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Russian-British relations: a co-operation without a reset

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The United Kingdom is the only large EU member state not to have close, friendly relations with Russia. The key reason for this seems to be the lack of readiness in London to make the economic concessions Russia expects. Prime Minister David Cameron's visit to Moscow on 12 September – the first in several years at this level – fits in with the efforts his government has been making for a year or so to improve mutual relations. Although it failed to bring the breakthrough, it nevertheless confirmed that both countries, despite their political differences, are willing to continue their pragmatic economic co-operation.

The cooling of Russian-British relations

Russian-British relations, which were very good in 2001–2002 (for example, the then Prime Minister Tony Blair was the main initiator and advocate of establishing closer NATO-Russia co-operation), became significantly colder later. This was caused by problems regarding both political issues and economic relations.

Russia viewed the United Kingdom's granting of asylum to political refugees from Russia and its refusal to extradite them as hostile actions. This in particular concerned Boris Berezovsky, an oligarch linked to political opposition circles, and Ahmad Zakayev, prime minister of the Chechen government in exile. On the other hand, the death in November 2006 of Alexander Litvinenko, a British citizen and a political refugee from Russia, who was poisoned with radioactive polonium, coupled with the Russian government's refusal to surrender Andrei Lugovoy, a former officer of the Russian secret services, who was suspected of this crime, gave rise to a serious crisis in bilateral relations. One of the measures the British government took at that time was the decision to freeze co-operation between the two countries' secret services.

What brought about an even stronger deterioration of relations between London and Moscow were economic problems, especially the British government's *de facto* blocking of Gazprom's attempts to expand into the lucrative British natural gas market in 2006–2007 (an unsuccessful attempt to take over a major stake in Centrica, one of the leading gas distributors in the United Kingdom), and on the other hand problems encountered by British energy corporations on the Russian market. In 2007, the Russian-British joint venture, TNK-BP, was forced to make the decision to relinquish its project aimed at production at the Kovykta gas field, and the British-Dutch corporation, Royal Dutch Shell, was forced to hand over to Gazprom its controlling stake in the Sakhalin-2 project aimed at the extraction of natural gas and crude oil and LNG production.

Attempts at a reset

The new British government, a coalition of Conservatives and Liberals, led by David Cameron made attempts to reset Russian-British relations in 2010. Cameron met four times with President Dmitry Medvedev at various international forums. In autumn 2010, in order to meet Russian expectations halfway for support with modernisation processes, the British side sent to Moscow a concept for establishing closer bilateral scientific and technological co-operation under the title 'Knowledge Partnership'. Russia reacted favourably to these initiatives, expecting however more serious economic offers from London. An opportunity for enhancing Russian-British relations in this area seemed to have been offered by the talks between BP and Rosneft, which in January 2011 resulted in an agreement being signed on strategic co-operation covering for example extraction from gas fields on the Russian Arctic shelf, which provides for a partial exchange of assets between the two companies.

This agreement was formally blocked by the Russian partners in the TNK-BP joint venture, who demanded it be revised or that there be compensation from BP for breaching its obligations towards them. However, there are many hints indicating that their actions were closely consulted with the Russian government, which wanted to force BP to make further financial concessions or – which is more likely – to hand over more of its assets to Russian entities. However, BP chose not to do this. It was also not without significance that the British government, without having expressed its official stance, was *de facto* critical of this deal.

Prime Minister Cameron's visit

Given this background, the British prime minister's visit to Moscow could not be expected to bring about any positive breakthrough in bilateral relations. Its most important result seems to have been the confirmation of the readiness of both sides to develop economic co-operation regardless of the existing political differences. An expression of that was the *Declaration on a Knowledge-Based Partnership for Modernisation* signed by Prime Minister Cameron and President Medvedev and the memorandums which accompanied it (see Appendix 1).

The visit did not settle the existing disputes between the United Kingdom and Russia. For example, both parties confirmed in public their respective firm stances on the extradition of Lugovoy (according to *Kommersant* newspaper, the British side rejected a solution put forward by Russia: a joint investigation, and if Lugovoy was found guilty, he would serve his penalty in Russia). A great difference of opinions was also revealed in the approaches to the Syrian issue (while Prime Minister Cameron insisted that Assad's regime should be removed from power as it had lost legitimacy, president Medvedev opposed the imposition of UN sanctions on Syria). The atmosphere of this visit was also affected by the searches of the Russian offices of BP in late August/early September, which was linked to the failure to reach a strategic agreement between BP and Rosneft (the Russian court which passed the decision on the confiscation of BP's documents however cancelled it following a conversation between Prime Ministers Cameron and Putin).

A co-operation without reset?

One reason for the problem of making a reset in Russian-British relations seems to be the lack of readiness from the British side to pay the economic and political price which the Russian government expected to receive for it. Apparently, the unsuccessful BP-Rosneft deal seems to have played a major part in the prevention of a positive breakthrough in Russian-British relations (the discord over the Litvinenko case had a smaller impact). This is due to the fact that the potential benefits of closer relations seem limited to both parties. From the point of view of Russia, the United Kingdom, despite being one of the key EU member states, has a significantly weaker influence on the EU's policy than Germany or France. It is also either unable or unready to offer Moscow attractive joint infrastructural projects, access to its domestic market or closer military co-operation. For the United Kingdom, Russia is an attractive market, including in the energy sector, however not sufficiently enough to be offered important British assets. London is interested in good political relations with Moscow, but it is not using these relations to improve its position within the EU and is also not ready to sacrifice its principles for their sake.
However, on the other hand, regardless of problems in bilateral relations on the political level, Russian-British relations in the area of trade and economy have been quite good over the past few years (see Appendix 2). Russia sees the potential benefits the promised limited transfer of British technologies offers and wants British companies to make investments, especially in sectors other than energy. The Russian market, despite the existing difficulties, is still attractive for the United Kingdom and the many British companies operating on this market (the British energy giants are also determined to stay there). All this will contribute to a continuation of economic relations between Russia and the United Kingdom, however without a particular rapprochement between the two countries.

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Appendix 1
Documents signed during the visit
1. *Declaration on a knowledge-based partnership for modernisation* (envisaging for example co-operation, including technological, in various sectors of the economy and science, fostering contacts between business circles, scholars, young people, etc.).
2. *Joint statement on cultural co-operation* (listing joint projects to be implemented in 2011–2013).
3. *Memorandum of understanding on co-operation on joint scientific research and the development and commercialisation of innovative technologies in the common interest* (concerning co-operation with the Skolkovo innovations centre, which is being created, including in the area of energy-saving technologies).
4. *Memorandum of understanding on the Russian Foreign Direct Investments Fund* (providing for facilitations to British firms investing in Russia and Russian firms investing in the United Kingdom).

5. *Memorandum of understanding between the Open Joint-Stock Company RZhD* [Russian Railways] *and the government of the United Kingdom of Great Britain and Northern Ireland, represented by UK Trade and Investment* (envisaging for example co-operation on the modernisation of Russian junction railway station).
6. *Memorandum of understanding between Rosatom State Nuclear Energy Corporation and Rolls-Royce* (concerning supplies of equipment to nuclear power plants).
7. *Memorandum of understanding on co-operation on the creation of an international financial centre in Moscow* (the aim of the centre's operation is to act for the benefit of the modernisation of the Russian economy and to render financial services to the parties).

Appendix 2

British-Russian trade and economic co-operation

Trade turnovers between the two countries in 2010 reached US$15.9 billion, and US$10.1 billion in the first half of 2011 (US$22.5 billion in 2008 and US$12.6 billion in 2009). The Russian president said that British companies had invested US$40 billion in Russia thus far, mainly in the energy sector. (According to other data, total British investments in Russia account for 7% of all FDI and rank the United Kingdom sixth among all investors). Hundreds of British firms are present in Russia (according to other data, as much as over one thousand). These include such petrochemical giants as BP (present in Russia since 2003 through the joint venture TNK-BP) and the British-Dutch Royal Dutch Shell, as well as firms from the pharmaceutical, food, trade and industry sectors.