laws that exist between the different levels of government; the judiciary lacks independence and specialization; and the state needs to protect property rights through the clarification of contract law and the enforcement of business contracts. According to Peter Solomon, Russian courts lack the critical funding mechanisms required to enforce decisions, a gap that renders them much less effective than they should be. "To be sure, the full realization of these achievements has been hampered by the underfunding of the courts by the federal government, which has allowed regional and local governments, and even private firms, to become unofficial sponsors of the courts, potentially threatening their new-found independence."

Moreover, as Aurel Braun informed the Committee, judges are "generally poorly trained, badly paid and have a rather low social status. They continue to exhibit the old Soviet reflection of looking for political direction and guidance for judicial decisions. Consequently, the general population has little faith in the probity and effectiveness of the judicial system, and the business community even less so."

Organized crime may remain a large factor in doing business in Russia, although the evidence tends to be anecdotal. Stories of Russian or Western investors being forced out by violence or threat of violence are common, but largely undocumented. What can be stated is that there are many murders in Russia, including an unusually high proportion of bankers. Many of these murders are alleged to be part of organized crime. However, the Committee heard no evidence of concrete or documented cases.

Notwithstanding the above, there is a need to deal with organized crime, a problem that has often rendered property rights meaningless. One solution would be to have the police actually provide protection from physical threats. Without adequate protection, investment will likely suffer and the desired economic efficiency not be attained.

The issue of corruption arose frequently during the Committee's deliberations. Corruption itself is an awkward concept in the Russian context. A decade ago, the Soviet economy was characterized by apparently contradictory elements, capitalism and a market economy were illegal, and individuals used access to public resources as coin. "Blat" approximately translated as influence or exchange or favours, was important and remains so today. The line between what is and is not corrupt practice remains blurred.

Under Yeltsin, privatization (*privitatsia*) was known as *prikhvitatsia* ("grabbing"). Yeltsin's economic advisors, led by Anatoly Chubais, encouraged state managers and entrepreneurs (of whom some became oligarchs) to grab what they could. The thinking was that rapid privatization of the economy would create a class with a stake in maintaining a capitalist economy. However, the new capitalists also appear to have maintained the close, Soviet-based, connection of state officials and economic interests whereby trading influence was perhaps more important than trading goods. Once they had secured Russia's most valuable assets, capital flight became more prevalent than investment and growth as assets were transferred to more stable, Western environments.

At lower levels, the over-bureaucratization of the state, in combination with low wage levels and in some cases wage arrears, provided ample opportunity and incentive for corruption.⁵⁰

Increasing the salaries of police officers and other officials is one option that has been suggested to reduce bureaucratic corruption. Another approach would involve other countries, such as Canada, clearly demonstrating that no business can be conducted in an environment where corruption is rife. One Committee member remarked that the Netherlands had already made its foreign aid conditional on minimal levels of corruption within aid-recipient countries. However, a senior DFAIT official suggested that real progress in combating corruption would have to come from within.

50 Before Putin's aforementioned reforms of 2001, over one thousand different forms of licensing were required for small businesses. One was almost guaranteed to be in violation of something.

Undoubtedly, changing the performance of judges and more generally enhancing the implementation and enforcement of laws will require considerable investment by the Russian government. Many witnesses who appeared before the Committee argued that there is an urgent need to establish and strengthen the rule of law,⁵¹ and in this way promote the elimination of corruption.

Peter Solomon outlined some of the steps that Russia has taken toward establishing an independent judiciary in Russia. One such step was taken in 1991, when an appointment to the bench was deemed an appointment for life. Judges felt that this marked an important stage in granting them the necessary independence from the state that is required for a truly independent judiciary. However, many judges started their careers as police officials or procurators. They have a conditioned interest to see the courts as a place where criminals are prosecuted, rather than where citizens are tried. Also, as elsewhere in Russia, career paths and political networks connect many in the judiciary with political figures, and judges see those figures as important sources of support. Many judges receive much of their compensation in the form of perks or extras. The Putin government has also made strengthening the accountability of judges a key objective, even though, as Peter Solomon argued, “there is a lag of public perceptions behind changes in reality.”

Janet Keeping felt that some progress had, in fact, been made with respect to both “substantive legal change” and “reform of the judiciary.” She informed the Committee of an important development involving new production-sharing legislation, designed to provide a special Western-style legal framework for foreign investors in mining, oil, gas and other industries requiring large-scale, long-term investments. Professor Keeping also mentioned the provision of funds and other resources by the Russian government to support and augment the independence of the judiciary.

Finally, the Committee was informed about problems with the laws of Russia themselves. They remain confusing and contradictory, particularly in cases when federal and regional laws conflict. John Young cited a case of a jurisdictional dispute between a municipality and a governor concerning whether or not the mayor should be elected or appointed. The court was forced to rule that both laws were valid.⁵²

51 As Janet Keeping (Director of Russia Programs, Canadian Institute of Resources Law, University of Calgary) informed the Committee, Russia lacks the tradition of rule of law, a tradition respecting the importance of the individual. Instead, there has been more of an emphasis on the collective.

52 John Young also noted that this decision was not as “crazy” as it first seemed. The court sent the issue back to the political authorities where it belonged.

Professionalism and legal interpretation remain at issue. Police and security forces have not always shown a proper appreciation of the statutes to be enforced. It is to be hoped that as the state loses more cases better application of the laws will follow.⁵³

2. Reforming Regulation and Reducing the Size of Government

Business in Russia has long been stifled by the existence of outdated and often inefficient and counterproductive rules and regulations. For example, over 80% of Russian retail products and services must be certified by the government and, as Keith Bush informed the Committee in Washington, the number of licenses required of business remains high. Regulatory requirements need to be simplified. Reducing the regulatory burden could also help bring criminal activity under control and reduce bureaucratic corruption.

The government's current de-bureaucratization initiative aims to reduce the involvement of the bureaucracy in the economy. It is hoped that this regulatory and administrative reform will reduce the potential for official corruption and encourage the development of entrepreneurial activity, as the administrative barriers that hinder domestic firms from investing in the Russian market are removed. Foreign investment should also increase as entry into the Russian market is simplified. On the negative side, the government's initiative has encountered stiff opposition in the Duma, with the result that the original set of new laws restricting the need for government licences has already been watered down.

3. Streamlining the Tax System

President Putin has pushed through a liberal tax reform that is a noticeable improvement over the previous regime. Russia has made a bold move to a flat tax system, in which the rate of tax levied on individuals' income has been lowered to 13% from the previous range of 12-30%. The rate of corporate taxation has been dropped from 34% to 24%, and from 40% to 24% for tax on profits. The authorities are also contemplating a reduction in the value-added tax (VAT), perhaps down from 20% to the 17% mark. These and other measures to reduce and simplify the tax system were intended to help attract investment, reduce capital flight and sustain economic growth.

The new tax regime was also designed to prompt the return of millions of tax-evaders from the country's underground economy. Historically, the Russian tax system has imposed a severe burden on business and contained serious distortions emanating from individual tax preferences, varying tax rates, and an uneven application of tax laws. Full compliance with all elements of the system entailed an extremely onerous tax burden on firms. Therefore, it is no wonder that companies had been evading taxes in increasingly sophisticated ways. Many smaller firms were simply not paying the required taxes, and larger businesses frequently falsified their returns.

53 See Peter Solomon's comments in the section on judicial reform.

Finally, imprecise drafting of Russian tax laws combined with ill-defined terminology and publicly unavailable tax provisions had, over the years, provided tax inspectors with a large margin of discretion. The Committee believes that this discretionary power has to be lessened for Russians to display more confidence in their tax system.

4. Revitalizing and Restructuring Industry

With regard to real gains in productivity and output, it is evident that Russian manufacturing is having great difficulty transforming itself into a competitive producer. According to Keith Bush, Russia's manufacturing strengths are concentrated within the arms, space and science industries. Many of the problems faced by manufacturers are rooted at the local level: owners, managers and workers are faced with disincentives to change; difficulties abound in acquiring and maintaining needed inputs; and one is often faced with local political or elite interference. The newly adopted labour code may help alleviate some of these rigidities, particularly in enabling managers to dismiss workers for the purposes of restructuring.

The average age of Russian manufacturing plants and equipment is three times higher than the OECD average, and 70% of it is more than 10 years old. To update or replace it will take hundreds of billions of dollars. It is not yet clear where the necessary capital will come from. Without a sustained increase in the rate and volume of investment, the recent growth rate in GDP cannot be maintained. Exports are also likely to falter.

Sizeable restructuring of the dominant firms in Russia's industrial sector has not yet been done. Reform of the country's "natural" monopolies (e.g., electricity, gas, railroads), which are all key elements of Russia's economy, has not yet occurred, although a proposal for the restructuring of Gazprom continues to be floated.⁵⁴

Deterioration of the physical assets of these three industries has been a direct result of this failure to restructure. There remains considerable potential for abuse of market power, not only in Russia's utility infrastructure sector but also in the manufacturing sector. However, any decision to reform these monopolies would be politically unpopular owing to the likelihood of a significant rise in the cost of basic requirements such as electricity.

54 A new management team was installed at Gazprom November 2001, under Chief Executive Alexei Miller. According to Michael Lelyveld, "So far Putin and Miller have made little difference from their predecessors in altering relations between Gazprom and the government" and Gazprom's ability to resist an erosion of its power remains "a mystery." It may simply be too big or too strong. "New Hope for Gazprom reform?" *RFE/RL*, 21 February 2002.

5. Strengthening the Domestic Financial System

Keith Bush informed the Committee that the Russian banking system was in dire need of reform. The country's 1,300 banks do not undertake the usual role in a market economy of providing firms and individuals with the necessary liquidity that they may require. As Ron Denom (Senior Vice President, SNC Lavalin International) mentioned, savings do not tend to accumulate within the Russian banking system since individuals no longer have confidence in it. Instead, most Russian banks are in-house vehicles used by large firms to channel money, often out of the country. The Committee was informed that while the larger state banks are doing a better job of getting into the savings and loan business, their guaranteed loans are crowding out the private banks.

Without a reliable and stronger banking sector, many individual Russians will continue to hide away their "mattress money." Structural and regulatory reforms are needed to give confidence to both domestic and foreign investors.

6. Reforming the Agricultural Sector

Patrick Armstrong presented the current state of affairs in Russian agriculture when he said to the Committee that during the past 10 years, "nothing has happened in agriculture. No one has any idea of what to do. Unfortunately Russian agriculture has reached a level where there is no solution to the problem." Equally graphic was the statement from Senator Jim Tunney that Russia, while having 39 million dairy cows versus Canada's three-quarters of a million, generates only one-half of our milk production. He also informed the Committee that the Russian government "has no interest in agriculture." On a more positive note, the Committee was told that both Russia and Ukraine have enormous, albeit yet unrealised, potential "to feed the world".

How might Russia be able to strengthen its agricultural sector? According to Senator Tunney, it is evident that a significant degree of investment in the sector is required for its modernization. Another possibility is to establish private land ownership, although Patrick Armstrong expressed doubts that privatization was the appropriate policy action to take. A proper rural land code, outlining everything from mortgage rights to rules on land use, has not yet been fully implemented, and strong and vested interests remain opposed to such a code.⁵⁵

7. Modernizing Russia's Infrastructure

After almost a decade of free enterprise and democracy, Russia remains encumbered with an economic infrastructure that continues to decay. According to John Young, infrastructure development, especially roads and railways, is "in desperate need of

55 The new land code applies only to urban and commercial land.

attention throughout Russia.” Larry Black was even more specific, pointing to a dearth of public investment in roads, railway rolling stock and switching equipment, bridges, housing, the electrical power grid, oil and gas pipelines,⁵⁶ the water supply, health care and agricultural equipment. He told the Committee that a mere 5-8% of Russian businesses possess what we consider to be modern technology and that, according to the Russian Minister of Emergencies, Russia risks having to deal with a series of technological disasters. Senator Tunney described the state of infrastructure in the Russian oil and gas industry as well below standard, noting that “refineries are broken down, their fuel is not properly refined, pipelines are broken and sometimes they are pumping raw oil through a six-inch pipe.” Finally, Ron Denom used IMF data to point out that Russia will require over \$2 trillion of investment over the next 20 years to modernize its production facilities, infrastructure and workforce.

8. Other Reforms

The Committee was made aware, in passing, of other reforms that could prove useful in Russia’s efforts towards reform. These include: patent reform; the lowering of barriers to trade; and the establishment of a central business and land title registry.

56 Gazprom cannot accumulate capital for this task since Russia holds domestic natural gas prices below world prices.

RUSSIAN SECURITY AND FOREIGN POLICY

Testimony on Russian military affairs and foreign policy comprised a relatively small portion of the evidence heard by the Committee. That having been said, recent developments related to the post-September 11th war on terrorism and to NATO have placed security and foreign policy issues back on the front burner.

A. The Military Situation

The Committee heard testimony that the Russian military does not pose the security threat to the West as did the Soviet regime. Russia's military infrastructure is critically underfunded and the condition of the armed forces is miserable. To quote Larry Black: "Quite frankly, Russia does not have the military to defend itself against anybody." The protracted tragedy of the sinking and raising of the *Kursk* has become symbolic to many Russians of the decline of their military forces.

It is estimated that almost 25% of Soviet GDP was required to maintain the Soviet military. The smaller Russian economy has fewer resources to offer. Whereas the United States has a military budget of some US\$396 billion, Russia's 2002 estimated expenditure is US\$60 billion.⁵⁷

The Committee was informed that of the military resources allocated, sometimes only about 50% of the total are actually delivered. Public statements from senior Russian military personnel in 1994 estimated troop numbers to be at 40-50% of the paper number. Materiel has been scrapped by some 60%, flying has been reduced by a quarter of what was previously designated for flying time (to 30-35 hours a year) and seventy percent of combat training exercises has had to be eliminated. As well, active top fighter squadrons were paying for their fuel by taking wealthy Westerners on \$5,000 joy rides. According to Dale Herspring (Professor, University of Kansas), more recent statements on naval and tank units echo the same message.

It is also worth noting that the Committee heard evidence stating that Russian soldiers are underpaid and poorly trained. As both Dale Herspring and Murray Feshbach noted, the conscript army has difficulty finding healthy recruits.⁵⁸ Morale has been undermined by harsh discipline and hazing, according to Fiona Hill. Plagued by poor pay, the NCO

57 Center for Defense Information (www.cdi.org). Comparative military expenditures are extremely difficult to gauge due to varying national accounting methods. For comparison, CDI lists the Canadian expenditure for 2001 at US\$7.7 billion.

58 In a statement dated 18 April 2002, President Putin reaffirmed his pledge to gradually transform the military from a conscript to a volunteer force but admitted it was unclear how long the reform would take. Russian defence officials estimate the transition will cost US\$5.7 billion and be done by 2010, but Putin is calling for a more rapid completion because Russia's poor demographic and health situation will cause the number of conscripts to be cut in half by 2005.

ranks (the backbone of any military) are, often by necessity, dealing in the black market. Some of the apocryphal tales of Russian soldiers selling military equipment may be founded in truth.

Notwithstanding the above negative comments, the Russian defence industry remains viable. Indeed, it is a world-class competitor. Ironically, noted Dale Herspring, military sales go abroad to earn currency exports while the Russian military cannot afford to buy Russian weapons.

The condition of repair of Russia's nuclear weapons and other weapons of mass destruction, as well as that of their command and control systems is of serious concern. Accidental nuclear explosions caused by poor maintenance or by misidentified targeting could occur. The environmental toll of poorly maintained nuclear weapons could prove grievous. One fear that predominated with the sinking of the *Kursk* was the effect its nuclear reactor might have on Arctic waters and northern coasts.

Canada has for decades taken a lead role in addressing the dangers posed by the proliferation of weapons of mass destruction. In a world now preoccupied with the threat posed by terrorist activities, one of the West's greatest fears has been newly heightened, namely the migration of nuclear, biological or chemical weapons, along with the expertise required to put these weapons to use, to the highest bidding terrorist organization.

B. Military, Foreign and Security Policies

The President seems aware that reorganization of the Russian military is required. It is necessary both to do more with less and, according to Dale Herspring, to remove conflicts and assign priorities within the Soviet General Staff. In this regard, the Committee's attention was directed to the new military and security doctrines of Russia.

Patrick Armstrong suggested that the current military doctrine would soon be replaced. It runs against the published *Concept of National Security* (see below), particularly in promoting the safeguarding of Russia's military as the most important role of security planning. Furthermore, there have been public disagreements between senior staff as to which components of the Russian forces – strategic or conventional – should take priority when the inevitable cuts come. According to both Larry Black and Patrick Armstrong, the prediction is for a smaller, more flexible conventional military and for significant cuts in strategic forces. Military defence will therefore rely more heavily on strategic forces than on a large standing army. Should this be the case, Ballistic Missile Defence (BMD) issues stand to trouble Russian military planners.

The Committee was informed that military doctrine is much more of a planning document in Russia than in the West, and that there have been six military doctrines in the past 10 years. Traditionally, planning has been initiated by the military, and it is up to

the political powers to provide the resources. President Putin has upset this procedure by placing the planning process under civilian control, most notably through the appointments of Mr. Sergei Ivanov (a former FSB/KGB colleague of President Putin's) to the Ministry of Defence and a less-noticed appointment of a new Deputy Defence Minister of Finance. Minister Ivanov was appointed shortly after completing a review of military planning for the Security Council of Russia, the country's Cabinet-level military-political planning body. Dale Herspring stressed that this decision would cause civil-military friction and make for a difficult adjustment for the Russian military mindset.

Patrick Armstrong and Larry Black both brought to the Committee's attention the new *Concept of National Security* put forward in 2001. The *Concept* is the primary expression of Russia's and President Putin's view of the world. Its first element is the recognition that the primary concern for Russia's security is the country's economic weakness. To quote the cover page of the *Concept*: "Russia's national interests may be assured only on the basis of sustainable economic development. Therefore Russia's national interests in economics are of key importance."

With respect to specific threats, Russia does maintain a few key priorities. The first is the fight against international terrorism.⁵⁹ The second is improving stability around Russia's borders. The third is to seek an alternative to the "unipolar" world, code for concerns over American dominance of international affairs. Patrick Armstrong suggested that Russians oppose American dominance in part because they value the idea of a healthy balance between Great Powers and in part because it represents a diminution of Russian international prestige.

C. Foreign Policy and Domestic Opinion

The Committee was informed by Stephen Grant that Russians believe in the importance of their role on the world stage. This importance illustrates a major conundrum for Russian politics – whether Russia is a Western country or whether Russia should plough its own furrow in the world. Overwhelmingly, Russians see themselves and their state as comprising their own separate entity in the world. They do not see the West as inimically hostile, yet neither do Russians identify Western interests as their own.

Views on the West are also inextricably linked to domestic transformation. Elements of the Russian polity see transformation to a liberal-democratic state as a betrayal of Russian identity. Others identify the difficulties of transition with a Western strategy to weaken Russia. As mentioned previously, many others link the personal difficulties of so many Russians during the present transition to Western policies, or identify Russia's current politics and condition as the results of democracy. Many witnesses informed the

59 Readers are reminded that the *Concept* was published *before* 11 September 2001 attacks against the World Trade Centre and Washington. In the Russian context of the time, this can be considered code for activities in Chechnya.

Committee that this domestic factor was a limitation on Russia aligning itself with the West. If that is so, the prospect of Russia becoming a strong pillar supporting the liberal-democratic international order in the manner of Germany or Japan is a long-term one.

Emil Payin testified that there is also potential for a nationalist backlash against the West. He explained that many Russians hold the view that their country has changed and that it is now a “good country. The West, according to this sentiment, needs to recognize this. Therefore, criticisms by the West of Russian practices appear to many Russians to reflect an inability of the West to change its attitudes toward Russia.

For President Putin, foreign policy represents a challenge as well as an opportunity.⁶⁰ Russia’s long-term viability as a Great Power requires co-operation with the West. Yet his popularity might be in large part based on restoring Russian prestige and acceptance as measured against Western policy interests. Russian actions at home that cast doubt on Russia’s credibility as a democratic state undermine his efforts to develop closer ties with the West. In turn, closer engagement or co-operation with the West, particularly in areas associated with domestic reform such as social policy, undermines his position at home. Such inherent contradictions act as a paradox that constrains President Putin’s ability, if that is his intent, to bring Russia into the Western fold.

D. General Foreign Policy Actions

Pragmatism is therefore reflected in the overall thrust of Russian policy. As Gene Fischel observed, Vladimir Putin is a pragmatist. President Putin’s Russia has sought opportunity in many directions, including a change in its previously lukewarm relations with East Asia. For example, the country has signed a new treaty with China, and there has been a warming of relations with Japan, noticeably over the thorny issue of the Kurile Islands.⁶¹ Russia has also engaged actively in re-establishing ties with key relationships from the Soviet era.

One area in which Russia has retained somewhat of a “sphere of interest” approach is in the republics that comprise the former Soviet Union. Witnesses acknowledged Russia was actively promoting regional solutions across the Commonwealth of Independent States (CIS).⁶²

60 The challenge is to turn strategic, pragmatic interests in co-operating with the West into a longer-term engagement and partnership that Russians will accept.

61 The Soviet Union declared war on Japan 8 August 1945, after the dropping of the first atomic bomb. Soviet troops occupied these islands, known in Japan as the Northern Territories, on 28 August 1945. Japan considers their incorporation into the Soviet Union, and their present status as part of Russia, to be invalid.

62 The Commonwealth of Independent States (CIS) comprises 12 post-Soviet republics. The Baltic States did not join. The Russian economy is based on inputs from all 15 former republics. Uzbek

Larry Black pointed out that the CIS is a priority for Russia. Within the CIS, Russia and the four members politically closest to it - Ukraine, Moldova, Kazakhstan and Belarus - have moved from a union of five to a serious economic community. There is also the Shanghai Five initiative in the Far East with the eastern Central Asian States and China.⁶³ Russia has also continued to build and intensify its traditional relations with India and Iran. Both countries are strategically important and represent potential trade partners of promising significance. Sergei Plekhanov advised the Committee that Russian stability is important to Eurasia and therefore important to the West. The Committee believes that Canada has a role to play in encouraging stable relations between Russia and its neighbours. We must also take heed of the words of Fergal O'Reilly who noted that Russia may welcome Western partnership and involvement with Russia in this region, but that it desires to limit Western involvement to short-term and discrete actions.

E. NATO

When the Committee initiated this study, Russia had distanced itself from its closer cooperation with NATO of the 1990s. Russia had disengaged from aspects of the Partnership for Peace (PfP) program and was in disagreement with NATO policies in the Balkans, particularly NATO operations in Kosovo. NATO expansion also concerned Russia because the inclusion of Central and East European states brings NATO to Russia's borders. The Committee's report – *The New NATO and the Evolution of Peacekeeping: Implications for Canada* – dated April 2000, commented that, "It is not clear to all (Committee members) that enough is being done to involve Russia."

Since then, much appears to have changed. An obvious catalyst to change was the warming of relations between Russia and NATO created by President Putin's immediate offers of Russian assistance after the September 11th attacks on the World Trade Centre.⁶⁴ However, there were indications that Russian policy was seeking a more cooperative, pragmatic approach to NATO before the attacks. According to Larry Black, speaking in the fall of 2001, the Russians are "coming back" to NATO, but in a limited way. Professor Black indicated that they were (at that time) seeking cooperation, not partnership.

Also at that time, the potential inclusion of the Baltic Republics (Estonia, Latvia and Lithuania) in the round of NATO expansion to be considered in 2002 was problematic for

cotton was planted to feed Russian textile factories. Northern, industrial Kazakhstan is almost entirely Russian in population. Also, the external borders of Russia were internal borders to the Soviet Union. In 1991, the international border between Ukraine and Russia, or between Russia and Tajikistan, had the infrastructure of the border between Manitoba and Saskatchewan. Most of Russia's border posts were, in essence, along the external boundaries of its neighbours. There is also a virtual rouble zone. Economic announcements by CIS states in the early 1990s placed strong pressure on the rouble. Russia is the largest, richest CIS state in that it has the resources and leadership that the others do not.

63 The five include China, Kazakhstan, Kyrgyzstan, Russia and Tajikistan.

64 See section on events since 11 September 2002

Russia. It is potentially difficult for Russian pride to accept former territory of the USSR into NATO. Strategically, the Baltic States bring NATO to the very door of European Russia. Of greatest concern to Russia, NATO would completely surround the vital Russian military base of Kaliningrad.

However, recently these issues have appeared to matter less to Russian policy than the overarching goal of securing positive cooperation with the West, as articulated in the *Security Concept*. Recent NATO-Russian goodwill has culminated in the 14 May 2002 announcement of a “new partnership” to form a NATO-Russia Council. The Council will set joint policy on specific issues, to include: counter-terrorism; nuclear, biological and chemical weapons proliferation; missile defence; peacekeeping and management of regional crises; civil defence; search and rescue at sea; promoting military cooperation; and arms control. The agreement was signed 28 May 2002. The working details and practices of this new agreement remain to be worked out.

However, not all in Russia favour closer cooperation with NATO. While the political leadership sees value in working closely with NATO, Russian public opinion appears to be lagging behind somewhat. In a poll released the same week as the May 14th NATO-Russia Council announcement, a slim majority of Russians indicated they distrusted NATO.

F. Russian–American Relations and the Effects of September 11th

A primary foreign policy area presented to the Committee before September 11th 2002, was the state of American–Russian relations under President George W. Bush. The Committee’s trip to Washington unveiled considerable evidence that American foreign policy had not been much engaged with the question of Russia during the first months of President Bush’s administration. Indeed, most witnesses in Washington concurred with Keith Bush’s statement that U.S. foreign policy was still unformed on the Russian question. It was also noted that friction and unclear lines of authority in President Bush’s cabinet may have had a leading role in creating this indeterminacy.

One issue that dominated Russian–American relations during President Bush’s first months in power concerned the American president’s determination to press ahead with a BMD system. For Russians, this determination symbolizes the problems with a unipolar world. It would be fair to say that Russia does not see the proposed BMD as a direct threat.⁶⁵ Rather, it is the capacity of the United States to act unilaterally that causes anxiety. Larry Black informed the Committee that the BMD announcement “stifled” Russian military planning, while Dale Herspring observed that the issue created a

65 In a statement dated 13 December 2001, President Putin described the December 12th announcement by the United States that the U.S. would withdraw from the Anti-Ballistic Missile Treaty a “mistake” but “not a threat to the national security of Russia.”

quandary at precisely the time when the Russians thought they had adjusted their forces to new situations.

The American attitude was apparently not helpful in relations on this issue either. BMD is very important, symbolically, to Russian–American relations. As Sergei Plekhanov put it, President Bush’s handling of the situation was telling. Russia was not treated as an equal partner in this matter.

This attitude may **have been** at the root of Russia’s **views on abandoning** the Anti-Ballistic Missile (ABM) Treaty. The Russian position has always been that the treaty creates a greater guarantee of stability than does BMD. How the issue is discussed publicly may revolve more around how Russia perceives its own voice and position on the international scene, rather than the technical practicalities of a BMD system itself. That being said, most witnesses have agreed that in the end the Russians will compromise on BMD and use the issue to drive a hard bargain on related foreign policy and technical assistance issues.⁶⁶

However, current reports seem to indicate that whereas American foreign policy towards Russia could be described as indifferent before the attacks, there has now been a warming of official and personal relations between the two countries and their leaders. President Bush has expressed his appreciation for the unhesitating manner in which President Putin committed Russia to assist America. President Putin was the first foreign leader to contact President Bush after the attacks. In addition, Russia has provided intelligence reports and cleared the way for use of Eurasian air bases in the campaign against the Taliban in Afghanistan. Apart from the great benefit to warming Russian–American relations, President Putin’s actions and Russia’s co-operation in these issues reminded the United States that Russia remains important and that Russia’s co-operation and goodwill are crucial to American policy in certain areas. In essence, Russia has returned, for now, to the fore of U.S. foreign policy making.⁶⁷

For Russia, the attacks have confirmed the priority given to anti-terrorism that was outlined in their *Concept of National Security*. They have provided a bridge to the West,

66 There have been very recent indications that Russia might commit to either replacing or renewing its current BMD systems – the original missile defences placed around Moscow and St. Petersburg before the ABM Treaty was signed. However, these indications may have more to do with the internal debates between various branches of the armed forces seeking funding and relevance during armed forces reorganization.

67 Very recent developments appear to confirm the trend of closer Russian-American and Russian-Western ties. Two significant announcements were made the week of 14 May 2002. One was a commitment to a much deeper and coordinated partnership between Russia and NATO (see NATO section above). The other was a U.S.-Russia agreement to make significant cuts to the deployed strategic arsenals of both countries. Political commentators have stressed that the political and symbolic importance of these two announcements outweigh any immediate material gains.

and President Putin has used this opportunity to attempt to create more political space domestically for the idea of pulling closer to the West.

However, it should be noted that not all of Russia is following in Putin's direction. Considerable elements of Russian society, media and government appear displeased with what they consider to be an acquiescence to American power. On the eve of the Bush-Putin summit in mid-November 2001, Russian politicians and political commentators were warning President Putin not to sell out Russia's interests in the cause of friendship. More recently, Western media have voiced caution regarding Russia's future. In particular, there have been warnings regarding Russia's "alignment" with the West and the future of Putin's reforms.⁶⁸ Certain Russian media have featured comments that are critical of the American forces, as well as Canadian, Australian and other allied forces in Central Asia. Some of the coverage, however, is aimed more at discrediting these allied forces by commenting on their local impact and habits rather than their strategic presence.

The delicate balance President Putin has to maintain in Russia's relations toward the West is placed under pressure by the current campaign against terrorism. President Putin's popularity was based in part on fighting the war in Chechnya. Western states have previously expressed concern over Russian actions in Chechnya. Inter-governmental and inter-parliamentary organizations censured or suspended their Russian members or Russian counterparts. Fiona Hill emphasized the fact that Russia has been careful to represent this as a secessionist problem, not an anti-Islam campaign.⁶⁹ Key countries such as China and Iran appear to accept this explanation.

A desire for American co-operation against terrorist activities had been previously expressed by Russian officials, and the Committee was informed that visible results from such co-operation would obviously assist President Putin in his fight to rid Russia of terrorism. However, the recent move by the United States to put military advisors in Georgia, just kilometres across the border from Chechnya, is disquieting to some Russians in that it represents a unilateral action that sees American soldiers operating in "Russia's sphere of interest".

Potentially compounding the Georgian issue in U.S.-Russia relations recent economic conflicts with the United States regarding steel and poultry tariffs.⁷⁰ U.S. anti-dumping measures could cost Russia an estimated US\$2.2 billion. The timing of these actions could appear to Russians as thoughtless at best, or even worse as deliberate.

68 Martin Sieff, "Experts Fear For Russia's Future," UPI Newswire, Washington, 21 March 2002.

69 Islam is an official religion of Russia.

70 In an irony probably lost on the Russian public, when Russia's first Foreign Minister, Andrei Kozyrev, was interviewed in 1991 about how he foresaw the future of Russian-Western relations, the pro-Western Kozyrev announced that his ambition was for Russia to reach the position where it could engage in trade disputes with the United States instead of military ones.

With regard to questions of democracy and Russian identity, Russian co-operation with the West on the issue of terrorism provides another impetus for those who see in democratization a threat to Russia as a great power, and democracy as an outside imposition designed to weaken Russia. Overall, there is concern among political analysts in the media and within the academic community that the “war against terrorism” will provide an issue that allows anti-reform forces to coalesce into a powerful opposition to the President’s reform policies.

Patrick Armstrong, in a written submission to the Committee, identified two trends in Russian thinking on the subject of Russia’s position in the world. The first view holds Russia to be a Great Power whose authority is held by those who profited in Communist days. These beneficiaries of the Soviet legacy have been quite vocal over the past 10 years in raising various issues such as encouraging that Russia form its own “pole of attraction”; embracing relations with old friends such as Iraq or Cuba and, most recently, objecting to American military presence in Georgia and Central Asia.

According to Mr. Armstrong, these voices do not have “a good view of reality.” There are many of them, but they do not have a defined program. Their views are largely nostalgic and unhelpful in building real strength against the United States. For example, trade with Iraq would hardly rebuild Russia’s economy, and the diplomatic cost would presumably be large.

He terms the other view, which is held by President Putin, as one of “integration” with the West. It is thought that this vision will succeed for the very reasons sought by those who wish to re-establish Russia as a Great Power, namely for reasons of strategic national interest.

Mr. Armstrong went on to note that the benefits for President Putin’s strategy are becoming, or soon will be, tangible. Russia is getting better coverage in the West and President Putin’s reforms are also receiving long-overdue recognition. There is movement toward Russia’s accession to the WTO, and the Bush administration is pushing for the end of the Jackson-Vanik Amendment, a hold-over from the Cold War.⁷¹ Moreover, Germany and Russia have reached agreement on that part of the Soviet debt that Russia assumed, and relations between Russia and the European Union are progressing. Finally, a new relationship between Russia and NATO is being constructed.

All of the above are the results of President Putin’s pro-Western, pragmatic, and strategic foreign policy. It can be seen as one that is based on mutual interests and not on

71 The Jackson-Vanik Amendment was attached to the 1974 U.S. *Trade Act*. It effectively denies unconditional normal trade relations to certain countries, including Russia, that had non-market economies and that restricted emigration rights. Removal of this amendment would allow the United States to extend Most Favoured Nation (MFN) status to Russia.

expressions of mutual values.⁷² As Patrick Armstrong noted, “We can therefore see how wrong it is to say that Putin has changed his behaviour and chosen a pro-Western course. He chose a pro-Western course a long time ago. It’s we who have changed.”

72 The above statement is not meant to deny that common values exist.

CANADIAN INVOLVEMENT IN RUSSIA

Long-standing ties exist between Canada and Russia. We share a passion for hockey perhaps unrivalled by any other two countries, a passion storied and documented over the years to provide defining moments in each others' popular culture and history. We maintain a common understanding on Northern issues and on natural resource development, as well as on what it means to manage the two largest countries on earth. There have also been long-established links on issues of agriculture and agricultural assistance. Finally, there has been a perception on the part of Russians that Canadians have always viewed Russia with a nuanced understanding.

With Russia presently at a major crossroad in its history, the country represents new possibilities and challenges for Canada. The witnesses who appeared before us provided thoughtful suggestions and examples of what Canadian policy toward Russia might consist of. They are commonsensical and offer a roadmap for future relations under which both countries stand to prosper.

The Committee returned from its Washington fact-finding mission with the phrase "patient engagement." Above all else, the Committee believes that Canada should be taking a long-term view with respect to how it sees its relations with Russia.

Canada was also urged to move its orientation away from Moscow and St. Petersburg. The advice that expert witnesses had to offer Canada was that Russia is more than Moscow, St. Petersburg and a few other industrial centres. Lorne Cutler noted that while Moscow contains international corporate headquarters and is the country's centre of banking and commerce, and while it contains a wide variety and quantity of shops that can compete with those of the world's greatest cities, the rest of Russia⁷³ is a world away from the wealth that the capital has to offer. Indeed, many observers have overlooked the majority of Russia owing to the extreme centralization of certain powers in the Kremlin as well as to a natural interest in the new President.

Regarding any Canadian offer of support to Russia, our country enjoys the advantage of being considered by Russia to be a relatively neutral country. Peter Daniel observed that Canadian advice is seen as technical, not ideological or political. Moreover, as Sergei Plekhanov noted, Canada remains well regarded by the people of Russia themselves. However, the Committee was also informed that Canada should raise its profile in the country. Outside of hockey, most Russians hear little about Canada and have little conception of it. More could be done in this area.

73 St. Petersburg is of course an exception. While still Russia's second most important city and doing comparatively well, it was nonetheless described by Mr. Cutler as a step down from the standards of Moscow.

A. Assisting With Reforms

Since the creation of the Russian Federation in 1991, Canada and Russia have been engaged in cooperation and exchange at all levels: intergovernmental, parliamentary, cultural, academic and within the private sector. We have been active in promoting economic reforms in Russia, largely through the Canadian International Development Agency's (CIDA) extensive program of technical cooperation.

To this point, Canada has committed a total of over \$130 million to more than 250 technical cooperation projects in Russia. In the 2001-02 fiscal year alone, it was expected that \$22 million would be spent on roughly fifty bilateral aid projects. One can add to this amount funding provided through regional programs.

This cooperative effort has focused on two key economic areas: assisting Russia's transition to a market-based economy as well as facilitating Canadian trade and investment ties with Russia. During the first years of the bilateral aid program, the primary objective was to support the reform process in place and to attempt to ensure a rapid period of transition. More recently, aid efforts have been focused on helping promote reforms to the Russian tax code, dispute settlement and contract enforcement procedures, as well as developing policy frameworks for resource development.

On the last point, CIDA has been instrumental in providing energy policy advice to Russia. Neil McIlveen (Director of Analysis and Modelling Division, Natural Resources Canada) and Janet Keeping provided Committee members with a detailed description of the Legislative and Regulatory Initiative that they either had been (Neil McIlveen) or were involved with (Janet Keeping). The essential objective of this technical cooperation project was to assist Russia in its quest to reform its oil and gas management regime.

Notwithstanding these important contributions, several witnesses suggested that Canada could do more to support Russia in its efforts at reform. DFAIT officials, in their first appearance before the Committee in 2000, suggested that deeper technical cooperation could be provided in tax, banking, property and sector-by-sector reforms. James Gillies argued that almost all of the CIDA funding to Russia should be reallocated to institutional reform/structural change, given that achieving reform is a long-term task. This view was also shared by Sergei Plekhanov, who felt that Canada should employ its wealth of experience and practice in nation-building to help Russians rebuild their state. He advocated a policy of "strategic engagement" with Russia, arguing that the worst thing to happen would be for that country to slide back into a state of isolation or semi-isolation.

After providing technical support to Russia for over 10 years, CIDA has concluded that it is preferable to remove itself from short-term projects. The agency has recognized the need to shift gears with respect to its strategy for Russia. Peter Daniel informed the

Committee that the aid agency was attempting to develop a new, more focused⁷⁴ country program framework that would be better coordinated with those of other donors and whose principal objectives would be to enhance governance and civil society within the country. What is essentially required, he noted, is “patience and a long-term commitment to generate a sustainable reform in the way the government operates and in the development of a market economy and of an active civil society which is a full participant in the democratic process.” The Committee, convinced of the merits of these suggestions, recommends:

Recommendation 1:

That the Government of Canada incorporate as the guiding principle of engagement with Russia a consistent, continuous, coherent, long-term (i.e., 5-10 years) view towards Russian political and economic transformation. As a key component of Canadian engagement with Russia, Canadian International Development Agency policy should be adjusted to a) meet the above principle and b) significantly boost technical assistance available to Russia from the current \$22 million.

In turn, governance could be improved in two ways. First, one should help create a positive enabling environment for an effective market economy by supporting the financial, legal and judicial systems of the country. The second tool for enhancing governance is to devote attention to a number of key elements such as federalism, corporate governance, the restructuring of the public sector and Russia’s integration in the global economic system.

According to DFAIT officials appearing before the Committee, it is important for Canada to identify strategies that promote the rule of law within Russia. A number of other witnesses, notably Aurel Braun, Peter Solomon and James Gillies, called on Canada to provide more technical support to assist Russians in reforming their judicial system. This aid would be on top of CIDA’s Canada-Russia Judicial Partnership program, which provides support to all three categories of courts within Russia’s court system (the arbitration courts, dealing with business and commercial disputes; the constitutional court; and the courts of general jurisdiction including the appeal division). An initiative conducted through McGill University seeks to support Russia in its efforts to reform its Civil Code. Peter Solomon also advocated Canadian legal support to help improve the operation of the Russian federal system, through the harmonization of national and regional laws. He mentioned the possibility of providing legal training and education in Canada to Russian lawyers. James Gillies noted that aid channelled to a reform of the legal system would be “absolutely the best money that could be spent in Russia today.” Finally, Bohdan Harasymiv (Professor, Political Science Department, University of Calgary and Visiting Scholar, Kennan Institute, Washington, D.C.) told the Committee in

74 CIDA recognizes that its resources are spread out too thinly in Russia.

Washington that Canada should support Russian efforts to draft more specific laws against crime, with considerable emphasis to be placed on law enforcement. The Committee concurs with many of these proposals and recommends:

Recommendation 2:

That the federal government accelerate its efforts to support the reform of the Russian legal and judicial system, by supporting the training and education of Russian lawyers and judges and, where appropriate, by assisting in legislative drafting.

Many witnesses expressed the value of student exchanges. A good example brought to the Committee's attention was James Gillies' Corporate Governance Program at York University, which trains potential private sector executive officers from Russia. It will help in providing Russian companies with transparency and the sound practices investment and participation in international business require. One should also reiterate Peter Solomon's above-mentioned desire to train and educate Russian lawyers in Canada.

Angus Smith indicated that an important component of the RCMP's activities are the observer attachment programme, which conducts training in management, analysis and philosophy of policing. Our relations have primarily been in the area of training, particularly our international observer attachment program, in which Russian police officers cycle through RCMP divisions. Training packages for the region (Eastern Europe through to Central Asia) are also in development.

As Larry Black stated, if a generation of Russians can benefit from the positive experiences that Canada has to offer, both Russia and Canada will come out ahead. Patrick Armstrong reminded the Committee that the President of Russia that Canada will someday see is being educated today. However, such exchanges need careful screening and monitoring to ensure that the appropriate candidates are chosen solely on merit. We also need to develop a well-trained, Russian-speaking set of Canadian experts in Russia. To have Canadians consistently engaged in Russia is important, as Larry Black observed.

In education, Piotr Dutkiewicz gave examples of how Canada could be effective. He cited the provision of 100,000 primary textbooks that were snapped up, as new Russian equivalents can be hard to come by. However, Canada could do more in terms of improving educational resources in Russia.

There is no question that Russia is rich in scientific education and, to some extent, technical training. In other fields, however, the shortage of educated professionals is more obvious. Anxious to ameliorate this situation, and cognizant of the high value placed on sending Russian students to Canada, the Committee recommends:

Recommendation 3:

That the Government of Canada, through the Canadian International Development Agency, expand its existing program of sponsoring young Russians in all fields to come to Canada to study. CIDA funding should be reallocated to provide an increased number of scholarships to Russian students and to incorporate the appropriate best practices from other existing Canadian international education programs. Furthermore, the Government of Canada should use existing international education programs to develop a consistent base of Canadian expertise on Russia.

Two witnesses provided suggestions on how Canada could assist Russia in improving its agricultural industry. Senator Tunney held the strong opinion that CIDA provide funding that would go toward exploring the feasibility of introducing to Russia a modern, Canadian style dairy farm, to be used as a training centre for young Russian farmers. He also saw a need for the establishment of marketing boards similar to those operating in Canada. These would embody both a marketing and food distribution component. For his part, Larry Black advocated that Canada engage in greater cooperation in agriculture, by providing Russian farmers with the technology and equipment that cannot be procured elsewhere.

The Committee, however, also heard a different view on the use of certain forms of Canadian support to the Russian agricultural sector. Without the basic underpinnings of a market economy, CIDA considered it unwise to invest in development projects such as the previously mentioned model farm. As Peter Daniel observed, “basic agricultural policies are not in place. Privatization and registration of land and the ability of farmers to borrow against the land to get credit or to raise capital to improve their farms and their herds is not in place. There is no point in having one model farm if all of the other pieces are not in place.” The Committee, having heard the diverse views of experts on the value of agricultural sector support, recommends:

Recommendation 4:

That Canada actively support Russia’s reform of its agricultural policies and provide technology, expertise and information to Russian farmers.

Many analysts of the Russian economy have called for action to be taken to rectify what they perceive to be a deteriorating infrastructure situation. In his testimony to the Committee, Larry Black urged the Government of Canada to assist Russia in its rebuilding of infrastructure, roads and railroads. However, the Committee cannot support this suggestion, given the limited funds available. Retaining a focus on technical assistance and education appears to be a more effective solution given the financial circumstances.

In addition, witnesses from the Kennedy Centre urged that the West remove itself from the formal task of political party and political institution building. That policy has proved ineffective, and perhaps counter-productive if one looks at many actors in the Russian political system today. The policies of the past 10 years are implicated heavily by their connection with the current Russian elites.

Rather, they suggest direct involvement with NGOs and communities. This was echoed independently, by John Young, who also suggested that a direct local-to-local, regional-to-regional, approach be taken as well. Specific communities and regions in Russia and Canada, particularly northern ones, might have much to share. According to Mr. Young, the development of democracy through local government is perhaps best not handled through federal officials from either Canada or Russia.

This observation counters somewhat received notions of where Canada might be effective. CIDA and several witnesses pointed to the Canadian expertise in federalism as a natural fit with Russian needs. The Committee agrees with this, and is encouraged to see that Canada has several projects linked to the development of federalism in Russia. However, it is unclear whether Russian federalism fits fully the Canadian model of federalism, since restoring the power vertically is the anti-thesis of a Canadian separation of jurisdictions. Notwithstanding this last comment, the Committee is seized by the important contribution that Canada is making by assisting Russia in reforming its federal apparatus. More needs to be done, however. The Committee recommends:

Recommendation 5:

That Canada make available to Russia its experience in the organization of a division of power between federal and regional governments. In consultation with the Russian government, technical assistance should be provided in such areas as constitutional law and practice, federalism and the roles of different jurisdictional levels. Moreover, co-operation programs designed to assist in the training of municipal officers and to provide the Canadian experience on accounting procedures, administrative municipal affairs and provincial government should be offered.

B. Boosting the Canada-Russia Economic Relationship

It is no secret that the Canada-Russia economic relationship has not developed according to existing potential. According to senior DFAIT officials, Canadian firms scaled back exports and investments in the wake of the 1998 Russian financial crisis⁷⁵ and owing to the lack of progress in the banking sector⁷⁶ and in light of the country's deteriorating

75 Russian purchasing power declined as a direct result of the devaluation of the rouble.

76 Poor transparency lowered the availability of trade finance for Russia.

investment climate. Current trade and investment impediments include the existence of a high bureaucratic burden, resulting corruption, and an overall negative perception of the Russian market. On a positive note, Russia is presently undertaking to implement the necessary structural reforms that would attract and retain additional Canadian investment and trade.

Canada's exports to the Russian Federation remain at pre-1998 levels. Indeed our exports registered a steep decline as a result of the above-mentioned crisis (from \$379 million in 1997 to \$180 million in 1999), before rising back up to the \$200 million mark in the year 2000. Canada's top exports in 2000 included building materials, oil and gas equipment, tobacco and pork.

The situation in 2001 was even more favourable, as exports rose to the \$290 million level. To this number one can add another 25% to 30% to cover exports transhipped through third markets such as the U.S., Finland, Latvia and other European countries. Finally, Canadian services (e.g., infrastructure, energy, forestry, legal, mining) have also found a market in Russia, though estimates in these areas have proven difficult to obtain.

On the other side of the ledger, imports of goods from Russia totalled \$666 million in 2000, up almost 10% from 1999's figure of \$607 million. Raw materials (e.g., crude oil, precious metals, frozen fish, steel) account for the bulk of these sales into the Canadian market. On the other hand, 2001 numbers reveal a sizeable decline in imports to the \$361 million level.

From 1997 to 2000, Russia amassed a cumulative balance of trade surplus with Canada of over \$1.6 billion. Without a doubt, there remains considerable potential to make improvements on the export side. Russia continues to possess a resource-based economy that is considered to be a good match and target market for Canadian resource extraction, agri-food and the housing/construction material sectors.

The federal government is attempting to enhance access to the Russian market through three channels: the activities of the bilateral Intergovernmental Economic Commission (IEC);⁷⁷ accession negotiations on Russia's entry into the WTO; and negotiation of a new Foreign Investment Protection Agreement (FIPA). Yet as Vladimir Popov argued before the Committee, the Canadian trade presence is well below its potential and still more should be done to improve bilateral trade relations.

77 The IEC is a bilateral forum aimed at fostering trade, investment and the transfer of technology between Canada and Russia, as well as to advance key joint projects and address barriers to economic co-operations. Some of the trade obstacles that Canadian firms face in the Russian market include the existence of competing regulatory requirements, difficulty in obtaining information on these requirements, inconsistent application of customs procedures, and lack of transparency on changes in duties, rules, export tariffs and licenses. Canada has also used the IEC forum to advance reforms to the Russian tax code, dispute settlement and contract enforcement procedures, and policy frameworks for resource development.

On the investment side, the estimated value of the stock of Canadian direct investment in Russia totalled some \$423 million (2000), concentrated in the mining and oil and gas sectors but also found in other activities such as food services and high technology. While the Russian market continues to display considerable economic potential, and the encouragement of foreign investment is a stated priority of the Russian government, concerns over a lack of guarantees protecting Canadian investments in Russia have kept the total stock of investment below its potential.

Specifically, Canadian concerns in this area have included the existence of poor corporate governance, the complexity and uncertainty concerning domestic legislation, and a lack of effective recourse through the judicial system in order to resolve investment disputes. On the latter point, there remains great uncertainty surrounding the extent to which Russian parties and entities, especially government agencies, respect the contractual and other rights of non-Russian investors. It bears reiterating the point that there is an urgent need for a stable, attractive investment climate in Russia.

Several Canadian firms, active primarily in the natural resources sector, are involved in serious and expensive disputes with Russian companies that maintain ties to the Russian government or to regional governments. For example, Norex Petroleum alleged that it was stripped of its 98% ownership of the Russian oil company Yugraneft at a disputed shareholders' meeting to which armed gunmen were dispatched by the minority shareholder Tyumen Oil Co. to remove the foreign management team. While this issue does not represent a conflict between governments, it is one that has become politicized and, according to the Russian company involved, should be resolved within the legal system.

In an ownership dispute in the year 2000, Pan American Silver Corp. took a US\$38 million write-down of its investment in a mining project, in the process abandoning the project. These and other examples illustrate the lack of protection for foreign investors in Russia with respect to corporate governance and the rule of law.

A number of important, more specific suggestions for enhancing the bilateral relationship were provided to the Committee. On the critical issue of ameliorating investment protection, we were informed of the need to modernize the existing Foreign Investment Protection Agreement (FIPA) with Russia to include, among other things, effective enforcement mechanisms. The existing investment agreement signed in 1989 provides limited protection for Canadian investors compared to more recent NAFTA-type ones. Discussions on the development of an enhanced bilateral agreement for the promotion and protection of foreign investment (FIPA) continue. The Committee, dissatisfied with the slow progress in this area, recommends:

Recommendation 6:

That the Government of Canada accelerate efforts to complete a modernized Foreign Investment Protection Agreement with Russia. This agreement should incorporate transparent and effective enforcement mechanisms and include, but not be limited to: protection against arbitrary expropriation or expropriation without adequate compensation; certainty of title; surety of licenses; and a free cross-border transfer of funds.

Second, improving the rule of law in Russia would increase market access for Canadian firms and would enhance investment by our companies. Organized crime demanding protection money under threat of violence has been a problem for Canadian business. The Government of Canada has placed a lot of effort into resolving investment disputes in which Canadian projects have not been compensated for expropriation, regulatory ambiguity or outright criminal acts. However, there is hope for improvement. To deal with criminal matters, and thereby protect our overseas business interests, DFAIT officials urged the federal government to devote additional resources to the Royal Canadian Mounted Police (RCMP) and the Canadian Security Intelligence Service (CSIS) to tackle cases in Russia where criminal involvement was affecting our commercial interests.

Third, Ron Denom urged the federal government to create a development finance institution, perhaps as a subsidiary of the Export Development Corporation (EDC) rather than a separate Crown Corporation, to deal with the gap in existing financing at the beginning of the development of larger projects. Such an institution could provide financing and related support on a commercial basis to private-sector ventures in developing economies. It could provide seed equity capital to Canadian firms not currently available through either CIDA or the EDC, to cover off the period between the completion of the project feasibility study and the closing of the project financing. These agencies tend to come in later in the development cycle. As Mr. Denom explained, the new financial institution would be “a source of loan money, of equity, of guarantees, and management and advice at the early stages of projects in these emerging and transitional economies. In other words, it should come in as a participant in the early studies of the projects, and to be an early investor into these projects.”

Currently, Canada is the only one of the G8 countries without such an institution; all told, there are 17 of these within the set of industrialized countries. To rectify this shortcoming, the federal government is developing plans to create a new government-owned financial institution to aid small and medium-sized firms to export to developing countries. If these plans are realized, a total of \$300 million in initial capital could be

provided for these higher-risk loans and investments. The new institution could be independent or an arm of either the EDC⁷⁸ or CIDA.

While the EDC remains interested in the Russian market and engaged in a thorough review of the Russian economy, it continues to exercise caution. However, it has now reopened its lending window to the Russian government and is considering providing loans to major profitable companies, principally in the natural resources sector, displaying favourable export earnings.

Both DFAIT and Ron Denom expressed a desire for greater EDC involvement in Russia. However, EDC works on a bank-to-bank basis so there may be a need to wait in order to first see an improvement in the banking system. The agency is quite concerned about the lack of reforms in this sector and is only considering dealing with certain state-owned banks and those primarily owned by Western banks.

Another key EDC concern expressed to the Committee is the high risk attached to foreign investment in Russia. The agency increasingly views the country as comprising two distinct markets: a relatively low-risk market for Canadian exports and a more risky investment market. To minimize the latter risk, it is deemed appropriate for foreign companies to invest on their own. This approach would eliminate opportunities for Russian investment partners to attempt to take over foreign investment.

To enhance trade representation in the key but often neglected Russian Far East, Aurel Braun pointed out the need to open up a new consulate in Vladivostok to deal with the interests of Western Canada in Pacific Russia. This need to establish consulates in the outlying regions was supported by the witnesses from DFAIT. The idea of establishing honorary consuls in the various regions of the vast Russian territory was also broached during the hearings. There is already an Honorary Consulship in Vladivostok that has been quite effective at minimum cost. Vladivostok is the natural gateway to Pacific and Far Eastern Russia and is connected by direct air transport to the Pacific Northwest. Even if hard-working, the Honorary Consulate is limited in its scope of operations (e.g., it cannot issue visas). Despite being almost contiguous, Western Canadians and Eastern Russians must rely on government services provided from Moscow, which is ten time zones removed.

The Committee is in agreement with suggestions to raise the Canadian trade representation in the regions of Russia, especially in Pacific Russia, and thus recommends:

78 As it stands now, the EDC is geared toward exports to less risky developed countries.

Recommendation 7:

That Canada broaden its regional diplomatic representation in Russia through the establishment of additional consulates. In particular there should be an upgrade of the consulate in Vladivostok to full consulate status, through which the economic and other interests of Canadians operating in Pacific and Far Eastern Russia can be supported.

Finally, the Committee heard a number of other potential recommendations for Canadian action. These are listed as follows, with the sponsoring witness identified in brackets:

- Provide Russians with the tools required to learn about the market economy (Sergei Plekhanov) and offer training in business management techniques (Patrick Armstrong and Amy Knight);
- Help facilitate Russia's admission to the WTO (Larry Black);
- Facilitate the rescheduling of Russia's considerable debt (Larry Black);
- Hesitate before imposing anti-dumping action against Russia (Larry Black); and
- Ensure that CIDA, with its current focus on civil society and environmental issues, still maintain an interface with business (Alex Rotzang).

These are all valid suggestions, most of which are being considered or acted on, or are incorporated in previous recommendations within this report. One important supplement to this list is the valuable role played by business organizations and business-to-business contacts. The value of organizations such as the Russian-American Chamber of Commerce was impressed upon the Committee while it was in Washington. In Canada, there is the Canadian-Russian Business Forum in Toronto, as well as similar associations in Calgary and Vancouver. In Russia, there is the Moscow-based Canadian Business Association of Russia (CBAR). Recognizing that business development between Russia and Canada needs eventually to move from the government toward industry, the Committee recommends:

Recommendation 8:

That the Government of Canada encourage Canadian and Canada-Russia business-to-business organizations to develop into effective, visible and active vehicles for business promotion. Furthermore, in conjunction with the sentiments expressed in Recommendation 3 (on education), the Government of Canada should promote the twinning of business schools between Canada and Russia.

C. Security Issues

Three security issues of prominence were raised during Committee hearings: Ballistic Missile Defence (BMD), NATO and the Chechnya situation. Russia recognizes Canada's significant, historical relationship with the United States as well as Canada's importance as a multilateral actor.

Canadian involvement in the BMD is critical to American defence planning. Canada's official position is that this country is waiting for formal American proposals on BMD, at which point it will be in a position to comment on the issue. In essence, the federal government remains open to seeing what the Americans will propose and will assess such a proposal on its merits. Nonetheless, Canada is a key supporter of multilateralism and of the international treaty systems that provide a framework for the control of the use and proliferation of nuclear weapons. We are a member of NATO, of the UN, of the Francophonie, of the Commonwealth and of the Summit of the Americas. For Russia, appeals to Canada for an understanding of the Russian position on the ABM treaty and other issues also represents an appeal to the many other countries with which Canada is engaged.

The Committee heard no recommendations in the difficult areas of NATO expansion and Chechnya. The Committee has already expressed its opinion concerning NATO in the NATO Report. The new NATO-Russia agreement of May 2002 is welcomed by the Committee as being line with our stated desire to have NATO engage more fully with Russia.

On Chechnya, as elsewhere in the world, Canadian policy is to balance a respect for the sovereign and internal affairs of other countries with the need to affirm universal values of human dignity and security. Canadian policy on Chechnya is a matter of record and has been reiterated in multilateral fora such as the Organization for Security and Co-Operation in Europe (OSCE).

Larry Black and Sergei Plekhanov both stressed the need to be forcefully engaged with Russia over its foreign and domestic policy activities. Russian security and stability has an intrinsic value. However, as with any country, Russia must strike a balance between its security needs and the rights of the people within its borders. Canada has the potential to play a role in encouraging Russia to arrive at and maintain such a balance, and therefore assist in incorporating Russia into a partnership of democracies.

D. Northern Development

Northern issues are familiar ground in Russia-Canadian relations. We share a common arctic and a common geography, and Canada and Russia have a long record of co-operation in international, multilateral and bilateral regimes and initiatives. Although Russian and Canadian positions on issues ranging from indigenous peoples to

environmental concerns to questions of custodianship of a special place in the globe are well known, the profile of Arctic and northern issues is an issue for which awareness needs to be generated and sustained.

It is worth noting that Larry Black informed the Committee of an alternate future, nipped in the bud many years ago. At the moment of the Russian Revolution of 1917, a Canadian Pacific official was in St. Petersburg to sign a treaty that would have linked Russia's railway and telegraph system to Canada's thereby effectively encircling the globe in one seamless transportation and communications network. The potential for such an effective partnership of the North remains.

Therefore the Committee recommends that:

Recommendation 9:

The Government of Canada take measures to assign a higher priority to, and elevate the public profile of, northern development issues that are of common interest to Russia and Canada.

E. Immigration

The Committee also heard of the need to augment Canada's ability to process immigration requests at its Russian diplomatic posts. Vladimir Popov suggested that an additional two immigration officers be located in the Canadian embassy in Moscow for this purpose. Several witnesses also commented that the issuing and processing of visas constituted a hindrance to investment and business dealings with their Russian counterparts. The Committee has heard that in the wake of the Winter 2002 Team Canada visit to Russia the federal government has taken steps (e.g., by increasing resources and by streamlining procedures) in order to ameliorate this situation.

The Committee is also cognizant of the difficulties surrounding international travel and movements of peoples in the wake of the attack on the World Trade Centre and the associated challenges facing the federal government. However, in light of the importance of the issue of visas and immigration, the Committee recommends:

Recommendation 10:

That the Government of Canada ensure that necessary steps and procedures be taken to establish an effective capacity in Russia to process expeditiously immigration and visa demands.

PART 2 – UKRAINE

INTRODUCTION

The Committee undertook to examine Ukraine in this study for a complex blend of reasons. Ukraine is for the first time a state as well as a nation. Previously it comprised a crucial part of the Soviet Union and, before that, Imperial Russia and the Austro-Hungarian Empire. Ukraine was the agricultural powerhouse and an industrial basin for the Russian and Soviet economies.

With the collapse of the Soviet Union, the unravelling of the intense and highly integrated infrastructure, institutions, and political systems that existed in Russia and Ukraine leaves a number of key questions to consider. How will Ukraine fit into a broader Europe? How will Russia relate to Ukraine or how will it influence Ukraine? How will Ukraine's foreign policy towards Russia evolve?

These are all important questions for this Committee to ponder as it assesses Ukraine and the Ukrainian-Canadian relationship. The Committee recognizes that there are no real precedents for transitions such as those being made by Ukraine and other countries from former Soviet rule. Transition does not equate readily with accepted strategies of development or adjustment. As Orest Subtelny reminded the Committee, Ukraine is already a modernized country; it has just modernized in a different manner. Ukraine is learning how to deal with transition and Canada is learning to respond and help as both go forward.

Ukraine also continues to occupy a key geopolitical position, situated as it is between Russia and its European neighbours. Its relationship to NATO, as well as that of Russia, is worthy of Committee consideration.

Finally, Ukraine has close family ties with Canada. Canada's involvement in Ukraine in modern times dates back to Canada's recruitment of immigrants from that country to settle and develop Canada's West. From the 1890s, these immigrants contributed greatly to Canada's development. The place within Canada of over one million Ukrainian-Canadians provides ample justification for any discussion of this region to rightfully include Ukraine.

UKRAINE POLITICS

The Committee heard testimony on two important areas of Ukrainian domestic politics: culture, history and citizenship; and the evolving political situation.

A. Culture, History and Citizenship

The Committee heard testimony that a core concern for the new Ukrainian state was nation building. Not only is Ukraine engaging in economic and political transition, but it is also building a nation-state for the first time. Ukrainian identity has existed for centuries, but post-soviet Ukraine represents a first statehood for Ukraine as a modern, industrial state.⁷⁹ Witnesses specifically pointed out that at the start of independence, Ukraine lacked the components of a sovereign state as all of these, including personnel, had been centralized or created in Moscow during the Soviet era. For most of its recent history, Ukraine had been divided between Poland (then Austria-Hungary) and Russia, with the Dnieper River forming the line between eastern (and southern) Ukraine and western Ukraine.

Witnesses informed the committee that western Ukraine – Galicia⁸⁰ – has traditions that are “European” – a legacy from its membership in the Austro-Hungarian Empire. As Paul Magosci informed the Committee, there were Ukrainian members of parliament in the Austro-Hungarian legislature, and there were Ukrainian schools and university departments. All of these promoted Ukrainian nationalism in a 19th-century, liberal mould.

The Eastern part of today’s Ukraine was subsumed into the Russian Empire (which did not recognize Ukraine as a separate entity, culture or nation) and then to the Soviet Union, which dealt with nationalism only through the lens of Soviet ideology.⁸¹ This reality was compounded by Tsarist and Soviet political legacies that were not favourable to developing independent or democratic political expression. The industrial development of eastern and southern Ukraine in the 19th and 20th centuries also meant the migration of a large Russian population to this area. Soviet Premier Khrushchev added a final complexity to the Ukrainian jigsaw. He “gave” Crimea, which had been Russian in name, to the Ukrainian Republic (Ukraine SSR) of the Soviet Union.

Bohdan Klid commented that in comparison with other post-Soviet states, Ukraine has managed excellently with regard to ethnic and regional tensions. Moreover, as David

⁷⁹ There was an independent Ukrainian state briefly in 1917 after the Treaty of Brest-Litovsk. The Red Army finally incorporated Ukraine into the Soviet Union in 1920.

⁸⁰ Most Ukrainians who immigrated to Canada around the turn of the 20th century were Galician.

⁸¹ Russians of Soviet generations still have difficulties recognizing Ukraine as a separate culture, according to Larry Black.

Marples and Bohdan Harsymiv told the Committee, tensions between east and west, between ethnic Russians and Ukrainians, have to all intents and purposes not arrived. Ethnic Russians in Ukraine identify themselves as Ukrainian citizens. According to Dr. Magosci, this is in part because they are indigenous to the region and have been so for at least a hundred years. Crimea, while causing some issues regarding disposition of the Black Sea fleet as well as demands for some form of autonomy, has played out as a regional issue, not an ethnic one.

B. The Current Political Situation

Ukraine, as more than one witness noted, is undergoing a difficult triple-transition. Prior to 1991 it had no significant history as an independent state. It is currently engaged in state-building at the same time as it is undergoing post-Soviet economic and political reforms. Most institutions did not initially have in 1991 the procedures or wherewithal to function effectively. According to James Jacuta (Director of Ukrainian Studies, Canadian Institute of Canadian Studies, University of Alberta), precedence, practice and procedure were absent when the newly independent legislatures sat down for the first time.

Orest Subtelny (Professor of History, York University) noted that it is important to understand that a Ukrainian elite that is “new and not-so-new” currently runs Ukraine. Despite his optimism for Ukraine, Mr. Subtelny stated that members of the new elite used their position in the previous regime to privatize Ukraine to their advantage. The Ukrainian state is therefore viewed by some Ukrainians not as a mechanism for serving society but as a tool for this elite to jump from one ship to another. In Ukrainian politics this has created, unfortunately, a “we/they” mentality among the electorate.

The Committee is concerned about political developments in Ukraine: at a certain point, relative comparisons of democratization with other post-Soviet states that might be faring worse than Ukraine should encompass a recognition that developing democracies also require a dedication to transparency and accountability. That being said, the Committee also heard testimony on the lively and positive nature of Ukrainian civil society. Testimony was given on the actions of many ordinary Ukrainians to further democracy and development, and the desire of most in Ukraine to move towards a normalized liberal democracy. According to some witnesses, the basis exists in Ukraine for the development of a proper, grass roots democracy based on a middle class with its own set of interests and the desire to hold the government accountable for its actions.

Ukraine, since 1999, has been in a state of political flux and economic uncertainty. While some witnesses expressed that opportunities do exist for Canadian business in Ukraine, others did not foresee doing much business there at the present time.

The complexity of Ukrainian politics cannot be overestimated. The parliament – the Verkhovna Rada – is split by economic, ideological, and regional cleavages. The Committee was informed that President Kuchma has attempted a delicate balance

between orienting Ukraine to the West without alienating Russia, and towards reforming the economy without alienating the key energy and heavy industry sectors on which his political base is founded.

Political party development remains with much to be done, and some politicians and bureaucrats have been implicated in behaviours ranging from conflict of interest to cronyism, bribery, corruption, and organized crime. In testimony and in some media in Ukraine and elsewhere, reference has been made to organized crime and corruption going to the highest levels of politics in Ukraine. Furthermore, as Peter Solomon pointed out, Ukraine is well behind Russia in the reform of the legal system and development of its laws.

Ukraine's poor economic performance was an issue that helped the formation of a loose centre-right coalition in the Rada in 1999 headed by Viktor Yushchenko and supported by President Kuchma. However, differences between the President and Cabinet members have appeared, with the former deflecting attempts to reform the energy and heavy industry sectors located in Dnipropetrovsk, his political base.⁸² Moreover, Yulia Timoshenko,⁸³ the Deputy Prime Minister in charge of Energy, was arrested in February 2001.⁸⁴

In January 2000, President Kuchma proposed and won a referendum limiting the powers of the Rada to the benefit of the Presidency. This development was ostensibly to allow the President to push through economic reforms in order to restructure and invigorate Ukraine's economy. However, a political crisis began with a controversial referendum in April 2001, which gave the President powers to dissolve the Parliament. It was not ratified by the legislature.

Prime Minister Yushchenko was removed by a new coalition formed between the Communists and those supported by the oligarchs. Neither political group wants eastern

⁸² Ukraine inherited the same post-Soviet mixture of politicians, businessmen and administrators as did other former Soviet republics. The President, Leonid Kuchma, comes from Dnipropetrovsk in Eastern Ukraine. –. That city is the political and economic centre of the old, Soviet-era, industrial heartland of Ukraine. It is also where Leonid Brezhnev developed his particular brand of Soviet *Nomenklatura* politics.

Information provided the Committee suggests that the legacy of the Soviet bureaucracy is strong in Dnipropetrovsk. Industrial and political elites – oligarchs and the government – control as their private interest what is essentially the unreformed energy and heavy industry sectors of Ukraine's economy. President Kuchma had been reluctant to embark on large-scale political and economic reforms that could jeopardize their position as well as employment (and therefore votes) in this unreformed sector. In short, Ukrainian political economy is dominated by a group with a specific geographical base of power and associated with elites from the Soviet era.

⁸³ Timoshenko came to prominence through her connection with the gas industry, where she made substantial money. She had a personal dispute with Kuchma and joined the opposition.

⁸⁴ The Ukrainian Supreme Court cleared Timoshenko of charges after two appeals.

Ukraine reformed, albeit for different reasons.⁸⁵ The government of Prime Minister Yushchenko had also lost support from rural Ukraine with the reform of agriculture. The Committee was told that Ukrainian oligarchs now seek closer ties with their Russian counterparts rather than look to the West, and that eastern Ukraine's economic development will be closely tied to Russia.⁸⁶

Of concern to observers of Ukrainian politics has been the role of the Gongadze affair in all this. There has been increasing control of the state over the media, including harassment of editors, the closure of opposition newspapers and persecution of individuals who have spoken out against the government.

President Kuchma and the government found themselves under scrutiny and attack as a result of the disappearance and probable murder of Ukrainian journalist Georgi⁸⁷ Gongadze in September 2000.⁸⁸ Gongadze was investigating stories of corruption involving the President. The investigation of Gongadze's murder has progressed in what some might characterize as a slow, haphazard and contradictory manner.

There are a few possible inferences from the last two years of Ukrainian politics. First, the emergence of the 2001 coalition capable of blocking reforms may not augur well for the future of economic reform in the eastern, industrial sector of Ukraine or for breaking the apparent stranglehold Dnipropetrovsk politics has on Ukraine's national stage. It might also create issues for Western foreign investment and economic development projects through the increased presence of Russian investment. On the other hand, it also seems to indicate no desire for Ukraine to return to a state-controlled economy. Furthermore, the centre-right coalition has been energized by the Gongadze affair and by political support in the streets. The coalition was a temporary negative one, according to David Marples.

Second, one should note there still remains some effective power in the Verhovna Rada. As David Marples informed the Committee, it is doubtful whether any other post-Soviet legislature, excluding the Baltic States, could have removed the Prime Minister. The balance between Rada and Presidency remains intact.⁸⁹

⁸⁵ The Communists wish to re-nationalize industry; the heavy industrialists (i.e., the oligarchs) liked things the way they were before Yushenko's putative reforms.

⁸⁶ See also the sections on economic policy and foreign policy.

⁸⁷ Gongadze was Georgian born. In Ukrainian his name is spelled and pronounced Heorhiy Gongadze.

⁸⁸ Gongadze disappeared on 16 September 2000. A headless corpse generally believed to be his was discovered in November 2000.

⁸⁹ David Marples was also careful to point out that the Ukrainian president still held too many powers over the legislature.

Third, President Kuchma's ambitions to bridge Ukraine across East and West may have been compromised. With oligarchs holding the upper hand, their interests in dealing with their Russian counterparts seem strong. There may be repercussions for Ukraine's foreign policy. Others, however, pointed out that Ukraine's foreign policy, driven by fuel needs, inevitably moves East in the winter and then shifts to the West in the spring.

C. Postscript: March 2002 Elections to the Verkhovna Rada

Over the course of this study, testimony on *the* state of democracy in Ukraine has concerned the Committee. The latest round of parliamentary elections was overshadowed by the continuation of a difficult presidential-parliamentary relationship. The election was closely watched by outside observers, since the previous parliamentary and presidential elections (1998 and 1999 respectively) fell short of OSCE standards and international commitments.

The Rada and the President agreed to a new electoral law in October 2001 after considerable wrangling and the deployment of five presidential vetoes. A key component of the law was the creation of District (constituency-level) and Polling Station Election Commissions, including proportional distribution of leadership positions to participating parties.⁹⁰ Witnesses to the Committee commented favourably on the ability of political parties to have access to these commissions because they in effect created 3,500 scrutineers where there were none before. Each scrutineer will have their own party interest, but each will also be watching everybody else.

Unfortunately, problems did affect the elections. These were a replication of the issues that concerned the Committee over the course of its hearings: freedom of information – particularly media freedoms – and administrative abuses. The new law did nothing to clear up several inconsistencies in the old codes or related legislation, nor did it make amendments to the Administrative Code. As a result, violations of electoral rights such as abuses of administrative resources, the distribution of free goods and the interference of state officials could not be prosecuted effectively.⁹¹

The International Election Observer Mission (IEOM) noted a “general atmosphere of distrust” deriving from the points above. The campaign was furthermore marred by poor debate on the real issues facing Ukraine, illegal interference by public authorities in the electoral process, the murder of a prominent politician on the eve of the elections, other

⁹⁰ *Statement of Preliminary Findings and Conclusions*, International Election Observer Mission 2002 Elections to the Verkhovna Rada of Ukraine, p. 4 (hereafter *IEOM Statement*). The IEOM is a joint effort of the Organization for Security and Cooperation in Europe (OSCE), the OSCE Parliamentary Assembly (OSCE PA) the Parliamentary Assembly of the Council of Europe (PACE) and the European Parliament. Canada is an active and visible member of all these organizations save the European Parliament.

⁹¹ *IEOM Statement*, pp. 4-5.

isolated incidents of violence, and allegations of intimidation and harassment against opposition contestants, activists and voters.⁹²

More positively, Orest Subtelny noted that there was a much more concerted effort by political parties in this election to convince people to vote. Television and public relations were being deployed and the opposition was getting access - even if in some places minimal access - to television, which is a significant factor in the visibility of political choices.

The results of the election were as follows.

Parliamentary election results, March 2002

(% of vote)

Our Ukraine	23.6
Communist Party of Ukraine	20.0
For a United Ukraine	11.8
Yuliya Tymoshenko Bloc	7.3
Socialist Party of Ukraine	6.9
Social Democratic Party of Ukraine (United)	6.3
Natalia Vitrenko Bloc	3.2
Women for the Future	2.1
Winter Generation	2.0

Source: Central Election Commission of Ukraine.

The implications of the election remain undetermined at the time of writing, in that political coalitions are still being formed in the Rada. However, according to the Economist Intelligence Unit (EIU), a few observations are discernible. It is the first sharp reduction of the numbers of the left in the Rada since Ukrainian independence. The size of the vote for Our Ukraine, led by former Prime Minister Viktor Yushchenko, is a large vote in favour of stability and reform for Ukraine. However, the almost equal balance of reformist and pro-presidential parties will have implications for stability in the new Rada. The significant representation of oligarchic business interests from Donetsk and Dnipropetrovsk should, according to the EIU, insulate President Kuchma from impeachment attempts, leaving aspects of Ukraine's politics still in a deadlock.

⁹² *IEOM Statement*, p. 2.

UKRAINE'S ECONOMY: CURRENT SITUATION AND THE STRUGGLE WITH REFORM

A. The Existing Economic Situation

Ukraine possesses a number of important advantages compared to other countries. Its population is well educated and highly proficient in important subjects such as mathematics and science, as well as in certain technical areas. It contains bountiful mineral resources, although it is under-endowed in important energy commodities such as oil, gas and coal. It must import these vital inputs to its heavy industries, largely from Russia. Ukraine is also blessed with superb farmland. However, owing to more than fifty years of communal agriculture, Ukraine is not equipped to capitalize on this resource in the global economy, owing to outdated machinery together with no real transportation or distribution systems.

On balance, the country continues to display considerable long-term economic potential. However, this potential remains, for the most part, unfulfilled. Ukraine has seen its officially recorded economy shrink by roughly two-thirds since independence, with the slow pace of structural reforms and otherwise poor policy-making having contributed to an erosion of living standards. Per capita incomes have fallen considerably since 1991, with the result that a significant percentage of the population is now experiencing poverty.

Despite the overall negative economic indicators since independence, Ukraine's economic performance has registered an improvement since 1999. In 2001, GDP growth of 9.0% was reported, and the annual rate of inflation had declined to 6.1%. Two additional positive developments were observed in 2001: the broadening of industrial growth away from the leading metals sector (although much of the recovery is still taking place in the heavy industrial and energy-intensive sectors of the economy), and the bumper grain harvest experienced in July and August.

It is clear, therefore, that Ukraine's economic growth has improved substantially. Much of the credit, however, should go to the activation of idle economic capacity instead of the major micro-economic restructuring that needs to occur. Sustaining the recovery will prove an easier task if solutions can be found to a host of the country's underlying problems. These include: the lack of a legal system that can enforce contracts; the need for fair and transparent rules; the inadequacies of Ukraine's banking sector; the presence of an inequitable and unpredictable taxation system; the presence of bureaucratic hurdles; and a less than optimal attitude to foreign investment.

A number of these deficiencies will be covered in the section that follows. On the question of foreign investment, though, DFAIT officials informed the Committee in June 2000 that Ukraine had been able to attract only roughly US\$2.5 billion in foreign direct investment since 1991. Recently, however, the country has experienced a surge in direct investment by Russian companies keen on acquiring newly privatized corporate assets.

This infusion of capital, coming on the heels of additional steps by the country's leadership to reintegrate with Russia, has raised concerns over sovereignty in Ukraine.

Corporate concentration remains high, with a small number of Ukrainian oligarchs (business tycoons) influential in the corridors of power and very skilled in investing their fortunes elsewhere.

Moreover, Ukraine is ranked 83rd on Transparency International's list of 91 most corrupt countries. The cost of corruption in the country is high; for example, it is certainly a major obstacle to legal reform and investment. The hope is that systemic improvement in the economic structure of the country will be of some help in easing the problem.

As well, the country has borrowed extensively, amassing a total debt of some US\$12 billion in just over a decade. Foreign creditors' willingness to continue to bail out the country has already been tested and debt defaults barely avoided. The International Monetary Fund only recently decided to resume lending.

A final point to emphasize is that developments in Ukraine's trade policy, such as arbitrary increases in tariff rates, discriminatory treatment of certain imports, and quantitative restrictions placed on key imports, have rankled the country's trading partners. These concerns have been addressed to Ukrainian officials through the World Trade Organization's (WTO) process of accession negotiations.

B. Implementing Reforms: Combating Policy Inertia

Much of Ukraine's future success will depend on the establishment of an appropriate and effective economic, legal, and institutional framework for development. There is a fundamental need in Ukraine to strengthen the country's institutional underpinnings such as democracy and the rule of law.

However, structural reforms have been slow to materialize. Even in instances where legislation has been passed, the laws and regulations deriving from the legislation have seldom been fully implemented. Senior DFAIT officials told the Committee that the international community has become uneasy regarding the pace of reforms in Ukraine.

While President Leonid Kuchma has pledged to undertake these reforms since as far back as 1994, he has encountered opposition from both the country's Parliament and from interests in the agricultural and state-owned industrial sectors. The Government of Ukraine's inability (in certain cases, lack of commitment) to undertake serious economic reforms has been at odds with its quest to participate in Europe's integration process.

Major reforms are indeed required in a number of key areas. For example, it is generally recognized that a reformed legal and judicial system would greatly enhance the country's

economic development and attract needed investment. In the case of Ukraine, the legal and judicial system had to be developed from scratch.

The Committee wishes to note that while judicial reform will be a long process, recent changes in Ukraine could have a significant impact on the country's courts and hence the creation of a functioning independent judiciary. First, Civil and Criminal Codes and Codes of Procedure have been worked on. Moreover, adoption of the Law on the Courts in March 2002 should provide for the organization of the courts, the creation of a State Court Administration Agency, an Academy of judges of Ukraine and the creation of a judicial self-governing body. These moves are essential for the establishment of an independent judiciary. All efforts should be made to ensure that there is follow through on these major initiatives as they will go a long way in developing the appropriate legal climate in Ukraine.

Second, the pace of tax reforms has been sluggish at best, with draft tax legislation languishing in parliament. Additional progress on tax reform is viewed as important in reinvigorating the business climate and reducing the size of Ukraine's underground economy. Requests have also been made for the country's State Tax Administration (STA) to be reformed in a way that enhances transparency and curbs the aggressiveness displayed by the organization's collectors and inspectors. The STA appears to be one of Ukraine's least preferred institutions.

Third, the Ukrainian government bureaucracy continues to function in much the same way as it did in the Soviet era. Steps must be taken, for example, to reduce the number of officials required to register and run a business.

Fourth, a key challenge for policy-makers is to diversify the economy away from heavy industry. Regrettably, industrial restructuring continues to be restricted by vested bureaucratic and economic interests and by the inability of political and business leaders to reach consensus on the need for change.

Fifth, Ukraine's banking system continues to be at a relatively embryonic stage of development. It is undercapitalized and weak, and does not meet the most basic needs of Ukrainian citizens. The weaknesses in the system tend to hamper the raising of new investment capital, slow down the pace of privatization and restrict foreign investment. Effective legislation is needed urgently to enable the central bank to deal with problem banks and to implement any necessary recovery plans.

Finally, Ukraine possesses incredibly rich soil for agricultural production, as well as a generally well-experienced farming population. A key problem, apart from the drying up of certain export markets and shortages of fuel, equipment and fertilizers, has been that agricultural reforms have been virtually non-existent. The Government of Ukraine is only now beginning to reform its agricultural sector, with plans to reform land ownership, improve the distribution of land titles and develop market institutions.

UKRAINE FOREIGN AND SECURITY POLICY

Ukraine's foreign policy direction might best be described as westward-looking and eastern-bounded. There are a number of strong influences pulling Ukraine westward. These include Ukrainian national sentiment in combination with concerns over Russian domination, Ukraine's Galician heritage, a significant Ukrainian Diaspora concentrated largely in the new world states of Canada, the United States and Australia, a strong interest in attracting Western investment, and a desire to join its European neighbours.

Looking eastward, mention must also be made of the links that Eastern Ukraine has with Russia's economic infrastructure. Historically, the two countries were an integrated economy for many years and close economic linkages continue to this day.

Occasionally, statements have been issued that point out the difficulties and challenges facing Ukraine. These include its geopolitical position with Russia, its large neighbour on its eastern flank; its two uncertain neighbours Moldova and Belarus and its European neighbours. As Ukraine manages its internal politics, restructuring and identity, it is also cautiously identifying its foreign policy direction. Simply stated, Ukraine is charting its course carefully between these, at times, competing interests. The Committee notes the comments of Andrew Witer who, referring to President Kuchma's statement on Ukraine's foreign policy direction, told us: "The strategic course for Ukraine is determined by its geopolitical position, its historical and cultural traditions. And they clearly identify our state as a European one."

A May 2002 Ukraine announcement on its future relationship with NATO also bears noting. After a number of years of demonstrating cooperation and a partnership with NATO, Ukraine's Council of National Security and Defense (chaired by President Kuchma) made public the country's intention to develop a long-term strategy to join NATO. This announcement, no doubt following on that of the NATO Russia Council and Russia's cooperative stance towards NATO, is the first time that such a definitive statement about NATO and Ukraine security has been given by the President. While time will tell how precisely this will all play out, the announcement appears to indicate a slight shift to the West in Ukraine's foreign and security policy.

A. Ukraine–Russia Relations

In general foreign policy and security matters, Ukraine and Russia have more recently had a pragmatic, fruitful relationship. Ukraine relinquished its nuclear arsenal in exchange for security guarantees from Russia. As well, the issues of Crimea and the Black Sea fleet no longer fester as they did before. Presidents Kravchuk and Kuchma enjoyed good personal and formal relations with Boris Yeltsin, setting the tone for the current relationship between presidents Kuchma and Putin. As noted above when discussing Russian foreign policy in the region, Soviet integration also forced post-Soviet Russia to take a lead role in managing CIS affairs.

President Putin has sought a closer relationship with Kiev including a February 2001 summit between the two leaders.⁹³ Significantly, much of the meeting was about reconnecting the economic infrastructure of the two countries. The leaders pledged closer economic and technical co-operation, including joint production in aerospace, arms and energy. Ukraine also agreed to reconnect to Russia's energy grid.

Energy is a key factor. Ukraine is heavily, if not almost completely, dependent on Russian energy – particularly natural gas – for both consumer and producer use. Ukraine's role as a conduit and purchaser of Russian energy cannot be overstated. According to Larry Black, Ukraine buys Russian energy that Russia would like to export to the West at world prices. Lorne Cutler indicated that Ukraine has not paid a significant portion of its gas bills.⁹⁴ The Russian potential to bypass Ukraine and go through Poland gives Russia considerable leverage as well, according to Sergei Plekhanov.

The Committee was informed that Russian and Ukrainian oligarchs have a mutual interest in bilateral relations. Russian companies are investing heavily in Ukraine's energy and industrial sectors. The appointment of Viktor Chernomyrdin as Ambassador to Ukraine symbolizes the nature, importance and depth of the relationship. Ambassador Chernomyrdin is President of Gazprom – the giant Russian gas monopoly – and a former Prime Minister of Russia.

Witnesses disagree strongly on Russia's ultimate objectives with respect to Ukraine. According to Bohdan Klid, Russia desires to create in Ukraine a client state as a near-term solution. Ukraine's politicians would consequently be reliant on Moscow for the approbation of their policies, with the long-term prospect being eventual reunion. Certainly, for a state that has finally achieved independence, the prospect of significantly losing aspects of sovereignty to its larger neighbour is alarming.

There are elements in both countries that see a "gathering" of the Slavic lands: a re-unification of the Slavic republics of the Soviet Union: Russia, Ukraine, Moldova, Belarus and possibly Kazakhstan. However, this is not a majority opinion among elites or masses, save possibly in Belarus, and as Larry Black noted, those in favour of Pan-Slavism are not known for their logical capacity. The idea has gained credence from time

⁹³ The summit was held in Dnipropetrovsk, apparently for fear of street protests if it had been held in Kiev.

⁹⁴ Initial Ukrainian-Russian relations were tense for this reason. In the early 1990s Russia used Ukrainian energy dependence in a manner that could be construed as coercive during disagreements between the two countries. The move to world energy prices conflated the problem: Russia claimed energy debts at world prices that Ukraine was unwilling, and unable, to pay. This, unfortunately, has set a tone for the debate on what Russia wants from Ukraine.

to time as individual politicians have used Pan-Slavic structures to insulate themselves from domestic politics.⁹⁵

Gene Fischel of the U.S. Department of State echoed some of these concerns and in particular singled out the appointment of Mr. Chernomyrdin as indicative of Russia's interest in controlling Ukraine. Other witnesses read less into Russian intentions. David Marples informed the Committee that Russia's attitude toward Ukraine is not predatory. Russia's interest in Ukraine is natural, given security and economic realities and the internal dynamics of contemporary Russian politics. Fergal O'Reilly commented that Russia's interests are born of a calculation made on commercial interests.

Finally, according to Sergei Plekhanov, it is not the depth or strength of the relationship that matters, but the basis:

If Russia and Ukraine become closer on the basis of authoritarian politics, it will not be a good situation. The two great Slavic nations should be friends as democratic countries. Whether closer relations between Russia and Ukraine will be conducive to the development of democracy and a stronger market economy remains to be seen.

It is not good that the Ukrainian President, beleaguered as he was in recent months, has found salvation in the Kremlin's embrace. Many democratic forces in Ukraine did not like to see Russia coming to the aid of a leader who has apparently made significant errors. This type of development should be a cause for concern.

B. Ukraine and the West: Security Perspectives

In security matters, Ukraine is a signatory to the Partnership for Peace (PfP) program with NATO and the two also have a Charter on a Distinctive Partnership. Canada plays a lead role in this partnership in all areas and councils of NATO. While Ukrainian public opinion is not fixed and at times has shifted away from NATO to greater cooperation with Russia and the CIS, Ukraine's engagement with NATO appears to have shifted.

It remains to be seen how this will affect both the public opinion in Ukraine and the long-term security arrangements that Ukraine will foster. Suffice it to say that Ukraine's formal military requirements as stated by David Marples are relatively small at this point. Indeed, Ukraine's military security concerns are minimal in the post cold war era.

⁹⁵ The most obvious example is the political union of Belarus and Russia signed by presidents Lukashenko and Yeltsin. It is an open secret that President Lukashenko aspires to a career in Russian politics and seeks union with Russia. Yeltsin was probably seeking a position to which he could retire safe from the prospect of impeachment. David Marples informed the Committee that Vladimir Putin was probably more preoccupied with Belarus than with Ukraine at the moment.

Rather, Ukraine has contributed in the multilateral arena by providing peacekeepers, participating in military manoeuvres with NATO, and through the Partnership for Peace programme. Ukraine continues to cooperate with Russia on mutual defence issues. Certainly the events of 11 September 2001, the need to cooperate on terrorism strategies, the shift in Russia's defence policy and thinking and the expected expansion of NATO eastward appear to provide more opportunities for Ukraine to develop a more stable and coherent defence and security policy. It would be an opportune time for Canada to take a leadership role in ensuring that as NATO appears ready for expansion and a new relationship with Russia that Ukraine's geopolitical position be taken into account.

While NATO has historically been viewed ambivalently by Ukrainians, the role of Europe and its relationship to Ukraine appears to be seen more consistently in a positive manner. However, the European Union (EU) has alienated Ukraine, especially as the EU moves to an internal clock and to internal rules that accord no flexibility for Ukrainian needs. Access to the European market, let alone joining the European Community Law (*acquis communautaire*), requires allowing competitive European imports in, and also dealing with the complexity of European regulations and subsidized exports. In the meantime, Ukrainian migrant workers and Ukraine's trade with other Central European states that are, or will be, EU members have been affected. On human rights, Bohdan Klid suggested that Ukraine sees the European Union and the Council of Europe as hypocritical, treating Ukraine far more harshly than other post-Soviet states.

C. Ukraine's Other Option: GUUAM

Ukraine has tried to balance its interests. Considerable effort has already been invested in the GUUAM (Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova) group. At its heart is developing regional co-operation through transportation – road oil pipeline – corridors. GUUAM has proposed a pipeline project that would transport natural gas across Ukraine and Poland to Western Europe. It aspires to build a region connected and integral to Europe and to Asia, rather than having the region become a forgotten zone.

For Ukraine, the concern is not only about economic development and regional infrastructure but also about being a European link to Eurasia. Bohdan Klid argued that Ukraine offers Central and Eastern Europe the best option for oil and natural gas. Ukraine completed a major oil pipeline in 1999 that could connect to Central Asia through Georgia. He felt the West should support this option over the Turkish–Black Sea transit route. Ukraine has negotiated with Poland to become an exit point to Europe for natural gas as well. Other witnesses also pointed out the potential of GUUAM for Western energy needs.

CANADA'S FOREIGN POLICY OBJECTIVES

There is a long established relationship between Canada and Ukraine based on commonalities and on family ties. Western Canada and Ukraine have both been breadbaskets to the world. This commonality was a constant through the Soviet era as Canadian agricultural assistance and agricultural connections were in the main directed to the Ukraine SSR (Soviet Socialist Republic). In the post-Soviet period, this issue remains one of great potential. Another commonality, more prevalent today, is that we each share a need to deal with a globally powerful neighbour. Such a position can lead to a common worldview in seeking solutions to affairs between states in a rules-based international system and through a mix of multilateral and bilateral negotiations and structures. Finally, we share family. There are a million Canadians of Ukrainian descent. For many Canadians, Ukraine is a homeland: Ukrainians are cousins, uncles and aunts, grandparents, sisters and brothers. Many policies between the two countries reflect Canada's desire over the years to ensure that families are not disconnected by the affairs of state.

In 1991, as Canada celebrated the 100th anniversary of the settlements of Ukrainians in Canada, the Government of Canada became the first western nation to formally recognize Ukraine as an independent country. Since that time, Canadian policy has been to encourage and support the reformist attitudes towards a new and democratic state as indicated by Mr. Eugene Czolij, President of the Ukrainian Canadian Congress, in a joint declaration on continuing development of the special partnership between Canada and Ukraine signed 5 December 2001. The declaration states: "that the secure existence and territorial integrity of an independent, prosperous and sovereign Ukraine is in the fundamental interest of Canada and the entire international community".

Mr. Czolij went on to declare that a reiteration of support for this principal by the Senate of "such a statement would not be simply a complacent affirmation but would shed further light on the benefits all Canadians derive from Canada's international involvement. Indeed, this Committee has the opportunity to explain to Canadians that Canada's assistance to Ukraine should not be perceived as a mere handout but rather as a strategic investment in its own future".

The Committee is in agreement that this strategic approach in assisting Ukraine is of fundamental interest to Canada, as a secure and stable Ukraine would not only contribute to peace and stability but would also create a positive environment for trade and investment. This approach is in accordance with Canada's generally stated foreign policy priorities. Therefore, the Committee recommends:

Recommendation 12:

That Canada continue to support efforts to realise a sovereign, prosperous, democratic, and reform driven Ukraine through Canada's involvement in multilateral institutions and in its bilateral relationship with Ukraine.

A. Aiding the Reform Effort

Canada continues to support Ukraine's development. Since Ukraine's independence in 1991, Canada has provided \$228 million in technical assistance designed to support the country's transition to a market economy, to promote democratic development and good governance there, and to augment our bilateral trade and investment. This year, Canada has committed \$19 million in the form of Canadian International Development Agency (CIDA) technical assistance funding. This level of support is the largest of all of the programs in place for Central and Eastern Europe.

The Committee heard from several witnesses on how Canadian involvement in Ukraine could be optimized. James Jacuta elaborated several priorities for Ukraine's development: enhance efficiency and governance in public administration; consolidate bureaucratic and administrative structures at all levels; modernize the legal environment without upsetting any present stability; guarantee property rights and develop citizen input in NGOs; and develop open and transparent mechanisms for civil society.

Bohdan Klid informed the Committee that Canada should employ a coherent, co-ordinated assistance strategy involving long-term commitments. This strategy should focus support on economic reform and assistance for the country's nation-building and state-building efforts.

CIDA would probably argue that it has now headed down this path. Mr. Daniel informed the Committee that CIDA's focus is planted squarely on a number of key features of the reform process: the continued transition from a command economy to a market one; the development of effective political institutions; and the emergence of a strong civil society. The agency is particularly active in its efforts to combat corruption, improve public administration, reform the judiciary and establish an enabling environment for the emergence of a market economy.

Some witnesses indicated, however, that they were concerned with the consistency of CIDA programming. Ostap Hawaleshka indicated that CIDA's changes to program structures and management priorities had led to several start-stop cycles with projects in Ukraine. He cited in apposition a program he felt was "a premier shining light of aid projects," the Science and Technology Centre of Ukraine. Mr. Hawaleshka believed that because it was a multi-country project in which Canada was just one partner, even if a key partner, the project was not subject to unilateral changes in management decisions and therefore was able to flourish.

Canada has shown its capability and willing hand to assist Ukraine in its transition. In continuing to establish a firm basis of trust and influence, one to the other, Canada must take every opportunity to lead in developing opportunities to assist in Ukraine's reformation. In so doing it should acknowledge that this support must be provided in a long-term and consistent manner. The Committee thus recommends:

Recommendation 13:

That the Government of Canada employ a coherent, co-ordinated assistance strategy for Ukraine, incorporating long-term commitments focussing on economic reform as well as assistance for Ukrainian nation- and state-building.

Turning to specific initiatives, the Committee notes the useful work of CIDA and the Office of the Commissioner of Federal and Judicial Affairs in Canada on legal and judicial reform in Ukraine. This bilateral aid effort should be renewed since it meshes well with the Committee's stated opinion that consistent long-term infrastructure support is required to strengthen institutions. The Committee therefore recommends:

Recommendation 14:

That the federal government continue and expand Canada's role in supporting Ukraine's undertaking of legal and judicial reform.

Canada is also involved in an important program to reduce corruption among Ukrainian officials. DFAIT officials informed the Committee that CIDA had joined the World Bank in a \$2-million project to improve the overall quality of governance. The Committee was also told that much could be accomplished in this area through the WTO accession process to develop a framework of laws.

Other important aid contributions have included support for scientists as well as assistance and advice in the area of agriculture. With respect to farming, Canadian businesspeople have been active in attempting to promote Canadian agricultural practices in Ukraine and encouraging the privatization of the farm sector. Given the testimony presented to the Committee on the important role the scientific sector occupies in Ukraine and the vital opportunities Ukraine offers Canada in scientific and technological co-operation, the Committee recommends:

Recommendation 15:

That Canada strengthen its role in providing technical assistance to Ukraine, by directing more attention to long-term bilateral partnerships that take advantage of Ukraine's scientific and technological potential.

Finally, support for energy, environment and nuclear safety has been a key ingredient of the aid effort. Most important, Canada has been one of the driving forces within the G-8 to reinforce the shelter surrounding the remains of the destroyed unit 4 at the Chernobyl nuclear power site. This "Shelter Implementation Plan" (SIP) is administered by the European Bank for Reconstruction and Development and is funded by donors both within

and outside the G-87. Canada has promised to provide \$50 million for this project, which is to be finished by 2008.

B. Canada–Ukraine Economic Links

The economic relationship between Canada and Ukraine can perhaps be best described as underdeveloped when compared with the vast potential that exists. In 2001, Canada–Ukraine bilateral trade totalled a mere \$81 million, down from the \$148 million of the previous year. Ukraine has definitely registered a surplus in the trade balance, with its exports to Canada dominated by steel. Canadian businesses have been understandably cautious in seizing commercial opportunities within the Ukrainian market.

Canada's stock of investment in Ukraine stood at \$80 million in 2000, and was concentrated in the oil and gas sector and in glass. Corporate examples include Northland Power's involvement in the Darnitsia power project and Nadra Resources' development of Ukrainian oil and gas potential. More could be achieved if the foreign investment climate was improved and a legal system more effective in enforcing business contracts was developed.

Mr. Petryshyn reminded the Committee that, despite its problems, Ukraine remained at the forefront of important, leading-edge technologies: aerospace and ceramics, for example. There exist in Ukraine considerable human and infrastructural resources that could readily be developed to mutual advantage.

The Government of Canada is attempting to enhance access to the Ukrainian market and broaden the bilateral economic relationship both through WTO accession negotiations and the Canada–Ukraine Intergovernmental Economic Commission (IEC). Canada, being a member of the WTO Working Party on Ukraine's application for membership, is continuing to pursue a number of relevant issues: market access; customs procedures; standards and other technical barriers to trade; and the protection of intellectual property. The aim is to identify specific government policies in that country whose removal could stimulate additional bilateral trade and investment. Canada will also continue to seek increased transparency in Ukrainian policy-making through the WTO accession process.

The WTO process also includes bilateral market access negotiations. Within these negotiations, Canada is seeking lower tariffs and the elimination of non-tariff barriers on products holding export promise. Canada is also seeking commitments from Ukraine in key services areas, such as telecommunications and financial services.

For its part, the IEC is designed to enable the federal government and Canadian businesspeople to identify specific Ukrainian government measures that inhibit economic relations, and to bring forward Canadian concerns to senior Ukrainian ministers and to Ukrainian business representatives. Included among the principal issues for review are taxation, standards and the discretionary application of regulations.

Finally, the Export Development Corporation (EDC), despite its best efforts and a US\$20 million line of credit, has not been able to finalize any lending to Ukraine over the past five years. The lending roadblock appears to be Ukraine's internal procedures for using the credit. The Committee recommends:

Recommendation 16:

That the Government of Canada immediately enter into discussions with the Government of Ukraine to identify the precise impediments to the use of Export Development Corporation's line of credit for Ukraine, and subsequently establish a mechanism to alleviate these impediments.

C. Canada And Ukraine: The Special Relationship

During the course of the Committee's hearings on Ukraine, a number of witnesses provided insights into the "special relationship". The existence of this special relationship has many roots. First, as was previously noted, the emigration of Ukrainians to Canada beginning in the 1890s has created a community in Canada that comprises some one million Canadians of Ukrainian origin. Contact with Ukraine continues to be significant. According to testimony received, the Ukrainian embassy in Canada issued some 40-50,000 visas to Canadians in 2001.

The role of agriculture in both societies has created a special affinity and contacts including those that date from Soviet times. Canada's reputation and leadership in building a new society incorporating many cultures is well known in Ukraine. Finally, Canada's ability to be a significant player on the international scene is also a fact of which people in Ukraine are well aware.

The Committee asked representatives of the Ukrainian-Canadian community to elaborate on the bilateral relationship. One crucial aspect of this relationship is the role played by numerous non-governmental and unofficial contacts extending from interactions between civil groups – farmers, for example – to family meetings, to small business investments. When Ukrainians meet Canadians of Ukrainian origin, one of the most important lessons they learn is that of success.

Today, when visitors come to Canada from Ukraine they are hosted very well. They see the success stories. Everyone is getting a better education. They are able to send their children to higher education. They can take their place in government in a country like Canada. There are Ukrainians in the Senate and in other governments. They are premiers of our provinces. That is an inspiration to Ukrainians in Ukraine. (Walter Makowecki)

The second aspect of this relationship, pointed out by Andrew Witer, is that “Ukrainians trust Canadians.” This trust translates into a capacity for Canadians to lend a hand and to design and implement effective projects. Such effectiveness is perhaps displayed in the priority goals of education, public administration and technical assistance: the governance and civil society “basket” of Canadian programming. Ukrainians are well educated and proud, it was noted, but advice from someone perceived as close is easier to take than from others:

Every society has certain things that it values. One of Ukraine’s highest values happens to be knowledge. ... (Education) is engrained into the Ukrainian psyche. It is something that Canadians have. It is something that I think Canadians can transfer to Ukrainians, because it is not always easy to provide that to Ukraine, who are very proud people. The Americans have had a problem with this because of their attitude, whereas Canadians have not. (Andrew Witer)

Given the emphasis placed within Ukraine on education’s role in society and in development, given the special access and role Canada has in assisting Ukraine in educational programs, given the role education plays in identified priorities of nation-building and in science and technology, the Committee recommends:

Recommendation 17:

That Canada spearhead an effective knowledge transfer program incorporating student exchanges, scholarships and work programs.

The third aspect of this relationship is that it may introduce an extra, perhaps a spoiler, element into official calculations. There may be considerable investment and interaction between Canada and Ukraine that is not showing up in those calculations:

Investments were measured in large investments and large companies and large dollar amounts, but we do not remember the virtually millions of dollars that are pouring into Ukraine by relatives of Ukrainians from all around the world. I am not talking about getting money out. I am talking about people that start a hardware store, an ice cream factory, a confectionery store or whatever. Virtually thousands of these kinds of businesses are starting up, and the funding is coming from Ukrainians in Canada and United States and Europe and other parts of the world. There is no record of this investment. Perhaps that is why we see a 13 per cent increase in small business in Ukraine, whereas in Russia last year there was a 2 per cent decrease in the start-up of small businesses. Perhaps one of the reasons is that these are things that are not recorded. (Andrew Witer)

These aspects of the Canadian–Ukrainian relationship hold implications for the tracking and development of programming to Ukraine. Concerns such as these have led to a demand for information by Ukrainian Canadians and presumably others involved in Canada–Ukraine affairs – information for the purposes of co-ordination, proper targeting of programs and effective harnessing of existing contacts and past experiences. To that end, the Committee recommends:

Recommendation No. 18:

That three databases be developed and then be made available on the Internet and accessible to anyone interested:

- **A database of Ukrainian-Canadian expertise that could be brought to bear on Canadian aid to Ukraine.**
- **A database of aid projects presently under way between Canada and Ukraine. These would involve government, NGOs, private organizations and individuals.**
- **A database of Ukrainian-Canadian organizations that could be involved in assistance projects to Ukraine.**

While much was said about how the special relationship benefited to Ukraine, less was spoken of the direct benefit to Canada. Certainly, by implication, testimony suggested that Canada’s favourable position should help individual Canadians and Canadian corporations seeking to do business in Ukraine. However, as the Committee also heard, many others (e.g., Europeans) are present in large numbers in the Ukraine and bring other advantages to the table, such as the carrot of EU membership and significant potential aid and investment money (Ostap Hawaleshka). We have concluded that goodwill needs be partnered with more tangible Canadian assets.

Canada’s ability to assist effectively in technical programs supports the Canadian priorities of democratization and economic reform in Ukraine. It benefits us indirectly in helping stabilize Ukraine as a strategic part of the world and a neighbour to both Russia and NATO.

Yet another consideration worthy of the Committee’s attention is the question of immigration. Information was received from witnesses and other sources to indicate that Canada should re-examine its current immigration and visa practices with respect to Ukraine.

The comments made previously on Canadian immigration policy in the chapter on Russia also apply to Ukraine. With a high concentration of Canadians of Ukrainian descent who were deprived of family reunification or access to Ukraine during the Soviet period, it would be opportune and desirable to ensure that this segment of the Canadian population

has the same opportunities and access as others in Canada have had. Therefore, the Committee recommends:

Recommendation 19:

That the federal government take the necessary steps and procedures to ensure that an effective capacity in Ukraine be established to handle expeditiously immigration and visa requests. Particular attention should be devoted to address family reunification issues.

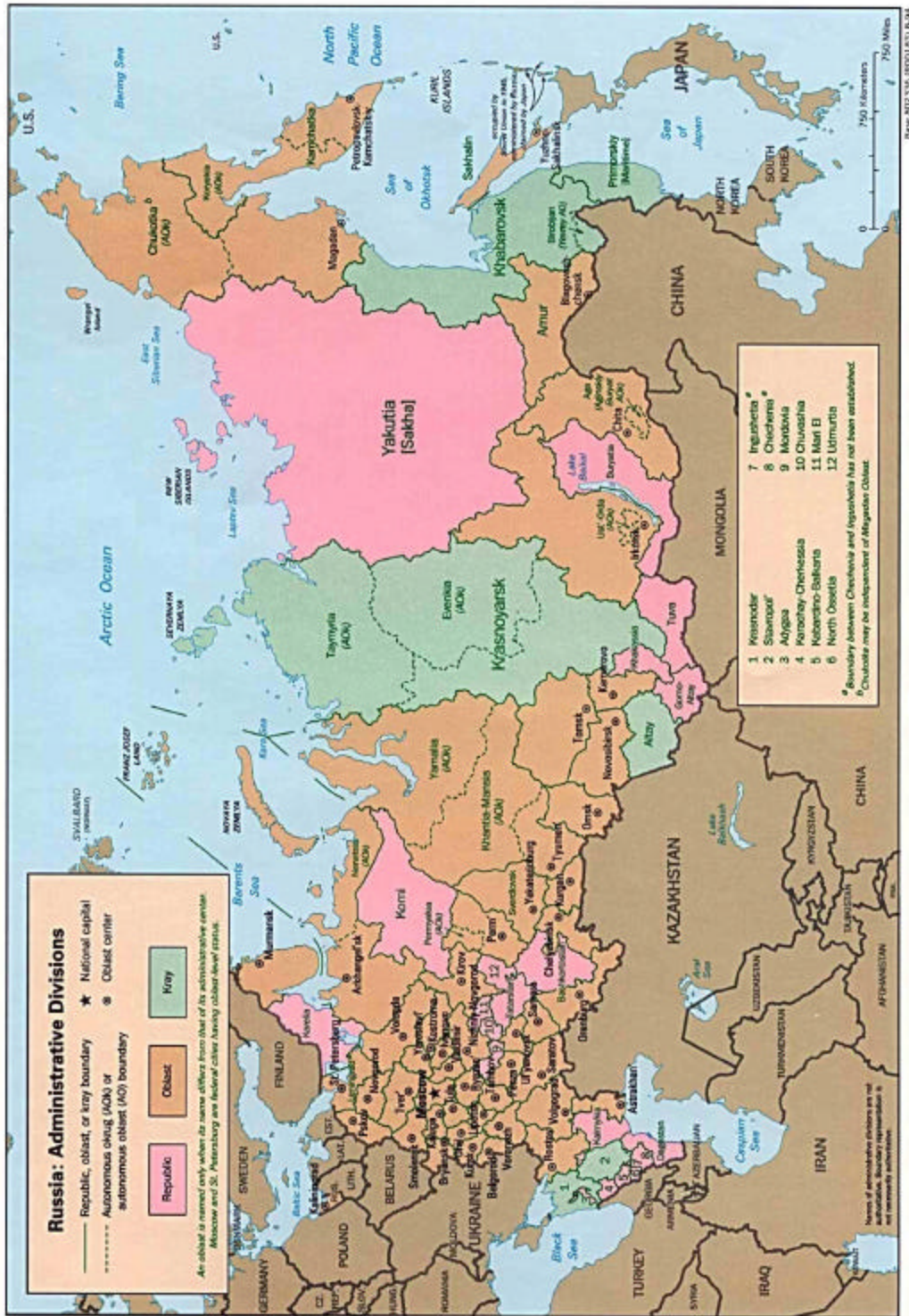
However, some members of the Committee were concerned that the sum total of Canadian-Ukrainian relations not be based solely on the strength of Canadians of Ukrainian descent. To truly support and create a full relationship with Ukraine, the relationship should be based on, as some witnesses expressed, a more developed Ukraine that has a common interest in bilateral and multilateral fora and in international institutions such as the United Nations, NATO, WTO, and the Council of Europe. Therefore, the Committee recommends :

Recommendation 20:

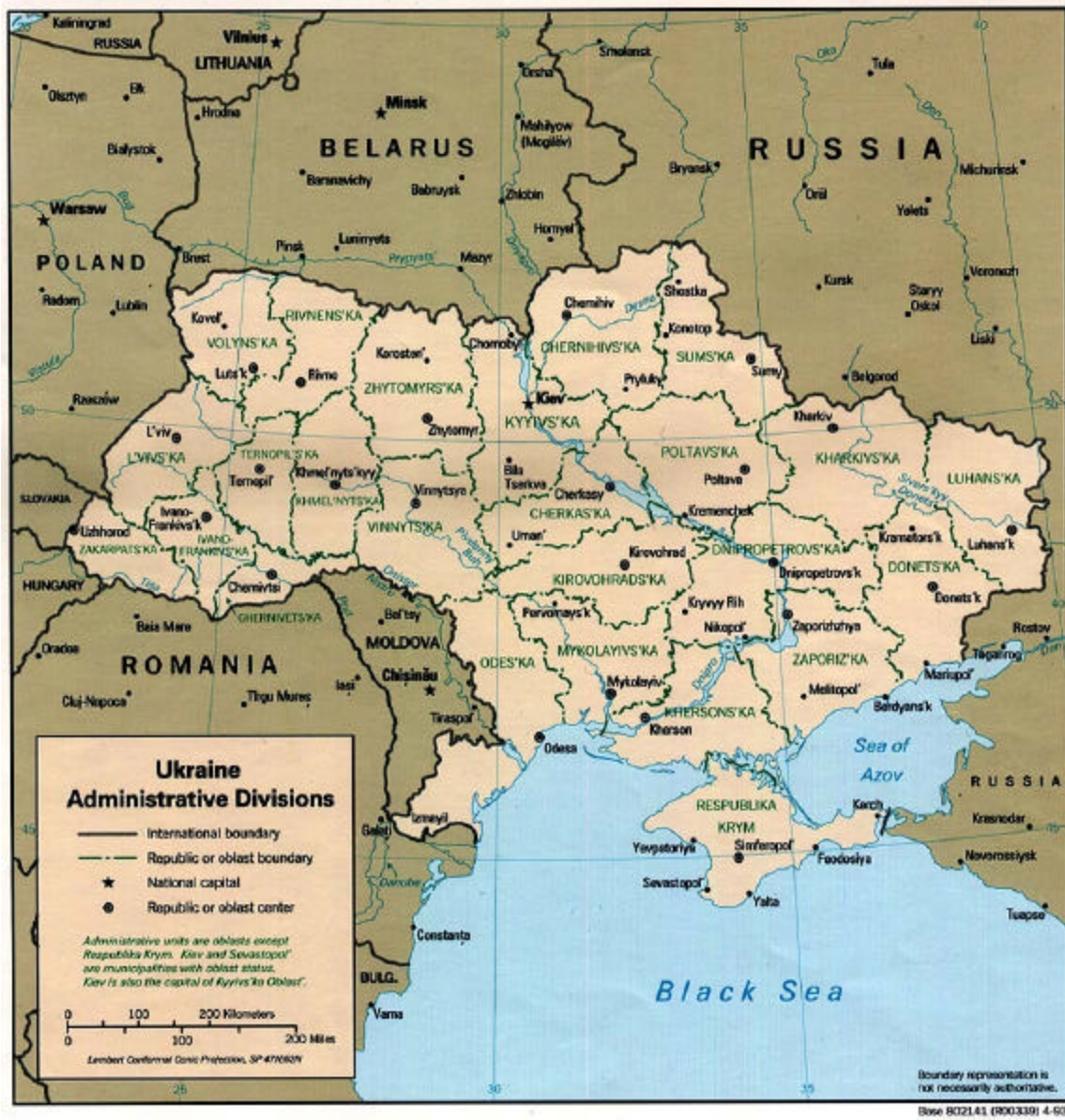
That while noting that the special relationship between Canada and Ukraine remains important, Canada broaden its foreign policy approach to take into account all of Ukraine's aspects and potential.

APPENDIX A: MAPS OF RUSSIA AND UKRAINE

RUSSIA



UKRAINE



APPENDIX B: SECTIONS OF THE RUSSIAN CONSTITUTION PERTAINING TO FEDERAL-REGIONAL DIVISIONS OF POWERS AND THE POWERS OF THE RUSSIAN PRESIDENT

Chapter 3. The Federal Structure

Article 65

1. The Russian Federation includes the following subjects of the Russian Federation:

the Republic of Adygeya (Adygeya), the Republic of Altai, the Republic of Bashkortostan, the Republic of Buryatia, the Republic of Daghestan, the Republic of Ingushetia, the Kabardino-Balkarian Republic, the Republic of Kalmykia, the Karachayevo-Circassian Republic, the Republic of Karelia, the Komi Republic, the Republic of Marii El, the Republic of Mordovia, the Republic of Sakha (Yakutia), the Republic of North Ossetia - Alania, the Republic of Tatarstan (Tatarstan), the Republic of Tuva, the Udmurtian Republic, the Republic of Khakassia, the Chechen Republic, the Chuvash Republic - Chuvashia;

the Altai Territory, the Krasnodar Territory, the Krasnoyarsk Territory, the Primorie Territory, the Stavropol Territory, the Khabarovsk Territory;

the Amur Region, the Archangel Region, the Astrakhan Region, the Belgorod Region, the Bryansk Region, the Vladimir Region, the Volgograd Region, the Vologda Region, the Voronezh Region, the Ivanovo Region, the Irkutsk Region, the Kaliningrad Region, the Kaluga Region, the Kamchatka Region, the Kemerovo Region, the Kirov Region, the Kostroma Region, the Kurgan Region, the Kursk Region, the Leningrad Region, the Lipetsk Region, the Magadan Region, the Moscow Region, the Murmansk Region, the Nizhni Novgorod Region, the Novgorod Region, the Novosibirsk Region, the Omsk Region, the Orenburg Region, the Orel Region, the Penza Region, the Perm Region, the Pskov Region, the Rostov Region, the Ryazan Region, the Samara Region, the Saratov Region, the Sakhalin Region, the Sverdlovsk Region, the Smolensk Region, the Tambov Region, the Tver Region, the Tomsk Region, the Tula Region, the Tyumen Region, the Ulyanovsk Region, the Chelyabinsk Region, the Chita Region, the Yaroslavl Region;

Moscow, St. Petersburg - cities of federal importance;

the Jewish Autonomous Region;

the Aginsk Buryat Autonomous Area, the Komi-Permyak Autonomous Area, the Koryak Autonomous Area, the Nenets Autonomous Area, the Taimyr (Dolgano-Nenets) Autonomous Area, the Ust-Ordyn Buryat Autonomous Area, the Khanty-Mansi Autonomous Area, the Chukotka Autonomous Area, the Evenki Autonomous Area, the Yamalo-Nents Autonomous Area.

2. The admission to the Russian Federation and the creation in it of a new subject shall be carried out according to the rules established by the federal constitutional law.

Article 66

1. The status of a Republic shall be determined by the Constitution of the Russian Federation and the Constitution of the Republic.
2. The status of a territory, region, city of federal importance, autonomous region and autonomous area shall be determined by the Constitution of the Russian Federation and the Charter of the territory, region, city of federal importance, autonomous region or autonomous area, adopted by the legislative (representative) body of the corresponding subject of the Russian Federation.
3. Upon the proposal of the legislative and executive bodies of the autonomous region or autonomous area a federal law on autonomous region or autonomous area may be adopted.
4. The relations between the autonomous area within a territory or region may be regulated by the federal law or a treaty between the bodies of state authority of the autonomous area and, accordingly, the bodies of state authority of the territory or region.
5. The status of a subject of the Russian Federation may be changed upon mutual agreement of the Russian Federation and the subject of the Russian Federation and according to the federal constitutional law.

Article 67

1. The territory of the Russian Federation shall include the territories of its subjects, inland waters and territorial sea, and the air space over them.
2. The Russian Federation shall possess sovereign rights and exercise the jurisdiction on the continental shelf and in the exclusive economic zone of the Russian Federation according to the rules fixed by the federal law and the norms of international law.

3. The borders between the subjects of the Russian Federation may be changed upon their mutual consent.

Article 68

1. The Russian language shall be a state language on the whole territory of the Russian Federation.
2. The Republics shall have the right to establish their own state languages. In the bodies of state authority and local self-government, state institutions of the Republics they shall be used together with the state language of the Russian Federation.
3. The Russian Federation shall guarantee to all of its peoples the right to preserve their native language and to create conditions for its study and development.

Article 69

The Russian Federation shall guarantee the rights of the indigenous small peoples according to the universally recognized principles and norms of international law and international treaties and agreements of the Russian Federation.

Article 70

1. The state flag, coat of arms and anthem of the Russian Federation, their description and rules of official use shall be established by the federal constitutional law.
2. The capital of the Russian Federation is the city of Moscow. The status of the capital shall be determined by the federal law.

Article 71

The jurisdiction of the Russian Federation includes:

- a. adoption and amending of the Constitution of the Russian Federation and federal laws, control over their observance;
- b. federal structure and the territory of the Russian Federation;
- c. regulation and protection of the rights and freedoms of man and citizen; citizenship in the Russian Federation, regulation and protection of the rights of national minorities;
- d. establishment of the system of federal bodies of legislative, executive and judicial authority, the rules of their organization and activities, formation of federal bodies of state authority;
- e. federal state property and its management;

- f. establishment of the principles of federal policy and federal programmes in the sphere of state, economic, ecological, social, cultural and national development of the Russian Federation;
- g. establishment of legal groups for a single market; financial, currency, credit, and customs regulation, money issue, the principles of pricing policy; federal economic services, including federal banks;
- h. federal budget, federal taxes and dues, federal funds of regional development;
- i. federal power systems, nuclear power-engineering, fission materials, federal transport, railways, information and communication, outer space activities;
- j. foreign policy and international relations of the Russian Federation, international treaties and agreements of the Russian Federation, issues of war and peace;
- k. foreign economic relations of the Russian Federation;
- l. defence and security; military production; determination of rules of selling and purchasing weapons, ammunition, military equipment and other military property; production of poisonous substances, narcotic substances and rules of their use;
- m. determination of the status and protection of the state border, territorial sea, air space, exclusive economic zone and continental shelf of the expenditures;
- n. judicial system, procurator's office, criminal, criminal procedure and criminal-executive legislation, amnesty and pardoning , civil, civil procedure and arbitration procedure legislation, legal regulation of intellectual property;
- o. federal law of conflict of laws;
- p. meteorological service, standards, metric system, horometry accounting, geodesy and cartography, names of geographical units, official statistics and accounting;
- q. state awards and honorary titles of the Russian Federation;
- r. federal state service.

Article 72

1. The joint jurisdiction of the Russian Federation and the subjects of the Russian Federation includes:
 - a. providing for the correspondence of the constitutions and laws of the Republics, the charters and other normative legal acts of the territories, regions, cities of federal importance, autonomous regions or autonomous areas to the Constitution of the Russian Federation and the federal laws;
 - b. protection of the rights and freedoms of man and citizen; protection of the rights of national minorities; ensuring the rule of law, law and order, public security, border zone regime;

- c. issues of possession, use and disposal of land, subsoil, water and other natural resources;
 - d. delimitation of state property;
 - e. nature utilization, protection of the environment and ensuring ecological safety; specially protected natural territories, protection of historical and cultural monuments;
 - f. general issues of upbringing, education, science, culture, physical culture and sports;
 - g. coordination of issues of health care; protection of the family, maternity, paternity and childhood; social protection, including social security;
 - h. carrying out measures against catastrophes, natural calamities, epidemics, elimination of their aftermath;
 - i. establishment of common principles of taxation and dues in the Russian Federation;
 - j. administrative, administrative procedure, labour, family, housing, land, water, and forest legislation; legislation on subsoil and environmental protection
 - k. personnel of the judicial and law enforcement agencies; the Bar, notaryship;
 - l. protection of traditional living habitat and of traditional way of life of small ethnic communities;
 - m. establishment of common principles of organization of the system of bodies of state authority and local self-government;
 - n. coordination of international and foreign economic relations of the subjects of the Russian Federation, fulfillment of international treaties and agreements of the Russian Federation.
2. Provisions of this Article shall be equally valid for the Republics, territories, regions, cities of federal importance, autonomous regions or autonomous areas.

Article 73

Outside the limits of authority of the Russian Federation and the powers of the Russian Federation on issues under joint jurisdiction of the Russian Federation and the subjects of the Russian Federation, the subjects of the Russian Federation shall possess full state power.

Article 74

1. In the territory of the Russian Federation it shall not be allowed to establish customs borders, dues or any other barriers for a free flow of goods, services and financial resources.
2. Limitations on the transfer of goods and services may be introduced according to the federal law, if it is necessary to ensure security, protect the life and health of people, protect nature and cultural values.

Article 75

1. The monetary unit in the Russian Federation shall be the rouble. Money issue shall be carried out exclusively by the Central Bank of the Russian Federation. Introduction and issue of other currencies in Russia shall not be allowed.
2. The protection and ensuring the stability of the rouble shall be the major task of the Central Bank of the Russian Federation, which it shall fulfil independently of the other bodies of state authority.
3. The system of taxes paid to the federal budget and the general principles of taxation and dues in the Russian Federation shall be fixed by the federal law.
4. State loans shall be issued according to the rules fixed by the federal law and shall be floated on a voluntary basis.

Article 76

1. On the issues under the jurisdiction of the Russian Federation federal constitutional laws and federal laws shall be adopted and have direct action in the whole territory of the Russian Federation.
2. On the issues under the joint jurisdiction of the Russian Federation and subjects of the Russian Federation federal laws shall issued and laws and other normative acts of the subjects of the Russian Federation shall be adopted according to them.
3. Federal laws may not contradict the federal constitutional laws.
4. Outside the limits of authority of the Russian Federation, of the joint jurisdiction of the Russian Federation and the subjects of the Russian Federation, the Republics, territories, regions, cities of federal importance, autonomous regions or autonomous areas shall exercise their own legal regulation, including the adoption of laws and other normative acts.
5. The laws and other legislative acts of the subjects of the Russian Federation may not contradict the federal laws adopted according to the first and second parts of this Article. In case of a contradiction between a federal law and an act issued in the Russian Federation the federal law shall be applied.
6. In case of a contradiction between a federal law and a normative act of a subject of the Russian Federation adopted according to the fourth part of this Article, the normative legal act of the subject of the Russian Federation shall be applied.

Article 77

1. The system of bodies of state authority of the Republics, territories, regions, cities of federal importance, autonomous regions or autonomous areas shall be established by the subjects of the Russian Federation independently and according to the principles of the constitutional system of the Russian Federation and the general principles of the organization of representative and executive bodies of state authority fixed by federal law.
2. Within the limits of jurisdiction of the Russian Federation and the powers of the Russian Federation on the issue under the joint jurisdiction of the Russian Federation and the subjects of the Russian Federation the federal bodies of executive authority and the bodies of executive authority of the subjects of the Russian Federation shall make up a single system of executive power of the Russian Federation.

Article 78

1. The federal bodies of executive power in order to exercise their powers may create their own territorial organs and appoint corresponding officials.
2. The federal bodies of executive power by agreement with the bodies of executive power of the subjects of the Russian Federation may transfer to them the fulfillment of a part of their powers, if it does not contradict the Constitution of the Russian Federation and the federal laws.
3. The bodies of executive power of the subjects of the Russian Federation by agreement with the federal bodies of executive authority may transfer to them the fulfillment of a part of their powers.
4. The President of the Russian Federation and the Government of the Russian Federation shall ensure, according to the Constitution of the Russian Federation, the implementation of the powers of the federal state authority in the whole territory of the Russian Federation.

Article 79

The Russian Federation may participate in interstate associations and transfer to them part of its powers according to international treaties and agreements, if this does not involve the limitation of the rights and freedoms of man and citizen and does not contradict the principles of the constitutional system of the Russian Federation.

Chapter 4. The President of the Russian Federation

Article 80

1. The President of the Russian Federation shall be the head of the State.
2. The President of the Russian Federation shall be guarantor of the Constitution of the Russian Federation, of the rights and freedoms of man and citizen. According to the rules fixed by the Constitution of the Russian Federation, he shall adopt measures to protect the sovereignty of the Russian Federation, its independence and state integrity, ensure coordinated functioning and interaction of all the bodies of state power.
3. According to the Constitution of the Russian Federation and the federal laws the President of the Russian Federation shall determine the guidelines of the internal and foreign policies of the State.
4. As the head of the State the President of the Russian Federation represent the Russian Federation within the country and in international relations.

Article 81

1. The President of the Russian Federation shall be elected for four years by citizens of the Russian Federation on the basis of universal, equal, direct suffrage by secret ballot.
2. Any citizen of the Russian Federation not younger than 35 years of age and with a permanent residence record in the Russian Federation of not less than 10 years may be elected President of the Russian Federation.
3. One and the same person may not be elected President of the Russian Federation for more than two terms running.
4. The rules of electing the President of the Russian Federation shall determined by the federal law.

Article 82

1. When taking office the President of the Russian Federation shall take the following oath of loyalty to the people:

“I swear in exercising the powers of the President of the Russian Federation to respect and safeguard the rights and freedoms of man and citizen, to observe and protect the Constitution of the Russian Federation, to protect the

sovereignty and independence, security and integrity of the State, to faithfully serve the people”.

2. The oath shall be taken in a solemn atmosphere in the presence of members of the Council of the Federation, deputies of the State Duma and judges of the Constitution Court of the Russian Federation.

Article 83

The President of the Russian Federation shall:

- a. appoint by agreement with the State Duma the Chairman of the Government of the Russian Federation;
- b. have the right to chair meetings of the Government of the Russian Federation;
- c. adopt decision on the registration of the Government of the Russian Federation;
- d. present to the State Duma a candidate for the appointment to the post of the Chairman of the Central Bank of the Russian Federation, raise before the State Duma the issue of dismissing the Chairman of the Central Bank of the Russian Federation;
- e. on the proposal by the Chairman of the Government of the Russian Federation appoint and dismiss deputy chairmen of the Government of the Russian Federation and federal ministers;
- f. present to the Council of the Federation candidates for appointment as judges of the Constitution Court of the Russian Federation, the Supreme Court of the Russian Federation, the Higher Court of Arbitration of the Russian Federation, as well as a candidate for the post of the Procurator-General of the Russian Federation; appoint judges of other federal courts;
- g. form and head the Security Council of the Russian Federation, the status of which is determined by the federal law;
- h. approve the military doctrine of the Russian Federation;
- i. form the Administration of the President of the Russian Federation;
- j. appoint and dismiss plenipotentiary representatives of the President of the Russian Federation;
- k. appoint and dismiss the supreme command of the Armed Forces of the Russian Federation;
- l. after consultations with corresponding committees and commissions of the chambers of the Federal Assembly appoint and recall diplomatic representatives of the Russian Federation in foreign States and international organizations.

Article 84

The President of the Russian Federation shall:

- a. announce elections to the State Duma according to the Constitution of the Russian Federation and the federal law;
- b. dissolve the State Duma in cases and according to the rules fixed by the Constitution of the Russian Federation;
- c. announce a referendum according to the rules fixed by the federal constitutional law;
- d. submit bills to the State Duma;
- e. sign and make public the federal laws;
- f. address the Federal Assembly with annual messages on the situation in the country, on the guidelines of the internal and foreign policy of the State.

Article 85

1. The President of the Russian Federation may use conciliatory procedures to solve disputes between the bodies of state authority of the Russian Federation and bodies of state authority of the subjects of the Russian Federation, as well as between bodies of state authority of the subjects of the Russian Federation. In case no agreed decision is reached, he shall have the right to submit the dispute for the consideration of a corresponding court.
2. The President of the Russian Federation shall have the right to suspend acts of the Bodies of executive power of the subjects of the Russian Federation in case these acts contradict the Constitution of the Russian Federation and the federal laws, international commitments of the Russian Federation or violate the rights and freedoms of man and citizen until the issue is solved by a corresponding court.

Article 86

The President of the Russian Federation shall:

- a. govern the foreign policy of the Russian Federation;
- b. hold negotiations and sign international treaties and agreements of the Russian Federation;
- c. sign ratification instruments;
- d. received credentials and letters of recall of diplomatic representatives accredited to him.

Article 87

1. The President of the Russian Federation shall be the Supreme Commander-in-Chief of the Armed Forces of the Russian Federation.
2. In case of an aggression against the Russian Federation or of a direct threat of aggression the President of the Russian Federation shall introduce in the territory of the Russian Federation or in its certain parts a martial law and immediately inform the Council of the Federation and the State Duma about this.

3. The regime of the martial law shall be defined by the federal constitutional law.

Article 88

The President of the Russian Federation, in circumstances and according to the rules envisaged by the federal constitutional law, shall introduce a state of emergency in the territory of the Russian Federation or in its certain parts and immediately inform the Council of the Federation and the State Duma about this.

Article 89

The President of the Russian Federation shall:

- a. solve the issues of citizenship of the Russian Federation and of granting political asylum;
- b. decorate with state awards of the Russian Federation, award honorary titles of the Russian Federation, higher military and higher special ranks;
- c. decide on pardoning.

Article 90

1. The President of the Russian Federation shall issue decrees and orders.
2. The decrees and orders of the President of the Russian Federation shall be obligatory for fulfillment in the whole territory of the Russian Federation.
3. Decrees and orders of the President of the Russian Federation shall not run counter to the Constitution of the Russian Federation and the federal laws.

Article 91

The President of the Russian Federation shall possess immunity.

Article 92

1. The President of the Russian Federation shall take up his powers since the moment of taking the oath of loyalty and cease to fulfil them with the expiration of the term of office and from the moment a newly-elected president is sworn in.
2. The President of the Russian Federation shall cease to exercise his powers short of the term in case of his resignation, stable inability because of health reasons to exercise the powers vested in him or in case of impeachment. In this case the election of the President of the Russian Federation shall take place not later than three months since the termination of the powers short of the term.

3. In all cases when the President of the Russian Federation is incapable of fulfilling his duties, they shall temporarily fulfilled by the Chairman of the Government of the Russian Federation. The Acting President of the Russian Federation shall have no right to dissolve the State Duma, appoint a referendum, and also provisions of the Constitution of the Russian Federation.

Article 93

1. The President of the Russian Federation may be impeached by the Council of the Federation only on the basis of the charges of high treason or another grave crime, advanced by the State Duma and confirmed by the conclusion of the Supreme Court of the Russian Federation on the presence of the elements of crime in the actions of the President of the Russian Federation and by the conclusion of the Constitution Court of the Russian Federation confirming that the rules of advancing the charges were observed.
2. The decision of the State Duma on advancing charges and the decision of the Council of the Federation on impeaching the President shall be adopted by two thirds of the votes of the total number of members of each chamber and on the initiative of not less than one third of the deputies of the State Duma and with the conclusion of a special commission set up by the State Duma.
3. The decision of the Council of the Federation on impeaching the President of the Russian Federation shall be adopted not later than three months after the State Duma advanced the charges against the President. If a decision of the Council of the Federation is not adopted during this time, the charges against the President shall be regarded as rejected.

Chapter 8. Local self-Government

Article 130

1. Local self-government in the Russian Federation shall ensure the independent solution by the population of the issues of local importance, of possession, use and disposal of municipal property.
2. Local self-government shall be exercised by citizens through a referendum, election, other forms of direct expression of the will of the people, through elected and other bodies of local self-government.

Article 131

1. Local self-government shall be administered in urban and rural settlements and in other areas with the consideration of the historical and other local traditions. The structure of local self-government bodies shall be determined by the population independently.

2. Changes in borders of the areas in which local self-government is administered shall be made with the consideration of the opinion of the population of the corresponding areas.

Article 132

1. The local self-government bodies shall independently manage municipal property, form, adopt and implement the local budgets, introduce local taxes and dues, ensure the protection of public order, and also solve other issues of local importance.
2. The local self-government bodies may be vested by law with certain state powers and receive the necessary material and financial resources for their implementation. The implementation of the delegated powers shall be controlled by the State.

Article 133

Local self-government in the Russian Federation shall be guaranteed by the right for judicial protection, for a compensation for additional expenses emerging as a result of decisions adopted by state authority bodies, by a ban on the limitations on the rights of local self-government fixed by the Constitution of the Russian Federation and the federal laws.

**APPENDIX C: RUSSIAN PARLIAMENTARY ELECTION RESULTS,
1993–1999**

Party	1999		
	Voting (%)	List Seats	SMD (a) seats
Russia's Choice	N/A	N/A	N/A
Liberal Democrats (b) (LDPR)	5.98	17	0
Communist Party (CPRF)	24.29	67	47
Agrarian Party (APR)	N/A	N/A	0
Yabloko	5.93	16	5
Our Home Is Russia (OHR)	1.19	0	8
Women of Russia	2.04	0	0
Party of Russian Unity and Accord	N/A	N/A	N/A
Democratic Party of Russia	N/A	N/A	N/A
Unity	23.32	64	9
Fatherland-All Russia	13.33	37	29
Union of Right Forces	8.52	24	5
Others	12.1	0	9
Independents	N/A	N/A	112
Postponed	N/A	1	1

Party	1995		
	Voting (%)	List Seats	SMD (a) seats
Russia's Choice	3.9	0	9
Liberal Democrats (b) (LDPR)	11.2	50	1
Communist Party (CPRF)	22.3	99	58
Agrarian party (APR)	3.8	0	20
Yabloko	6.9	31	14
Our Home Is Russia (OHR)	10.1	45	10
Women of Russia	4.6	0	3
Party of Russian Unity and Accord	0.4	0	1
Democratic Party of Russia	N/A	N/A	0
Unity	N/A	N/A	N/A
Fatherland-All Russia	N/A	N/A	N/A
Union of Right Forces	N/A	N/A	N/A
Others	34.0	0	31
Independents	N/A	N/A	78
Postponed	N/A	0	N/A

(a) Single-mandate districts.

(b) On the ballot papers in 1999 as Zhirinovsky's Bloc.

Party	1993		
	Voting (%)	List Seats	SMD (a) seats
Russia's Choice	15.5	40	30
Liberal Democrats (b) (LDPR)	22.9	59	5
Communist Party (CPRF)	12.4	32	16
Agrarian party (APR)	8.0	21	12
Yabloko	7.9	20	3
Our Home Is Russia (OHR)	N/A	N/A	N/A
Women of Russia	8.1	21	
Party of Russian Unity and Accord	6.8	18	1
Democratic party of Russia	5.5	14	1
Unity	N/A	N/A	N/A
Fatherland-All Russia	N/A	N/A	N/A
Union of Right Forces	N/A	N/A	N/A
Others	16.2	0	8
Independents	N/A	N/A	141
Postponed	N/A	N/A	6

Notes: Figures for party-list voting may not tally to 100 owing to spoiled ballots and ballots cast “against all.”

Figures for seats won do not match faction sizes in the text, owing to the post-election affiliation of independents to factions and the “lending” of deputies among allied factions.

Source: Electoral Commission

APPENDIX D: RUSSIA – ECONOMIC STRUCTURE: ANNUAL INDICATORS

	1999	2000(a)	2001(a)
GDP at market prices(b) (Rb bn)	4,767	7,302	9,041
GDP (US\$ bn)	193.6	259.6	310.0
Real GDP growth (%)	5.4	9.0	5.0
Consumer price inflation (av; %)	85.7	20.8	21.6
Population (millions)	146.0	145.2	144.5
Exports of goods fob (US\$ m)	75,666	105,565	103,042
Imports of goods fob (US\$ m)	-39,537	-44,862	-53,390
Current-account balance (US\$ m)	24,731	46,317	34,236(c)
Foreign-exchange reserves excl gold (US\$ m)	8,457	24,264	32,542
Total external debt (US\$ bn)	173.9	161.4(c)	155.7(c)
Debt-service ratio, paid (%)	13.0	10.9(c)	15.6(c)
Exchange rate (av; Rb:US\$)	24.62	28.13	29.17
		1997	1998
GDP at market prices(b) (Rb bn)		2,522	2,741
GDP (US\$ bn)		436.0	282.4
Real GDP growth (%)		0.9	-4.9
Consumer price inflation (av; %)		14.6	27.7
Population (millions)		147.1	146.5
Exports of goods fob (US\$ m)		89,008	74,883
Imports of goods fob (US\$ m)		-71,982	-58,014
Current-account balance (US\$ m)		2,061	683
Foreign-exchange reserves excl gold (US\$ m)		12,895	7,801
Total external debt (US\$ bn)		127.7	177.7
Debt-service ratio, paid (%)		6.4	11.9
Exchange rate (av; Rb:US\$)		5.78	9.71

(a) Actual.

(b) GDP calculated from the production side.

(c) Economist Intelligence Unit estimate.

(d) Includes statistical discrepancy between the production side and the expenditure side.

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Origins of gross domestic product	% of total
2001(c)	
Agriculture	7.2
Industry	38.6
Services	54.2
Total	100.0

Components of gross domestic product	% of total
2001	
Private consumption	50.9
Public consumption	14.3
Stockbuilding	4.3
Fixed investment	17.8
Net exports of goods and services	13.0
Total	100.0(d)

Principal exports	% of total
Fuels and energy	54.0
Metals	17.0
Machinery and transport equipment	8.9
Chemicals	5.6
Total including others	100.0

- (a) Actual.
- (b) DP calculated from the production side.
- (c) Economist Intelligence Unit estimate.
- (d) Includes statistical discrepancy between the production side and the expenditure side.

Source: Economist Intelligence Unit (EIU), 2002.

APPENDIX E: UKRAINE – ECONOMIC STRUCTURE: ANNUAL INDICATORS

	1997	1998	1999	2000	2001(a)
GDP at market prices (HRN bn)	93.3	102.5	127.1	173.0	209.3
GDP (US\$ bn)	50.1	41.8	30.8	31.8	39.0
Real GDP growth (%)	-3.0	-1.9	-0.2	5.9	9.1(b)
Consumer price inflation (av; %)	15.9	10.6	22.7	28.2	12.0(b)
Population (millions)	50.9	50.5	50.1	49.6	49.3
Exports of goods fob (US\$ m)	15,418	13,699	13,189	15,722	17,091(b)
Imports of goods fob (US\$ m)	-19,623	-16,283	-12,945	-14,943	-16,893(b)
Current-account balance (US\$ m)	-1,335	-1,296	1,658	1,481	1,402(b)
Foreign-exchange reserves excl gold (US\$ m)	2,341.1	761.3	1,046.4	1,352.7	2,955.4(b)
Total external debt (US\$ bn)	11.1	13.1	14.1	12.5(a)	11.7
Debt-service ratio, paid (%)	6.6	11.4	16.3	16.0(a)	8.5
Exchange rate (av) HRN:US\$	1.86	2.45	4.13	5.44	5.37(b)

April 5, HRN5.3276:US\$1

Origin of gross domestic product, 1999	% of total	Components of gross domestic product, 1999	% of total
Agriculture	12.8	Private consumption	60.2
Industry	38.4	Public consumption	19.0
Services	48.8	Net fixed investment	19.9
Total	100.0	Increase in stocks	-0.1
		Net exports	1.1
		Total	100.0

Principal exports, 2001	% of total	Principal imports, 2001	% of total
Non-precious metals	41.3	Fuel & energy, including ores	42.6
Machinery and Equipment	13.9	Machinery and equipment	19.8
Food, beverages and agricultural products	11.2	Chemicals	7.1
Chemicals	9.1	Food, beverages and agricultural products	7.1

(a) EIU estimates.

(b) Actual.

Main destinations of exports, 2001	% of total	Main origins of imports, 2001	% of total
Russia	22.6	Russia	36.9
Turkey	6.2	Turkmenistan	10.5
Italy	5.1	Germany	8.7
Germany	4.4	Kazakhstan	4.2

(c) EIU estimates.

(d) Actual.

Source: Economist Intelligence Unit (EIU), 2002.

APPENDIX F: WITNESSES

Second Session, Thirty-Sixth Parliament

- Mar. 17, 2000 *From the Department of Foreign Affairs and International Trade:*
Jim Wright, Director General, East and Southern Europe Bureau.
Chris Alexander, Deputy Director, Russia, Eastern Europe Bureau.
- Jun. 7, 2000 *From the Department of Foreign Affairs and International Trade:*
Jim Wright, Director General, East and Southern Europe Bureau;
Ann Collins, Director, Eastern Europe Division;
Robert Brooks, Deputy Director, Eastern Europe Division
(Belarus, Caucasus, Central Asia, Moldova, Ukraine).

First Session, Thirty-Seventh Parliament

- Mar. 13, 2001 *From the Institute of European and Russian Studies, Carleton University:*
Vladimir Popov, Professor.
- Mar. 14, 2001 *From the Centre for Russian and East European Studies, University of Toronto:*
Aurel Braun, Professor.
- Mar. 21, 2001 *From the Institute of European and Russian Studies, Carleton University:*
Larry Black, Professor.
- Mar. 28, 2001 *From Carleton University:*
Amy Knight, Professor.
- As an Individual:*
Patrick Armstrong
- Apr. 3, 2001 *From the Centre for Russian and East European Studies, University of Toronto:*
Peter H. Solomon, Jr., Professor of Political Science, Law and Criminology, Director.
- Apr. 4, 2001 *From the University of Kansas:*
Dale Herspring, Professor.

- Apr. 25, 2001 *From the Canadian Institute of Resources Law, University of Calgary:*
Janet Keeping, Professor.
- From the Department of Natural Resources Canada:*
Neil McIlveen.
- Apr. 30, 2001 *From the Institute of European and Russian Studies, Carleton University:*
Andrea Chandler, Professor;
Joan Debardeleben, Professor;
Piotr Dutkiewicz, Professor.
- From the Schulich School of Business, York University:*
James Gillies, Professor.
- From Norex Petroleum Limited:*
Alex Rotzang.
- From SNC Lavalin International:*
Ron Denom.
- From Kinross Gold:*
John Ivany.
- May 1, 2001 The Honourable Senator James Tunney.
- May 2, 2001 *From the Canadian Institute of Ukrainian Studies, University of Alberta:*
Bohdan Klid, Professor;
David Marples, Professor.
- May 9, 2001 *From the University of Northern British Columbia:*
John Young, Professor.
- Jun. 6, 2001 *From the Centre for International and Security Studies, York University:*
Sergei M. Plekhanov, Professor.
- Sep. 25, 2001 *From the Export Development Corporation:*
Lorne Cutler;
Fergal O'Reilly.
- From the Royal Canadian Mounted Police:*
Angus Smith.

- Oct. 2, 2001 *From the Canadian International Development Agency (CIDA):*
Peter Daniel, Vice-President, Central and Eastern Europe Branch;
Rick Ward, Director General, Russia, Ukraine and Nuclear
Programmes Division, Central and Eastern Europe Branch.
- Oct. 23, 2001 *From Northland Power Inc.:*
James C. Temerty, Chairman, Chief Executive Officer and owner.
- Nov. 6, 2001 *As an Individual:*
Paul Magocsi, Chair of Ukrainian Studies, University of Toronto.
- Mar. 18, 2002 The Honourable Gar Knutson, P.C., M.P., Secretary of State
(Central and Eastern Europe and Middle East)
- As an Individual:*
Walter Makowecki, Heritage Frozen Foods Limited
- As an Individual:*
James Dmytro Jacuta, Director, Canadian Institute of Ukrainian
Studies, University of Alberta.
- From Romyr and Associates:*
Andrew Witer, President
- From the Ukrainian-Canadian Congress:*
Eugene Czolij, President
- From the Canada-Ukraine Advisory Council:*
Ostap Hawaleshka, President
Dr. Roman Petryshyn, Member
- As an Individual:*
Dr. Yuri, Shcherbak, Ambassador Extraordinary and
Plenipotentiary of Ukraine.
- As an Individual:*
Orest Subtelny, Department of History and Political Science, York
University.
- From the Department of Foreign Affairs and International Trade:*
Ron Halpin, Director General, Central, Eastern and Southern
Europe Division;
Ann Collins, Director, Easter Europe Division.

Mission of Inquiry to the Washington, D.C., United States (May 15-16, 2001)

From the Canadian Security and Intelligence Service:

Keith Bush;
Roger Ebel.

From the Kennan Institute:

Blair Ruble Nancy Pospon;
Emil Payin;
Oleksiy Haran;
Bohdan Harasymiv;
Margaret Paxon.

From the Brookings Institute:

Clifford Gaddy;
Fiona Hill.

From IMF / World Bank:

Hans Martin Boehmer;
Gilles Rene;
Paul Fenton;
Stéphane Charbonneau.

From the Carnegie Centre:

Martha Olcott;
Andrew Kuchins;
Murray Feshbach;
Stephen Grant;
Gene Fishel.

From RIA-Novosti:

Arcadii Orlov.