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MODERATOR:
DAVID SHIPLER,
NEW YORK TIMES

SPEAKER:
EDWARD LUCAS
AUTHOR, "THE NEW COLD WAR"

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DAVID SHIPLER: Thank you, Asta, and thank you all for coming this afternoon.

Edward Lucas is the Central and Eastern Europe correspondent for the Economist. He has been covering the region for more than 20 years, witnessing the final years of the Cold War, the fall of the iron curtain and the collapse of the Soviet Empire; Boris Yeltsin's downfall and Vladimir Putin's rise to power.

From 1992 to 1994, he was the managing editor of the Baltic Independent, a weekly English-language newspaper published in Tallinn. He was a correspondent for the London Independent based in Washington, D.C., before leaving for Tallinn, and earlier in his career he worked for the BBC as a journalist. He holds a B.S. from the London School of Economics, and studied Polish in Krakow.

Mr. Lucas is the author of a new book, entitled "The New Cold War," which he'll talk about this afternoon with all of us for about 20 minutes, and then we'll open the floor – I'll use the prerogative of the chair to ask one or two questions when he's finished, and then open it to all of you.

Mr. Lucas.

EDWARD LUCAS: Well, thank you very much for that gracious introduction, and thank you too, Radio Free Europe/Radio Liberty, the chance to talk here. I've got the most – longest and happiest memories of Radio Free Europe, dating to the time when I lived in communist Czechoslovakia and used to listen to the Czech service, both to improve my Czech and also to try to find out what was going on so I could then report it to the London Independent. The best news seemed to come via Munich. So it's a great privilege to be here.

And I want to start off by just making clear, perhaps, something particularly important in an organization which fought the last cold war with such brilliance and such integrity, that I'm not saying in my book that the old cold war has come back. And the old cold war had three defining features: it was a global conflict, it was a sharp ideological conflict and it was a military confrontation. And all those elements are either gone or different now; we're no longer worried about Soviet tanks crashing through the Fulda gap, reaching the Rhine within three days and giving us the choice of going nuclear or surrendering. It's a completely different conflict.

And secondly, I also want to make it clear that I'm not saying in this book that everything in the 1990s in Russia was good, and that Mr. Putin took over Jeffersonian democracy and recreated the Soviet Union. That is not the case. I doubt many of you feel the need to be reminded of that, but it is very important when one's attacking what's happened under the Chekist kleptocracy in the Kremlin, that one doesn't try to make out the Yeltsin years were better than they were. And it's important first, I think, to understand that quite a lot of what's going on in Russia is a kind of delayed action, a consequence of the chaos and uncertainty and dislocation of those years.

And I also want to make it clear, just for the record, that this book is not part of what one might call the boo chorus. There's a hurrah chorus, who are paid to say that everything in Russia in wonderful; there's also a boo chorus who are paid to say that everything in Russia is bad. And there's a man, whose name begins with B, who lives in Surrey – no, not that one, the dead one. There's another man whose name is B who lives

in Surrey, and he pays quite a lot of money to finance seminars and conferences and studies that prove that Putin is a monster; in fact, it's a monster that he himself helped create, but never mind that now. And there's a man whose name begins with K, perhaps a more honorable man, but he lives in confinement in Siberia, but a lot of his money's abroad and a lot of that money goes towards painting a very black picture of Putin's Russia.

And I agree with many of the criticisms, but I also make it very clear in the book that I do not regard Khodorkovsky as a political prisoner and that I regard a lot of the worst aspects of Putinism as stemming from the kind of fusion of political and economic power that Mr. Berezovsky developed in the 1990s.

So with those provisos aside, let me move on to the main thesis of the book, which his that there have been huge losses under Putin; losses of transparency, of freedom and legality, and one can really summarize these as constraint and redress. As in any society of any kind, it doesn't matter what system of government, there's always going to be the danger that the powerful get what they want and that we get pushed out of the way. And we have lots of institutions and mechanisms to make sure that doesn't happen: we have the political process, we have the rule of law, we have the free media, we have NGOs, we have individual's right to free speech, and so on. And it seems to me that, under Putin, these have been systematically destroyed, hollowed out, or negated in Russia.

Let's start with the elections, the fundamental democratic principle of choice. And I would refuse even to use the word vybory, or elections, for what's coming up in Russia. One might, I suppose, call it golosovaniye, voting, because votes will be cast but the choice – vybor – is not there. And we've got a paradox which I think Bulgakov would have loved, or Nabokov, one of the great Russian writers, he really would have fun with this, an election which is both totally predictable and totally mystifying. It's totally predictable because we know exactly who's going to win, and it's totally mystifying because we don't know what it means.

Is Mr. Medvedev keeping the seat warm for Mr. Putin to return, perhaps in months, perhaps in years? Is Mr. Medvedev going to pay soft cop to Putin's hard cop? Is Mr. Medvedev the result of some careful script? Is this like "Gone with the Wind," where the audience is on the edge of their seats but all the actors involved know what's going on, or is this like "Casablanca," where they're making it up each morning when they go along? Mr. Medvedev is the product of a panicky choice in the Kremlin, when they just didn't know what else to do. We don't know, but one thing's certain: The political process does not offer constraint or redress on the part of the legal system.

Now, it's very easy to sit here in the West and criticize Russian courts, and many people have done it. The International Bar Association does it, Mr. Kasyanov has done it, Mr. Kasparov's done it. Now, who was it who said that Russia was in a state of unparalleled legal nihilism? It wasn't some way-out critic of the Kremlin, some creature of the outer right-wing neo-con fringe of the Washington think-tank scene. No, it was Dmitri Medvedev who said that it was fraught with legal nihilism and who denounced unparalleled corruption, lack of fiscal and economic freedom, and the states, the disproportionate state influence in the economy. So these criticisms are real and they're not outlandish, and that constraint and redress is gone.

Now, you may say why do we need to worry about this; why not just let the Russians get on with it? Eighty percent of Russians seem to like Putin. Those polls may be phony, the election may be weak but in the end, we have lots of other things to worry about. We have the war on terror to worry about, we have China to worry about, we have Africa to worry about, we have global warming to worry about; who needs another problem? And it's certainly true that Russia is not like the Soviet Union; it is not confronting us at every stage. And we talked seriously with the Russian about nukes; we talked seriously about Russians about North Korea and we sometimes talk sort of seriously to the Russians about Iran and the Mideast, and also – so it's true Russia is engaged. It is not a global adversary.

But there are two reasons to be worried about what's happening. One is the trajectory. Now, I don't need to remind here the pace which produced that wonderful quote, two kicks to fascism. How disgusting some of this stuff is you can find on the Russian media, and how close that is to the Russian authorities. If you've not done it and you speak Russian, I implore you to get onto UG and just look at some of those national propaganda videos and your blood will run cold. The music, the typography, the images, the idea of Russia as a besieged fortress surrounded by malevolent hypocrites; it's poisonous and it's not only poisonous, it is poisoning Russian public opinion. Every opinion poll shows the same trajectory towards anti-Westernism, towards xenophobia, towards illiberalism.

Now, when I'm feeling really, really optimistic I like to think that they're just crooks, that the whole thing, sovereign democracy, managed democracy, all this stuff, all this hooey, world without the West and so on; this is all just made up in order to fool the Russian people into giving up their freedom and in fact, all they want to do is to steal billions and billions and billions of dollars. That's the optimistic scenario. But I'm not that optimistic. I think some of them actually do believe it, and that's what's really scary. It's changing the Russian public opinion and there are people in power who really, really believe this stuff.

It's leaking. It is not confined to Russia. It leaks to central Europe; it leaks to countries that we thought were firmly anchored in the Euro-Atlantic camp. Ron Asmus has written an excellent piece in Foreign Affairs, where he raises a word I haven't heard since Ronald Reagan's, to use it back in the 1980s, of rollback. This is rollback the other way; this is us losing countries that we thought we'd gained, the freedom and democracy, and the coming under the spell of Russian money and Russian energy, and that's really scary. I was amazed to see how successful the Russians were in rolling up Nabucco. They didn't just beat us; they knocked the pieces from the board and kicked them to the far side of the world. The way they got South Stream to go through in Bulgaria; the way in which Russian money is causing problems in Latvia and Lithuania, the right politicians backed by dirty Russian money, already been publicly disgraced and able to come back and have a second go. This is scary stuff.

I would like to say that it's tough, but we're winning. I can't. When I travel around a region I think we are losing, and not just countries that people have never heard of like Moldova, countries that are inside the Euro-Atlantic camp. And it's worse; it goes further West. If I'd sat here eight years ago, six years ago, and told an audience of distinguished Washington Europe-watchers that a serving German chancellor, in his final weeks in office, would sign off on an energy project which was not only commercially

preposterous but directly threatened the energy security of Germany's eastern allies, Poland and the Baltic states, that was so threatening that the Polish defense minister would compare it the energy equivalent of the Molotov-Ribbentrop Pact, and then that same German leader, the successor to Konrad Adenauer, Helmut Schmidt, Willy Brandt and Helmut Kohl, that same German leader, within weeks of leaving office would then take a lucrative position as chairman of that prime consortium, you'd have called security. You'd have said, the man's mad; this doesn't happen, this is the West. We have standards.

If I'd said that a Western accounting firm, first of all, would take on deeply dodgy Russian companies and say their audits were okay, and then when the Russian companies became less dodgy and the audits became easier to justify, would then reap, perhaps, the benefits of what they'd done, that then when those same companies came under pressure from the Kremlin, that a blue-chip, big-four Western auditor would say we said in our audits for 2000, 2001, 2002, that Yukos' accounts were in order, that it is has come to our notice that people had been lying on this audit and we therefore withdraw it, you'd have thought I was fantasizing. These are counters, they're boring bean counters, but at least they're honest. Not a bit of it.

We're seeing an extraordinary push with Russian money into what we regard as the citadels of the Western fiscal and economic system. If I turned up in the city of London with a suitcase of stolen Fabergé eggs and some rolled-up Kandinsky canvases that I nicked from an art gallery and said, I need a bank, I need a lawyer and I need a PR firm, and all of that I can make some money and I'll pay you richly for the privilege, people would call the police. If you turn up with a stolen oil company, $17-billion worth of Western shareholders' money just stolen in broad daylight, and these pin-striped geniuses, these captains of finance, are queuing up to do the IPO and to make it look legal, and to spin it and make it seem okay in the press. And that is one of the fronts in the new cold war. It's not just trying to save Moldova, to push the Russians back in Latvia, to hang on to Central Europe, to do the energy security; it's happening right here, it's happening on K Street. It's happening in the city of London.

The old fifth column was easy to deal with because they were communists, and communism was a pretty hard sell. You had to be pretty soft in the head or pretty stupid to believe that communism was attractive, and you had to be myopic to believe it worked best than Western capitalism, particularly as the Cold War went on. But now the Cheka, for the first time in Russian history, the secret police are actually running the place. Now the Chekists are attacking us with our own weapons, with money, and if we run our society in the belief that only money matters, than we are defenseless when people attack us using money.

So on that cheerful note, I'm going to start – I've got lots more to say, but I'll say it during the questions. Thanks.

MR. SHIPLER: Thanks Mr. Lucas. As you talked, I kept thinking about the, you know, pretty common view that there's a cultural aversion to political pluralism and an affinity for a strong hand at the top, that has run through Russian history and transcends the governmental style of the moment; that is, from the czars into communism and now into the post-communist era. To what extent do you think that is a factor in what's happened under Putin?

MR. LUCAS: Well, I'm always very cautious about extrapolating from history into the present because you can make all sorts of arguments. You can say, you know, this country's never known good government so it's never going to want it, and I think one of the stories of the last 10, 15 years is that we've actually been – go to countries that perhaps haven't had a history of very good government and we've been able to help build institutions and the rule of law and so on that make government work. And so I'm a bit skeptical about the idea that it's – you know, Russia is doomed by its history never to be democratic. It's one of the reasons why I'm so passionately keen that we really offer Ukraine a pathway to European Union membership because if we make success in Ukraine, if we can help Ukraine make success of their own country so that they live not only with more money, with more prosperity, but also with greater freedom, more rule of law and more security than the Russians, and it undermines that great argument of Russian exceptionalism.

The Russians already – and that argument's been chipped away. You can't bring democracy to ex-communist countries. Yes, we did. You can't bring democracy to ex-Soviet countries; we did. You can't bring democracy to Orthodox countries; we did. You can't bring democracy to Slavic countries; we did. You can't bring democracy to big Slavic countries; well, Poland. Okay, really big Slavic countries. Okay, if we can make Ukraine work they're going to end up saying you can't make democracy work in big, Slavic, Orthodox countries whose names begin with R – (laughter) – and that will really have made a big dent in that argument.

But I do think, you know, that – I mean, history is, you know – digesting history is really difficult and I have a whole chapter in the book about this, and the way in which the Soviets, you know, the undigested lumps of Soviet history had come to the surface again in the way that we, perhaps, underestimated when we were looking at Russia in the 1990s, when it all seemed to be over and done with.

MR. SHIPLER: And you say we brought democracy which raises the question, since we're sitting in Washington where we have an inflated idea of our power to influence events around the world, what did we do wrong with Russia or did we. I mean, couldn't we have behaved, we as the West, behaved differently in those years of Gorbachev and then the collapse of the Soviet Union, that might have changed the outcome?

MR. LUCAS: Well, you see, when I say we, I mean people who believe in the things that we believe in. This is not we, the West; we Americans; we British. We includes we, Vaclav Havel; we, Vytautas Landsbergis; we, Lennart Meri; all the people who helped win the Cold War and build on the ruins of the evil empire.

What did we do wrong? Well, let's do a little thought experiment here and I apologize to a couple of you who may have heard this before, but just forgive me. Let's just imagine that the Third Reich was not defeated on the battlefield and that Hitler did not commit suicide in a bunker in 1945, that the Second World War had either never started or it ended in stalemate, and that the Third Reich had survived for decades. Let's imagine that Hitler died rather as Stalin did and was succeeded by a sort of Khrushchev

figure, who told the truth about the Holocaust, admitted the Holocaust had happened, and there was a period of a thaw.

And then it was too much, and he was pushed out of power and we had a kind of German Brezhnev, and the Third Reich pottered on, economic crisis to economic crisis, becoming more and more geriatric until sometime in the mid-1980s we got a reform Nazi, we'll call him Michael Gorbach – (laughter). And so Michael Gorbach comes in and the change is very quick, and the national socialist party loses its monopoly of power, the Gestapo and the SS come under some kind of political control; there are elections, people start telling the truth about history. And the captive nations of the Third Reich get their independence, and so the Poles and the Danes, the Dutch and the Czechs and the Austrians return back to the map of the world in which they'd been razed in 1938 and 1939.

And then, it turns out that it's gone too far; Gorbach can't hold the Third Reich together and it collapses, and we get a new country called the German Federation. And it's a bit of a mess; the coal price is very low so the economy's really been – you know, is really struck. And the West is torn because on the one hand we want to help these new countries, the Poles and the Czechs and the Dutch and the Danes, and on the other hand we want to treat the German Federation with some sensitivity, and we feel that it's very difficult, they can't get rid of the Nazis in one jump. And so at the beginning we're pretty standoffish towards these – you know, the Dutch and the Danes and the Poles and the Czechs.

Then, it turns out that the Gestapo hasn't really been dissolved and the SS hasn't really been dissolved, they've just been renamed, and that a lot of senior ex-Nazi politicians who claimed to be democrats still talk about this as Germany's back yard, they would say that we have our sphere of interest, you know, you have to take us into account. And so these Poles and the Danes and the Czechs and the Dutch say we want to join NATO, and we say, hmm, do you really; it's going to be expensive, we don't want to offend the Germans. And then German politicians start saying, impermissible, this must not happen. And once they start saying that, two things happen. First of all, the desire of those countries to join NATO intensifies and accelerates; they think we've got to join while we still can. And secondly, we stop feeling we're under a moral obligation to let them in, and so we do. And there's a lot of sound and fury in Berlin, and a lot of these ex-Nazi and ex-Gestapo people thump the table and say, our relationship will never recover. But funnily enough, life goes on. The first expansion of NATO continues.

And then, I want you to imagine that the 1990s ends in a real economic crisis. They devalue the Reichsmark, they default on their debts, and it looks as though, you know, politics is really internal. And a new politician comes on, we'll call him Voldemar Puschnik – (laughter). Okay, Voldemar Puschnik is a former colonel in the SS and he becomes popular very quickly, we won't go into how, and he takes over as prime minister and finally as president. I won't say Reichskanzler, that would perhaps be too much, but he takes over as president.

And we feel pretty queasy about this, and the Poles and the Czechs and the Danes and the Dutch feel pretty twitchy about it because they have bad memories of the SS. And we say yeah, well, the SS, they did some pretty bad things back in the 1930s; yeah, yeah, that was bad, we agree – 1940s, you know, no excuse for that. But you know, Colonel Puschnik was in the foreign intelligence division of the SS, the old Abwehr

before it was incorporated and you know, they weren't quite as bad. And also, you've got to remember the SS attracted the brightest and the best, you know, and that guy's got brains – (laughter) – you've got to admit, he speaks foreign languages. And so we swallow hard and we try to calm down the former captive nations of the Third Reich, and we say we've got to get on with the German Federation on, you know, nukes and stuff like that, and everything's okay.

And that, I think, is pretty much an analogy. And so, what did we do wrong? I don't think we did much. The one thing I do think – you know, I would add to this is if you then found that Colonel Puschnik was saying that the Munich agreement and the Anschluss were legal, and if you then had German government newspapers saying there were no gas chambers at Auschwitz, then alarm bells would be ringing and that is exactly what we've got in Russia now. On no fewer than four occasions – I only count to one in the books, we're going to press on – four occasions in the last six months we've had mainstream Russian media – not "Zavtra," not a fringe publication – mainstream Russian media saying that Katyn was done by the Nazis. That is equivalent to Holocaust denial and coupled with the other stuff that's going on, that makes me really scared.

So it was not a direct answer to your question, but –

MR. SHIPLER: But that was a good answer.

And I wanted to ask one more question picking up from that, and then open it up to everyone else, which is what role do you think the historical truth-telling has had in provoking Russians or inducing ordinary folks to yearn for a way of recapturing their greatness, somehow. You had, obviously, a lot of truth-telling which, you know, in a sense destroyed the idea of the Communist Revolution, the Bolshevik Revolution, as a good thing, even attacked not just Stalin but Lenin, the second chapter of de-Stalinization under Gorbachev that then reached back, and so forth. You had a sense, did you not, of real drift among Russians who saw themselves, suddenly, as without an honorable and noble history. How does that figure in all of this?

MR. LUCAS: Okay, let's do a little – could I have a copy of my book because I need to prep myself.

Okay, hands on, who's heard of Dietrich von Herbert? Right. Who's heard of Willy Brandt? Right, okay.

Germany can look back on figures who fought the Nazis, and they can look back on them with pride. And there is a – it's possible for Germany to – there is a German history out there which is studded with impressive people that Germans can be proud of.

Now, let me just try a little experiment and I have to just get to the right page. I'm going to read out some more names and I want to see who – and people who've come to my talks before are not allowed to stick their hands on. It's a different – sorry, just – wait a minute. I'll try to do it from memory and see whether I –

Who knows who – Fainberg? Gorbanevskaya? Here, here we are. Litvinov, Dremluga, Delaunay, Bogoraz, Babtsky and Baeva? Hands up, who knows who those were? Right. That's the difference.

Those are the eight Russians who on August the 25th, 1968, in an act of bravery which is so suicidal you can hardly imagine, went on to Red Square to demonstrate against the Soviet invasion of Czechoslovakia. They were arrested within seconds and –

(inaudible) – but I've got to find out what's happened. These are real heroes; okay, we've heard of Sakharov, but you know – and I thought, yeah, I'm in Russia for some time and I'll just, you know – I'll do some googling. I'll find out what happened to these eight people. And I imagined there'll be – (inaudible) – there'll be – (inaudible) – Dremluga and – yeah, they'd be celebrated. It was really difficult, and I didn't want to cheat and phone people up. I thought, I'm just going to try using open sources, just going to find out what's happening. And it was really difficult. They disappeared from the script. These people invented the modern human rights movement, really. It was the beginning of human rights, modern human rights, it was in Russia, in an extraordinarily difficult condition. That's something Russians can be really proud of.

So when people say this is a Russia-bashing book, I say it's not a Russia-bashing book; this is a Russia celebrated – I'm celebrating the incredible bravery of the Russians who stuck up for human rights in a time where we, in the West, may have thought it was a – (in Russian). And so the trouble is that Putinism doesn't write that history. Putinism congregates (?) the military music of the Stalin era they blast with loudspeakers at the Estonian embassy. It's the idea that perhaps in the Soviet Union, you know – imagine Colonel Puschnik, president of Germany, saying the collapse of the Third Reich was the geopolitical catastrophe of the 20th century. That's what Putin said about the Soviet Union.

Now, you can try to put a gloss on it and say well, all he meant it was all a disruption. It was unhappy for many Russians. Well, I'm sorry, it was a criminal, evil regime that killed millions of people; most of all it killed Russians. It killed your fellow citizens, President Putin. How can that be such a catastrophe?

So I think there's every reason I've encouraged – and I've talked to Jeff Gedmin about this and everybody else I mentioned – you need to try and get a really big Internet historical archive, where Russians can look and see what's going on. And anybody here who can write in Russian, the one thing you can do right now to cause freedom in Russia is get onto Russian Wikipedia and get onto the controversial – get to the talk page for Katyn, get onto the talk page for the Warsaw crisis, get on the talk page for all the historical controversies where there's a lying, Stalinist version which is still being promoted in official Soviet and Russian historiography, and there's a true version. And get in there and say, hang on a minute, here's the source; engaging the debate.

And we can win these arguments, and a lot of people out there are already doing it. But that is the front, I think, on which the battle for freedom in Russia is being fought. It is being fought on history and it's being fought on the Internet. And we have all the ammunition, it's just we're not using it.

MR. SHIPLER: We'll open it up for questions. There is a traveling microphone, please use it. And if you would, identify yourself as you begin; we would appreciate that.

Anyone like to start?

MR. LUCAS: And I'd love some really provocative questions as well. Most of the events so far, people have said, Mr. Lucas, you're broadly right, but much too naïve about Mr. Putin. So I'd quite like some questions – (laughter).

Q: Tom Dine, I formerly was associated closely with this organization. And I think, Ed, you're as brilliant as ever and I really appreciate your comments.

You mentioned Ukraine. In the new issue of Freedom House's evaluation of democracies, of the former non-Baltic Soviet republics Ukraine is a little bit ahead of Georgia but after that, it's all downhill. So you got two countries potentially on the right road to democratic practices.

Can Putin tolerate that? In the next 12, 18 months, will we see a near abroad exercise of power that will do everything possible to eliminate those growths of democracy?

MR. LUCAS: Well, Tom, it's – and I would like to think that Russia has enough problems at home not to be bothering too much about what's happening outside, and I sometimes feel quite sorry for Medvedev or Putin, whoever's going to take over because the economy has got some very difficult issues in inflation, overheating, the huge need for investment and the difficulty of spending money without it being stolen, the demographic collapse, infrastructure, public services. All these things would tax a really good government, let alone one that wants to get involved in ventures abroad.

I think Russia – I mean, it's encouraging that the Russians, that the Kremlin has really mucked up in Ukraine. You know, they started in a position of considerable strength before the Orange Revolution and they blew it, and they blew it time and time again. You've now got a position when even the blue party is broadly in favor of Euro-Atlantic integration, and that's a big defeat for the Kremlin and a big victory for the good side.

The problem is corruption. You know, I was so scandalized that when Yushchenko went to talk to Putin that he was dragging his feet on closing down RosUkrEnergo which to me is the epitome – if you want one example of what the Kremlin stands for, it's this phony company that exists by stealing. It steals from shareholders of Gazprom because it takes gas and sells it to the – it steals from customers, it steals from the taxpayers of Russia. It steals from everyone, and the money goes into bank accounts and disappears. We have no idea who the real beneficial owners are, and why Raiffeisen Bank thinks that it's okay to be associated with this, and why PriceWaterhouseCoopers thinks it's okay to audit it, I do not understand. And why President Yushchenko is not willing to say to Putin we are going to get rid of all intermediary companies – I don't see intermediary companies in the gas dealings between Nordic countries, they only come when Gazprom's involved, very odd.

So yes, Georgia -- Georgia's weak because it's smaller and the Georgian leadership is capable of making quite bad mistakes. I think we could agree on. And they've made them in the past and they can make them again, and one of the things I'm worried about is that there may be a coup provokatsiya because they're meant to provoke, and we may see a provokatsiya that successfully provokes the Georgians into doing something stupid, and that would be potentially very dangerous.

But I don't know what's going to happen a year from now. I mean, even the Economist doesn't keep a script that far – (laughter) – in advance. But my feeling is that this sort of xenophobic itch is not going to go away and I was very interested – I just read some quotes that Medvedev is being portrayed in the eternal optimistic – you know, the so-called Russia experts who always fall in love with every new Russian leader even

before he's been inaugurated. We've really had people saying Medvedev represents a sharp turn towards economic and political liberalism in Russia and I've heard it said, you know, within the last 24 hours by people who really ought to know better. So I was interested to see Medvedev quoted today saying one could call the United States a financial aggressor, an economic terrorist, for forcing its currency and its business standards on the world. Right, yeah, that's a clear – he's heading for a job at the Cato Institute, I can see – (laughter).

Russian NGOs are not allowed to operate freely in Britain. Have you noticed that one? British Council is a front for British intelligence, you know, heard that – I mean, this is – just, I just remember the British Council employees were holed from their beds in the middle of the night to be interrogated for the crime for working for a foreign organization. That was a pretty unpleasant echo of a pretty unpleasant past. If I was a putative liberal Russian president-elect, and I wanted to establish my credentials as someone who is distancing himself from abuses of the past, and I wanted to say something about the British Council, I might say it's a pity that some of our authorities seem to have overreacted somewhat in their zeal to enforce Russian law, and I would not go down this road that he's gone down.

MR. SHIPLER: Next question, provocative or otherwise?

Q: (Inaudible.) What is your perception of the EU leadership's view of Russia today, and do you think that they're ever going to adopt a common approach to Russia?

MR. LUCAS: It's a good question. It's bad but it's not hopeless. I would say, and I have said in the Economist, I think a long, slow rally has begun. We're starting from a very low point. But several – (phone rings) – oh, sorry, that's Putin on the phone. That's what I tell everybody. (Laughter.)

The long, slow rally of the West has begun. And it's been really bad; you know, we've seen Germany, Austria, the Netherlands, Italy and France all doing bilateral deals with the Kremlin in defiance of the European collective security. And that's bad, that means breaking promises; you promise to do one thing, then you do another. It deserves to be condemned, and it's continuing. But there have been some important things on the other side. I think when the Nashi mob tried to overturn the Swedish ambassador's car on its way to the Estonian embassy that really struck a chord. They're attacking – (inaudible, laughter). This really hit home.

The cyber-attack, the cyber-attack on people who are totally uninterested in the complexities of post-communist politics and history, got really worried. People looked at that – and I strongly recommend if you read in Wired Magazine there are references in the book, and all the references in book are on my website. So you don't have to type in a long string of digits and numbers, just go to the website, click, and it'll come up on the page. But Wired Magazine on the site – the article on the cyber-attack shows how very serious Western government agencies got really, really worried by some of the tactics that we used against Estonia.

One little thing, which I think exemplifies what Europe can do when it tries: Estonia joined Schengen. This may have been reported here, maybe not, but Estonia joined Schengen and when you join Schengen, which is visa-free travel within, you

know, chunks of Europe you submit a visa blacklist of people who should not be allowed to get Schengen visas. The Estonians submitted a visa blacklist which included all the leaders of Nashi, and suddenly this golden youth of the Russian political elite hardly could go skiing, they couldn't go shopping, they couldn't go to London, they couldn't do this – that was Europe's soft power working. They were furious and I think part of, you know, decline in – I mean, when Britain then I think privately added them to the British visa blacklist that may have been one of the reasons why it deteriorated so sharply with Britain. But that was an example that these European structures do work and they have the ability seriously to inconvenience the bad guys, and they should do more of it.

So we're starting from a very low base and there's every reason to be impatient and disappointed, but I do think that public opinion in Europe is now startlingly Chekist-aphobic. That's quite a phrase. I won't say Russophobic because I think people have got very warm feelings towards Russians, particularly because we have so many coming to visit and so much cultural interchange and so on. But I mean, if you look at the – there was a Pew research poll on Russia's image in the world which showed, even in Germany, an approval rating of Putin at 70 percent in 2001; I think it was down to 20 percent in 2007. Good job, Vladimir. Well done. You know, people are – you know, public opinion is really twitchy now about Russia and the elites to some extent, whether it is greed or naiveté or bureaucratic inertia, have yet to move in the same direction.

MR. SHIPLER: Is there any evidence that that actually has an impact on policy, public opinion in Europe or the U.S.?

MR. LUCAS: In theory, we live in – you know, we live in conditions of critical freedom and if you can aggregate public opinion enough, then elected representatives take notice.

MR. SHIPLER: I meant in Russian policy.

MR. LUCAS: On Russian policy, yeah.

They closed down Nashi two weeks later. Funny, Nashi was meant to be an authentic expression of the popular sentiments of real Russian youth and suddenly, you know, they just pulled the plug out and it doesn't exist anymore. Some, you know, great authenticity.

So I don't know – and I think that at least some of them are a bit worried about access to financial markets because one of the problems when you get very, very rich is you can't keep the money in gold bars and 100-dollar bills under your bed anymore. You know, Yeltsin, rather pathetically, kept a couple million dollars in a safe because he thought this was a huge amount of money and supposedly the royalties – one of his books and he thought, you know, that was just the best place to keep it. When you've got billions and billions and billions of dollars like some of these top Chekisti have, that you need Western financial markets.

One of the arguments I make in the conclusion about how-t- win-it section of the book is that we need to have the same rules on asset laundering as we have on money laundering. Thirty, 40 years ago you could have turned up to a bank in the city with a suitcase full of hundred-dollar bills, pay it in over the counter, no questions asked; money

to a casino, well done sir. And when we first started to worry about money laundering, people said you can't stop banks taking money; that's what banks do. You might as well stand between a, you know, hungry schoolboy and his lunch. This is just, you know, banks taking money. And we said, no, we're going to have some rules on this. You cannot pay in large quantities of cash you can't explain where you got them from. And slowly – I wouldn't say but surely, slowly but rather haphazardly, that's begun to have an effect, and money laundering has become more difficult.

And I argue in the book that the OECD, which is effectively the policemen through the financial action taskforce, should also do asset-laundering. So just as you can't pay – get into the Western financial system with money, you also can't sell stolen oil companies on the Western financial market. And if you had tough rules on beneficial ownership, on related party transactions and a few other things, you can make it really difficult for these parastatal pseudo-companies, the gas and oil division of Kremlin, Inc., to get into Western financial markets. And I think that would cause, at their end, some problems.

Q: Yes, hello. I'm Ana Gavandadze (sp) with Voice of America, Georgian service. Thanks for the insightful presentation.

MR. SHIPLER: Could you speak up a little bit? We're not hearing you.

Q: Yes, I'm sorry.

In light of Kosovo's recognition, I'm wondering how likely it is for Russia to recognize Abkhazia and South Ossetia and whether there's anything, at this point, that we can do other than wait and see how Russia will react regarding Georgia's separatist regions.

MR. LUCAS: The Russians have been not, and the Kremlin – they'd be nuts to recognize that because there's – you know, Russia's like a Swiss cheese in terms of minorities. You know, they are having great difficulty in hanging on to the North Caucasus. If they start saying that ethnic self-determination is such a good idea there's going to be plenty of people inside Russia who'd say yes, I'd like some of that too, please.

I think Russian interests in Transdniestria, South Ossetia and Abkhazia is actually nil. I mean, it's lucrative, you can do – you know, there's various money-laundering things you can do in Transdniestria and you know, it's a good place to go on holiday and things like that. These are pawns on a chessboard. They are things you can do to make the Georgians nervous.

But I really don't think they're going to – it's too dangerous. It's too dangerous for the Kremlin to set this sort of precedent. I mean, they may wish that we hadn't done it in Kosovo, but actually a great paradox here. When Montenegro became independent, did you notice the Kremlin jumping up and down and saying this was a breach of international law and a disgusting bit of, you know, ethno-nationalist separatism, blah, blah, blah. Not a bit of it. When Montenegro became independent the Russians said can we buy it? (Laughter.) And they now call it Moscow on the Sea.

So, you know, it's – I mean, once you start looking into the Russian Kremlin logic on this it's pretty full of holes. I do think that Kosovo, what they've got is what they want, which is Europe divided and at odds with America. And that is a perfect situation for them, and you have European foreign policy humiliatingly exposed and large chunks of European public opinion blaming the Americans, as if it's somehow the Americans fault that you start genocide.

MR. SHIPLER: Right in front.

Q: Yeah, my name is Molly O'Neill. I'm with the SAIS at John Hopkins University.

I wanted to draw you out just a little bit about business relationships, investment and so on, between Russia and the Western Europeans and so on. I'd just like to ask, I don't think – are you saying that you don't think there's any reputable Russian company; in other words, none should be listed?

MR. LUCAS: Oh no, not all, no.

Q: Okay, because – and so I'm glad to at least have that clarified. So you'd think that there would be a way to do a better vetting in terms of which companies –

MR. LUCAS: Yeah.

Q: And so – but, okay, I agree with that because I personally think that, you know, to the extent that Western companies, for example, recently the consumer goods area like, you know, for detergent and things like that, there's been big acquisitions by Western companies into Russia. And I tend to believe that fatefully, like most people who read the Economist, that this kind of thing is desirable and will hopefully bring about better, you know, governance and so on over the longer term.

But okay, so that's not so provocative but the other thing I would say is that I would also maybe tend to believe that, at the margin, it may be desirable to have Western shareholders in something like Gazprom. Would you say no?

MR. LUCAS: Well, first of all, let me be absolutely clear: I'm not saying at all that we should have any kind of financial blockade. It's one of the great reasons for hope, is the growth of the Russian business class and that economic independence is still better than economic dependence. And if you have people who run businesses, you know, worry about their costs and their customers and their competition and maybe even their share price, and they get cross about bureaucrats and stupid politicians and high taxes, that's great; that's natural and that's the same stimuli and reflexes that we, you know, want to have – we have over here.

And I hope very much that the business class turns into the middle class and just as they want more economic freedom, so do they want more physical freedom and legality, and I think that's great and we should do everything to encourage it. And I think we should be saying if you're a real Russian company you're welcome here; you know,

raise money, come see our venture capitalism, everything. You know, it's terrific and yes, we should make acquisitions when they're there and that's good, too.

My worry is about a disproportionate dependence. I get worried when people's livelihood is so tied up in Russia that they lose sight of the moral and political dimension. And there is this thing called the hurrah chorus, and I used to experience it when I was in – the four years I was in Moscow, late Yeltsin, early Putin. The people who were so determined there should be a devaluation because they were making so much money out in the GKO market. They would go to extraordinary lengths to try and squash stories in the Economist BFT that might be bad for the market. And then, when things turned up again, people who were saying, you know, you just got Putin wrong and we had, you know, heavy lobbying attempts to try and shift the news in a more positive direction. And to some extent it works, and I – you know, and I noticed there were newspapers which take very large color supplements, paid for by Russian entities, to glorify the achievements of the Putin regime and I would hate to think that that had any effect at all on their news coverage. And you know, in many cases it probably doesn't; in some cases, I suspect, it does.

So I think we just need – and we need a sense of proportion here. And you know, during the current war, if you did business with Russia, that was deeply suspicious. You know, Armand Hammer, people like that; we really wonder what they're up to. Now, that kind of smell test doesn't apply anymore. It's obviously preposterous to say you're doing something morally reprehensible by doing business with Russia, but we need to keep some kind of smell test. How exposed is this company to Russia? How much pressure can the Kremlin put on them as a result? What sort of messages are coming out?

I think the best example of what I don't want is the German gas industry, where the EU is trying to basically the right thing: liberalize the European energy markets to get rid of these vertically integrated monopolies and to encourage interconnection between the EU energy islands. It's not a strictly free-market approach but that's right because energy security is national security, and we shouldn't let our energy policy be determined just by the interest of consumers and of shareholders any more than we did by the interests of weapons companies during the Cold War when it came to buying weapons. So the EU is trying to do broadly the right thing and it's being blocked. It's being blocked by Germany because the German energy industry doesn't want it, and the German energy industry doesn't want it chiefly because they don't want to stop what Gazprom's asked them to stop, and that is an example of exactly what I don't want.

Q: Asta Banionis, with Radio Free Europe/Radio Liberty.

Edward, I wanted to take you back to one of your original theories that you proposed, which was that you didn't know exactly the answer but now I'm going to ask you to think a little bit more about it, and that is that you hypothesize that maybe Putin and his group are just crooks, and that if they're crooks then we really do need to know how to deal with them. But what is the timeline? Are they just looking to make enough money until they can retire, and do they want to retire at 60 or 65, or do they want to put their children in place to have a permanent elite that can continue to steal, and so you have a second generation of crooks, and do we have to wait for the grandchildren to revolt against their grandparents who were the crooks? What's the timeline?

MR. LUCAS: I honestly don't know. I mean, I think you need to know – I mean, it's very difficult. During the 1990s, you could get to know the people around the office; you know, it was not that closed off. So if you're lucky, you might end up – well, unlucky, but I mean if you were fortunate from the journalistic point of view you might end up in the banya with someone who's close to Korzhakov, for example, and he'd tell you things. You could talk to the other guards; you could get, you know, Berezovsky's mobile phone and phone him up, ask him what's going on.

You could get a sense of what they wanted and we could get a sense, for example, if some of the oligarchs clearly had extremely dodgy backgrounds but were desperate for respectability. And they wanted to buy it, and the West sold it. And they were buying it by the pound and the kilo or the yard or the mile or whatever. And so you could ask yourself, well, yeah, this leopard Khodorkovsky, he's trying to change his spots. How far am I going to go along? What benchmarks am I setting to see how that goes? It is so sealed now in that we – I think Sechin has never given an interview to a foreign journalist. And I, you know, it's really difficult. There are people there who you barely know what they look like, let alone what they think.

So it's difficult. We go back to – you know, as I said, we go back to the telex machine. We go back to trying to – the Kremlinology. If I made this joke here already, I can't remember. But, you know, Kremlinology was what we used to use and the people here were very good at it to try to analyze what was trying to go on in the Kremlin. And you'd read between the lines. You'd look at orders of, you know, who came first in queues and, you know, trying to get in lines and so on and whose picture is on whose wall, this sort of thing. And you'd really try and work out what was going on from very faint clues. That seemed to be a completely obsolete skill. It went out with the telex machine, the slide rule, carbon paper.

You know, it was like – and now we are back to Kremlinology again. We are making flint axes and trying to cut up food with it because that is all we have got. And we just don't know. I wish I knew the answer. If I did, I'd write an article in "The Economist" at once. (Laughter.)

Q: And then a quick second question which is, you have no doubt heard about Gazprom's attempts to get registered on the New York Stock Exchange. And what do you think of those chances? And secondly, won't the London markets then – is it FTSE – is that, I guess – would register them?

MR. LUCAS: I mean, there are different levels of listing. You can have, you know, ADRs – you know, there is over-the-counter market level one, two, and three ADRs. And I think the great thing about the transparencies in these rules is it enables you to find things out. And I loved it when Wimm-Bill-Dann, the juice company, this weird juice company, it seemed to have the right to sell juice in every supermarket in Moscow. Nobody else had the right to sell juice there at all. And they came to the New York Stock Exchange, and they had to do an SEC filing.

It is still there on the website; this is great reading. It says things like, the founding member (?) who has spent extensive periods in jail for organized crime, and may still be subject to criminal proceedings, you know, for various, and blah, blah, blah, blah. It said, you know, the way in which the company acquired its assets at the

beginning is open to legal challenge. I think it even mentioned that they are frequently referred to as being members of the Solntsevo mafia group.

And it was all – I just said, these were all in the SCC filing because there were banks that said, guys, if you want to get on a listing in New York, you have to do this. And so, you know, they did it. And it was all there, we read it. And in a way I thought, well, fair enough. I mean, you may be a bunch of murderous bandits, but at least you're admitting to be murderous bandits – (laughter) – and you are now trying to have, you know, you're going to the trouble of trying to come into the Western stock exchange. And then, you know, you'll have other shareholders and to some extent, you may be trying to benefit them and that may mean you run your company better. So, you know, I wouldn't say hats off. But I would, you know, it was better than if they hadn't done it.

So that's what I feel. I mean, these markets have rules. Let's just make sure the rules are tough and that they are enforced, and we don't get some kind of exemptions being made or kind of fake answers being given that enable them to get away from scrutiny. But let's, you know, if Gazprom does that, I'll presumably have to explain in their related party transactions what their dealings are with RosUkrEnergo. I'd love to know.

Q: Cathy Cosman, U.S. Commission on International Religious Freedom. Yesterday I asked you about what I think is the way in which Russia, or I should say the Kremlin, is building a wall around itself in many respects. And one of them, you mentioned that Nashi has been closed down, at least for now. But there are other similar groups. In fact, there has been a group formed that is similar to Nashi for the under-12 set.

MR. LUCAS: Mm-hmm. They are called the Mishki.

Q: Right. (Chuckles.) I could never quite get the name. But in any case – but there is another group that is perhaps even more noxious called Mestniye –

MR. LUCAS: Yeah.

Q: – which actually engages in xenophobic attacks. So I have been seeing, in fact, just today, Itar-Tass did a pretty specific report on xenophobia in Moscow, which I thought, obviously, is a good sign. And apparently, the Moscow police have finally set up a unit to protect foreign citizens in Moscow although, of course, that didn't help the citizen of Kabardino-Balkaria who was badly attacked recently. But in any case – so that is one aspect of this growing phenomenon, I think. But another aspect is the cult of the state. And I think it's connected to these groups. That is vis-à-vis internal politics. But on the international scene, I think Russian exceptionalism is also a very important part of this way in which Russia wants to be perceived and –

MR. LUCAS: Yeah.

Q: – perhaps perceives itself. And there is an international organization I'm particularly interested in called OSCE, which Russia is particularly active in and –

MR. LUCAS: You say Russia has ruined it.

Q: Well, I'm more of an optimist on that front. That's another discussion. But I'm just curious if you could spell out your – some of this aspect of what is going on in Russia today.

MR. LUCAS: Well, I mean, I have a lot of, yeah, quite a bit about Mestniye in my book and they are really obnoxious, and you know, Nashi is by far not the only one. And to some extent, I worry that the Kremlin may have unleashed something it can't control because once you teach young people that politics is fun and how to organize a demonstration, print flyers, you know, organize a meeting, beat people to death, that kind of thing, you know, then they start doing it freelance.

And so I think that is – I think the cult of the state is – it's interesting. I mean, I have a chapter or a section in the book about vocabulary, because of these words that don't really translate into – and what is a – gosudarstvenny. You know, man of state doesn't sound right. Statist also doesn't right. There is a – vlastny vertical – the whole Russian political vocabulary needs quite a lot of elaboration before we can even make sense about what people are talking about.

But I feel – basically I think sovereign democracy, this mixture of autocracy and nationalism and orthodoxy was invented by, I think, Uvarov in Nicholas I, and it pretty much fits what we have got now. And it may be the dominant – I hate the word narrative because it sounds kind of academic – may become a dominant story. But there is another story. There is the story of Herzen and of Akhmatova and of Sakharov and of these demonstrators that I mentioned; you now, this is not the only slice of Russian history.

And one can place this game of what would happen if Putin was writing British history books or American history books and, you know, you'd find that rather unpleasant or authoritarian figures. You know, J. Edgar Hoover would be portrayed as an absolute hero, a really strong man who made criminals frightened rather than being, perhaps, a rather questionable head of the FBI. McCarthy would be elevated as a great fighter for freedom rather than someone who, perhaps, discredited the anti-communist cause. And you can play all sorts of games by taking countries' histories, pulling strands out, and trying to make a story of them. And I think what we can do is just, as I said earlier, we have to fight a historical fight and show that there are other ways of looking at this. The way that Kremlin tells it isn't the only way.

Q: To what extent has fear penetrated the population? Either of these extreme groups or of the state?

MR. LUCAS: It depends who. I mean, I think the – and what I noticed is that my friends don't want to talk on the phone anymore. We do Skype Chat. That is still regarded – and often from other people's computers because that is – you know, the days when you could just pick up the phone and have an interesting conversation about what the FSB is up to, they are gone. I don't think they have succeeded in creating a widespread climate of fear about meeting foreigners in general. But it is true, I mean, people now get hauled in by the FSB for having had meetings with foreigners. There is

multiple occasions of this happening. And those old authoritarian reflexes in the state are there. And I think that things are still pretty chaotic. It's a big country. There is still a lot of freedom about, and particularly the freedom to travel, which is very important.

In the end, if you don't like it you can always go abroad. And that acts as a kind of safety valve, so it doesn't have that kind of pressure cooker feeling that you remember from the Soviet Union, that they are out to get you and there is no way you can get away. But there is also – the trajectory is bad. Things that seemed impossible four years ago seemed ominous but unlikely two years ago, seemed ominous but likely one year ago and are happening now. So I can't really cast any distance.

Q: Good afternoon, thank you very much. Jim Mault from the Department of Defense. You ruled out the military portion of the previous Cold War. Can you comment a little bit about the military now with the Kuznetsov cruising the Mediterranean and the provocative actions of long-range aviation going on at the same time that we are having a major Russian-U.S. exercise in Germany together?

MR. LUCAS: Yeah.

Q: Kind of a discontinuity between one hand and the other.

MR. LUCAS: I feel slightly awestruck that I should be telling the Department of Defense anything about this. (Laughter.) But thank you for giving me the opportunity to display my ignorance. The Russian military is a husk of the Soviet military. And you can just go to warfare.ru and they have it all there in both English and Russian. You can just see – I think there is exercise in the Bay of Biscay with pretty much their entire seaworthy service fleet. I think they have got roughly 20 ships, 20 big ships that are actually capable of going to sea. And even some of those because Kuznetzov's record of breakdowns is not great. So the Navy and the submarines are super silent, but we have seen from the cusp that there are some problems there.

The aviation is antique. I mean, some of these planes that they are sending to buzz on these – bombers on the rest of it. This is a tribute to – they should be in a museum of military aviation. Really. And the idea that they are part of some kind of offensive capability is fairly distant. And perhaps the most glaring thing is that continuing dreadful failure to reform the Russian land forces. And if you haven't read Babchenko's book about the military meaning of dedovshchina the institutionalized hazing is still going on. It's still a real mess. And when they try and put money – and what happens is the generals buy BMWs, but it doesn't seem to penetrate down to better living conditions for the troops, let alone more sophisticated training.

So from that point of view, it all looks pretty bad. But – there are some buts. One is that they are tracking a lot of money into it. Now depending on how you count it, their defense budget is one twentieth or one fortieth or somewhere in between of the United States. But still that is quite a lot of money if your adversary is Georgia or Moldova or even possibly Estonia or Latvia or Lithuania. There is enough there to do damage at least to some adversaries. And it is going up remarkably quickly. It's a very, very rapid increase. Now Pavel Felgenhauer argues, and I suspect rightly, that the military industrial base is so rundown. They don't have the skills. They don't have the

subcontractors to make the most of the money they are putting in. Certainly they ordered 10 new aircraft carriers, but they don't have a shipyard capable of even repairing the one they are trying to sell to India. So from that point of view, it is still not to worry.

What I do worry about – and, you know, I have no inside information on this – is I worry about their sales of advanced weapons. I think the Shkval for example, this underwater rocket, which travel – it's a supercavitation. It sounds like something from, you know, like supercalifragilisticexpialidocious. But supercavitation is actually not Mary Poppins; it's scary. It creates a cone of water vapor. It means it can go very fast, maybe, you know, 200 kilometers an hour underwater. And that is quite scary if your navy relies on aircraft carriers because it's not – I mean, there may be some countermeasures. But that's – and if they start selling that to the Iranians or selling the technology to the Iranians or sell it to the Chinese, which I read is happening; or if the Yakhont, you know, the Moskit – the very fast ship-to-ship missile; these are things that can, you know, change the calculation about whether we send a carrier group – we, America, you send a carrier group to defend Taiwan or what happens in the Straits of Hormuz.

So, you know, there is a kind of asymmetric threat from Russian advanced weaponry, which is different from what they can actually do in terms of the old-fashioned global confrontation where we said we have 70,000 tanks, you have 70,000 tanks. That era is over. And I think with a population of 140 million in their demographics, I can't see it coming back. But it's, you know – what is really troubling is that they feel the need to do this. That is the really – why on earth are you having staff exercises? And they were only staff exercises, but they were having staff exercises on how to recapture the Baltic states. What possible reason is there for doing that?

MR. SHIPLER: Well, do you think they might want to recapture the Baltic states? (Laughter.)

MR. LUCAS: I mean, I would like to think that Article 5 would make me think that was a bad idea. But, you know, one of the things about Article 5 is it's great until – you know, we haven't had to test it. And I heard from friends in Brussels that they had been doing some paper exercises on how to reinforce the Baltic states if it came under – if the Baltic states came under threat because you know NATO actually only has – and we have four competent Belgian planes – we have a very small squadron of Western fighter aircraft that you seem to miss everything important that goes on. So it's not as if they're – So I think the Baltic states are a bit like West Berlin really. I mean, they are symbolically vital, pretty much indefensible, and we use them as a trip-wire. You know, if you attack them, very bad things are going to happen elsewhere. But that's not a huge comfort if you're actually living in the Baltic states. So I have no idea. This may seem laughably ignorant; it may correspond exactly with your perspective. If you want to talk afterwards, I'd be delighted.

Q: Dan Kazmer, George Washington University.

I'm intrigued by the – your mention of Gazprom trying to list on the NYSE. Could you comment on the pluses and minuses from the Russian point of view as far as the degree to which that could either limit them or make them better behaved? And from

the Western point of view about basically – you know, if it turns out that a lot of U.S. pension funds end up holding a lot of Russian companies. There is a stronger interest in maintaining good relations with Russia.

MR. LUCAS: Yeah. I think – the thinking among the oligarchs in the 1990s used to be steal as much as you can as fast as you can, and that worked pretty well. And what Khodorkovsky did was to say there may be another way of doing this. Let's see if we can get the share price up. And he did that. I didn't believe he was going to do it, and when I arrived in Moscow in '98 one of the first articles I wrote was called, "Oily Charm." And it was about the fact that Khodorkovsky had just hired, I think it was Burson-Marsteller and a western investment bank, the whole sort of pinstripe brigade, to try and improve his image. And I had been covering all the vows with Kenneth Dart and so on, and I thought this was almost laughable. I said, you know, here you have got this guy with his Komsomol background, everything they have done surrounded by gorillas, whose aides refused to speak when you talked to them, won't give out visiting cards, and headquarters guarded by men with some machine guns. This is not to be taken seriously.

And over the next four years, I watched Khodorkovsky prove me wrong, and he turned it into the most valuable company in Russia. The share price went – at the time I wrote that article saying he couldn't do it, if I had put $1000 into YUKOS shares, they would be worth $16,000 by the time I finally apologized to him. And it was almost the last thing I did before I left Moscow. I went up to him at a party where he was no longer surrounded by gorillas but just by one fairly well-built – it must be admitted – but fairly one well-built assistant. And I said, I want to apologize; you know, I didn't think you could do it, you did. You have become a very rich man and Western shareholders trust you, and that is an achievement. And I think that lesson has not been lost on other people. But if your wealth consists of shares in Russian companies and you see that being traded on Western exchanges pushes the share price up, that will make you a lot richer, perhaps more richer than stealing.

Now, you know, the calculus will be different in each company and so on, but you know, that is why they want to get onto us in the financial market. It's partly they want to raise money, which they badly need because they need to invest and modernize. But also, if they own shares, then they become richer. And that is illegal, we can use that.

MR. SHIPLER: While we're waiting – oh, go ahead.

Q: Hi, Margaret Anderson.

Mr. Lucas, you mentioned earlier about the role of truth telling and challenging official lies, and I was wondering. You knew Anna Politkovskaya and what you see as the role for journalists in the current Russian political climate; if there is a role for the press or if it has already been muzzled to a point of ineffectualness.

MR. LUCAS: Well, you have to be really, really brave if you're a Russian journalist. I mean, you don't have to be really brave if you write about sport, write about consumers, consumer trends. I mean, 95 percent of Russian journalism is not about politics. You can sit – I was in Odessa the other day and I zapped through 99 channels, Russian language channels on cable TV. None of it was about politics. Game shows,

you know, quiz shows, all this sort of stuff. You can make a very good living in the Russian media and never get your fingers dirty with politics. And in that direction, a lot of people have gone because it's lucrative, easy. What is left is Ekho Moskvy which is, let's not forget, owned by Gazprom. Gazprom Media is the majority shareholder and they are there on license. It's a kind of token – it's good and I listen to it online; I recommend you do. They have good journalists, some of the refugee journalists from other channels. But, you know, that is pretty much it as far as radio is concerned.

There is New Times which is good, but gets no advertising. If any of you have any control over anybody's advertisement budget, take out ads in New Times. I suggested that the Georgian and Estonian tourist boards took out large advertisements, as they at least couldn't be intimidated by the Kremlin. And New Times is struggling because it gets no advertising. It you advertise in New Times it is seen as an anti-Kremlin statement. Who wants to do that? Novaya Gazeta is more mixed. Sometimes it publishes very good stuff; sometimes it publishes nonsense. Many people here know the Russian media much better than I do. There is still a lot of interesting stuff to read, and there is a lot of brave journalists who find ways of writing it. But, like I said, the trajectory is in the wrong direction and the space – the corridor is getting narrower and narrower all the time. And I don't see – if Medvedev wanted to have a charm offensive one of the things he could do would be to loosen up on the media, but we shall see.

MR. SHIPLER: What is the experience of Western journalists in Russia, and how difficult is it to get visas now?

MR. LUCAS: I think at the last count there were eight British journalists who couldn't get visas. When the foreign office raised it with the Russians they said five of them can try again, three shouldn't bother. So, you know, you get on the black list, you can't get off the black list. It's not quite like in the Soviet Union, where once you have been deported once you never get back, never get back in again. You are risking other people's perhaps livelihood and perhaps security by talking to them if you have a confidential source in a Russian government organization who tells you things that are interesting. He may get a visit from the FSB if they find he has been talking to you, particularly if it's the kind of media they don't like.

I wouldn't say we're back to the kind of clandestine days of trying to meet people in newly plowed fields during howling gales. But it's always pretty tricky. But I think, you know, there is a degree of caution. We are aware that what we do can get people into trouble and so we have to be a bit careful. And that inevitably, of course, makes the circle of reporting of sources a bit narrow. You know, it would be nice to be able to phone up people in the Kremlin and be told real things, and then write what they really think and answer questions when I ask them. You know, are you just crooks or do you really believe –

(Laughter.)

Q: Don Jensen from RFE. Thanks Ed, great to see you again. I want to ask one of the big questions, which is transition to what? What is next? A lot of people in Washington still think about transition to democracy and free markets act perhaps correctly, but talked about as though Putin's rollback would have been a more or less

kind of endpoint. This is something we spend a lot of time on, worrying about, arguing about; I want to know what your thoughts about it are.

MR. LUCAS: Well, as an economist, I know it's much better to predict the past than the future. I don't know. I mean, one can see this Chekist experiment running out of steam. There is a brilliant paper by James Sherr, S-H-E-double-R, called "Reassessing Russia," which is from our British military think tank, which is about one millionth of the size of its counterpart in America – our counterparts in America. But he says, just sit back and let the contradictions work themselves out. These people are not just crooked and scary, but they are also incompetent.

And you know, Gazprom has not brought a new gas field on stream from scratch. And its history was a partial exception; it was Zapolyarnyy. But that was actually the work that was actually done earlier. Russia is facing a gas shortage. (Inaudible) – builds power stations, Gazprom can't deliver the gas to run them. They have had mild winters; you know, a harsh one would show that up. They are very dependent on gas in Turkmenistan and we don't know how much gas there is or how much access they are going to have to it.

So if I'm being optimistic I think, you know, the key thing we can do is to regain our moral authority because the end of the Cold War brought two things in conjunction. The West looked admirable and enviable just at the time that the Soviet system had really collapsed. Now my worry is that – and my best Russian friends, they are not particularly political, say, actually, what is really the difference between Putin and Berlusconi? You know, you have got organized crime at the height of power. You have got a top politician who owns all the television stations. You have got a media – you know, politics becomes a kind of meaningless soap opera and most people get on with their lives. What is really the difference? Why should we mind so much about Putin when so much of what he does is replicated in the West?

And so that is why I feel that the new Cold War is not just a struggle between the West and the Chekists and the Kremlins. It's a struggle within Russia for the future of Russia because these people are bad for Russia, and it's a struggle within the West as well.

Q: We have the Enron.

MR. LUCAS: Yeah, Enron and Gazprom. Lady in the back there –

MR. SHIPLER: In the back, yeah.

Q: I'm Daria Solovieva –

MR. LUCAS: Louder please.

Q: Daria Solovieva. But my question is a lot of the rhetoric you're using, the Cold War rhetoric, sort of serves to – I haven't read your book yet, but I have seen on the blog you have mentioned that you're suggesting eliminating Russia from the G8. And I

feel that a lot of the rhetoric serves to ostracize Russia. How do you feel that is helping to mitigate or really minimize the threat – I'm assuming that is your goal?

MR. LUCAS: Well, I don't quite argue that in the book. And when you buy it and get to the end, you'll – I'll give you a quick preview. I think we have to separate stuff that is due to pragmatism and stuff that is due to values. Now I think we should be engaging Russia much more than we have done, for example, on strategic nukes. I think this administration has been wrong in saying, you know, we have lots of nukes, we don't have to talk to anybody. And I think it doesn't make – and I'm not a great expert on this – but I don't think it makes America safer if Russia – if the strategic balance is so skewed in favor of America, but Russia goes to launch on one because it's arsenal is so – it's worried about its first strike. I think we should be talking about space. You know, Russia is a space power and I really feel strongly you need to talk to all – particularly Russia, not least to stop the Chinese doing stupid things. We can talk on Afghanistan, it's not as if it's going so brilliantly there with us doing it on our own; global warming, all of these big issues. Russia is perhaps not a giant country like China or India, but it is a big country and we should be – so I think there has been a failure to some extent to engage on these big issues.

But then there is a separate basket, which is about values. And Russia joined the Council of Europe when the trajectory was very different, when it looked as though – you know, with a lot of bumps and lots of imperfections, but Russia was moving towards the same sort of model of political freedom and legality that characterized the other members of the Council of Europe. That has stopped; it is no longer the case. We have, you know, the midnight interrogations of people working in the British Council, psychiatric incarceration of dissidents happening again and again. Once could be a terrible mistake, bureaucracy gone bad; twice, pretty scary, where is the official inquiry? Three times, help. Four times, five times, six times, you know, this guy in – (inaudible) – who has been – his family still don't know where he is.

It took 40 days to get Larisa Arap out of the psychiatric hospital in Murmansk. But it was front page, you know, this is something the Kremlin feels no shame about that it's reusing this tactics from the past. Coupled with this extraordinary xenophobic rhetoric and if you're comparing America to the Third Reich, you can't then expect to sit down, you know, family vacation – first of all, I call you a Nazi and then I want to sit next to you – you know, come to your house for Thanksgiving. It doesn't make sense. We have to make it clear to the Kremlin words and deeds have consequences, and if they want to continue to spout this xenophobic rhetoric and continue to – you know, firing themselves at Georgia, cyber tanks, attacking the Estonian embassy in Moscow, all this stuff, we do not take those faraway countries of which we know nothing. These are allies; these are friends that are being attacked. Then there have to be consequences.

And so the first recommendation, I think, is Russia cannot be a member of the Council of Europe until things change. On the G8, I have always thought the G8 was a botched compromise because even on economic terms, Russia is not – it makes much more sense to talk to Russia the same way as we talk to China and India and Brazil as a big emerging market, and that is absolutely fine. We have lots to talk about. Global imbalances, reform of the IMF, absolutely great. So let's have a G12 or a G14 and talk about these big global economic issues and we can talk about it to everyone.

If there is going to be a democracies club then it has got to be a democracies club, so that is, you know, a nuance on that. I think we have to send a signal that this is not anti-Russian or anti-Russia. It's the Chekist and the Kremlin and the things that they say and that they do that we object to. When that stops, we'll be delighted because Russia actually belongs in the West. And among the most – I write about this in the book, but one of the really striking things in this sort of pathetic contortions that the Kremlin has gone into trying to find an independent foreign policy; you know, Russia clearly too weak to stand on its own. Fine, so you need friends.

First friend, China – actually, as Piontkovsky says, any alliance between Russia and China is an alliance between a rabbit and a boa constrictor. Now, you know, the Kremlin may claim it is frightened about, you know, NATO is coming to our borders. They are 1000 times more frightened of China than they are of NATO, so all of this Shanghai Corporation organization and stuff like that, it just doesn't make sense. China doesn't even like it because China thinks that all this Kremlin posturing is stupid. They have a much more long-term, different attitude.

So then there is the Muslim cart. If Putin goes off to Kuala Lumpur and sits through these disgusting anti-Semitic speeches from the people like Mahathir, and says, you know, Russia is a great friend of the Muslim world and, you know, this and that. Iran, Chechnya? You want to be a great friend of the Muslim world when you have launched this genocidal attack on the Muslims? And what actually – you know, if you're a kind of nativist, kind of chauvinist Slavic Russian, you might be quite scared about the Muslim birthrate inside Russia. So if I was putting it crudely, one could say – and I wouldn't endorse this – but one could make the characterization that Russians hate Muslims and the Muslims hate the Russians. So that is clearly not an option.

So what is left? Friends with the West, fine. Russia is a European country, great. But Russia can't be friends with the West. You cannot just be friends with Germany and try and stiff Estonia. You know, the West is not about bilateral, old-fashioned kind of, you know, Concert of Vienna relations that, you know, Russia and France can be friends. It's about values. And then two, I think it's this Stalinist ghost, the NKVD ghost that hangs over it. Once that is gone, once that historical hang-up is gone, then Russia can be a Western country and nobody will be more pleased than us.

MR. SHIPLER: To what extent, do you know, is there cooperation between Russia and the West on counterterrorism? Is there intelligence sharing or other such –

MR. LUCAS: Well, I mean, last time I was looking at the secret file – (laughter) – which we get copied in on at "The Economist" – I don't know, I just don't know. And I think that there is some overlap. And I think cooperation was quite good after September the 11th. And, you know, the KGB ought to know quite a lot about Islamic terrorism given some of the links that existed a few years back. And, you know, I'm sure it was useful to share that. But, you know, I think it's the sort of stuff you just – and as an outsider, you can never really know what is going on. And if it's good, they won't say anything; if it's bad, they won't say anything.

What I do know is that the FSB's involvement in the Litvinenko murder has frozen that as far as Britain is concerned. You know, we are not talking to the FSB for the seeable future because of this act of nuclear terrorism, perpetration on the streets of

London, which killed a British citizen and endangered the lives of scores of others. And that was a big deal in Britain and I think they didn't realize when they did that how badly it was going to be received.

MR. SHIPLER: Yes?

Q: You mentioned Sherr's paper and he makes a very important point, that energy dependence is not a one-way street, that Russia doesn't have the infrastructure to send a lot of their energy the other direction, they have to send it to the West. In that connection, what do you think might happen at some point in time, one, because of economic circumstances there is a real serious bump in the road. What does that mean for the leadership in Moscow? Those who want to go in another direction saying this is impossible to continue this, you know, just stealing and manipulation, et cetera, et cetera. And others say we have to get real and become a modern democratic society or something equivalent to that. Is that the basis for a conflict?

MR. LUCAS: Hmm, well, I do really recommend reading Vladimir Milov's stuff on gas. I think it's energy.ru – it's in English and in Russian. He's a former energy minister who has analyzed in really quite scary detail the weakness of the Russian – and particularly on gas, and there are references to it in the book and they are on my website. And how Russia copes with the gas shortage is very interesting. I mean, the country that knows Russia best and the companies that know Russia best are the Germans. They have signed 30-year gas contracts with Gazprom.

Now, my suspicion is that as the internal price rises and keeps going up, you know the relative lucrative – you know, becomes relatively less lucrative to export to faraway countries. It used to be that Western people paid real money and nobody else paid anybody, so you sold to them on the West. Now they are charging the Ukrainians more, they are charging Belarusians more; you know, they are charging the Russians themselves more. So, you know, the benefit of export diminishes. When there is less export gas to go around, well, there is going to be a line and the Germans are going to be at the front of it. I wouldn't want to be at the back.

And this is a weapon they are using right now. At this moment, they are in talks with the Romanians because the Romanians have a kind of, not quite spot price, but very short-term contracts and they pay a lot. And Gazprom is saying to the Romanians, you do a long-term gas contract with us and let us buy a chunk of your gas infrastructure, and we will give you a long-term deal at a lower price. And the Romanians think, well, that's the Russian offer; where is the Western offer? And, you know, deafening silence from Brussels. He has continued to believe that Nabucco is going to be built and if you want Tinker Bell to live, everybody who believes in fairies had better clap their hands.

Asta?

Q: Edward, you haven't spoken about Belarus, you spoke about Ukraine. What can be done to help the Belarusian democrats, small D? And in talking to Central and Eastern Europeans, do they actually believe that Western Europeans and the United

States would help them if the Russian military got out of control, or the xenophobia got out of control, and there were in fact troops parachuting in?

MR. LUCAS: Two excellent questions; two probably rather uninformative answers. On Belarus, we have got a choice and it's a very tricky one, and I genuinely don't know what the answer is. Do we continue to support the pro-democracy people who, to put it mildly, have not been very successful so far but are our comrades-in-arms. Or do we try and engage with the people who have murdered some of them and locked many of the other ones up in order to try and save an independent Belarus. If the Kremlin, you know – in five years time, there may not be a Belarus. It may be five oblasts of some new Belarusian-Russian super-state, and I just don't know, I mean – the Poles are the people to watch there. They know Belarus very well. They are trying very discreetly. I mean, it was very interesting; Radek Sikorski, who is no softy when it comes to Russia and no softy when it comes to democracy, you know, he has received the Belarusian ambassador at the foreign ministry in a, you know, very formal way to make it clear that Poland is ready to talk to the Belarusian nomenklatura.

Now, for those talks to become substantive some things have to happen. Now, we're not demanding the immediate dispatch of Lukashenka to a dacha (?) on the Montenegrin coast or even a full independent inquiry into the murders but perhaps, you know, let a couple of people out of jail. Give us something. And the nomenklatura, the response to the nomenklatura, has been quite positive. There is a lot of people there who do not wish to end up as provincial civil servants in a Russian super-state and they are pretty scared. And oddly, Belarusian nationalism of the red-green kind has actually strengthened under Lukashenka, although the red-white nationalism has failed to sort of ignite from the efforts of the opposition.

So the problem is that, is Lukashenka because he ain't playing. He does not respond to rational stimuli. What do we do? Maybe he is going to eat something bad one of these days or get a bad cold. If I was him, I would be watching what I eat.

MR. SHIPLER: I think we have time for one more question if there is someone who would like to ask it. Yes?

Q: I understand that a lot of what you described in there is very few things to be enthusiastic about in the Putin government. But you have also suggested that there is very few alternatives, and you described the Communist and the Fascist movements. So what do you say to those who are saying this is far from being the worst alternative there is?

MR. LUCAS: Yeah, it could be a lot worse. You know, I remember in 1993, when I was living in the Baltic states, and Zhirinovsky won 23 percent in the parliamentary elections. And people were seriously saying he could be Russia's next leader. You know, that was pretty scary. I mean, he was proposing to blast nuclear waste across the border with radioactive fans and incorporate Finland back into the Russian Federation. You know, it was very nearly a coup under Yeltsin when Korzhakov said this election is too risky. It can always get worse.

And as I said at the very beginning, I don't know if you were here, I am not saying in this book that everything that happened under Yeltsin is good. Far from it; I criticize Yeltsin a lot. I'm not saying that everything that happened under Putin is bad. I can see why Russians are glad about stability. The problem is I think it's phony. I think, you know, it is not a stable political system when you have absolutely no idea what is going on, when the success – first of all, there are two successors produced like rabbits out of a hat. And then suddenly Mr. Ivanov disappears and Medvedev's by himself and so you vote for him, guys. You know, this is not – clearly, the feuding inside the Kremlin is highly unstable. We don't know – Anders Aslund, who I agree on a lot of things, I don't think he got this one right. He wrote a piece in the Moscow Times the other day saying there could be a coup because Sechin is so fed up with the way that his clan has been sidelined.

I think the – what did Putin do right? Fiscal consolidation was very good. I mean, the inability of the state under Yeltsin to collect taxes properly was very destabilizing. And, you know, the finance ministry functioned really pretty well. I think in the first land legislation, the Kadaster and all that, that was good. That was something that – I mean, most of the reforms had been started under Yeltsin and a lot of them hadn't been completed. Some of them were completed under Putin; some things were brand new. The flat tax. That was great, you know. It has worked everywhere and it worked in Russia. But the reform tailed off pretty quickly and after the revolt over the reform of komunal'niye usloviye we practically didn't see anything.

The administrative reform, which is so important, something that every post-Communist country grapples with just trying to turn an ex-communist bureaucracy into something that is efficient and responsive and accountable and transparent is really difficult. This has been going so much in the wrong; I mean, every Russian I know complains about this vast predatory bureaucracy at all levels, which is so greedy and the – (in Russian) – on the efforts of the private sector.

Now, I hope that is going to be, you know, a stimulus for fiscal change because people don't like paying off incompetent bureaucrats and seeing their taxes wasted on Mercedes and mistresses and high living, all the rest of it. But yeah, if you ask me who would I vote for if I was a Russian I'd agree it's really difficult. You know, it's Zyuganov or Putin, great choice.

(Scattered laughter.)

MR. SHIPLER: Well, thank you very much.

MR. LUCAS: I'm sorry, Medvedev or Zyuganov.

(Laughter, applause.)

(END)