

EU-Russia Relations

Time for a Realistic Turnaround

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CREDITS

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Executive Summary

The EU's relationship with Russia is crucial for Russia's economic and political development, the stability of the region, the security of the EU's energy supplies and the credibility of its foreign policy. Despite burgeoning economic relations and multiple joint projects and policy initiatives, the relationship has fallen well short of expectations and potential. The EU has toned down its rhetoric about building a 'strategic partnership based on common values', relying instead on day-to-day cooperation in an attempt to help Russia align itself with European norms and rules. But even this more pragmatic approach has produced more frustration than tangible progress.

In this paper, three long-time observers of Russia and the EU perform a reality check on the EU–Russia relationship. Christopher Coker takes a look at the situation from a cultural perspective and asks whether it makes sense for the EU to assume that Russia is 'like us', or at least on a path towards becoming so. His answer is a resounding 'no': he advises the EU to take account of Russia's need to reassert itself and come to terms with its internal contradictions. Leszek Jesień looks at the economic foundations of the EU–Russia relationship. He finds that the EU punches well below its weight, especially with respect to energy, where Russia needs the EU more than vice versa. If the EU had a more coordinated and coherent energy policy, it would find it much easier to speak with one voice and to rebalance its

relationship with Russia. Katinka Barysch traces the ups and downs of the EU–Russia relationship since the early 1990s and explains why successive initiatives, from the energy dialogue to the creation of common spaces, have not produced results. Although Russia has moved towards statism and away from democracy, the EU still defines the success of its Russia policy in terms of positive change within Russia.

All three authors agree that a more realistic EU policy would deal with Russia as it is, not as the EU wants it to be. The reality of today’s Russia is complex, as is the policy formulation process in the EU. Nevertheless, the EU should start with a clearer idea of where its own interests and priorities lie. It should accept that it can achieve fruitful cooperation with Russia in some areas while openly disagreeing with it in others. The EU needs to be prepared to work with Russia as an equal partner without compromising its own norms and values.

Introduction

After a decade dominated by tensions and misunderstandings, Russia's relations with the West are improving. Russia and NATO are talking again, following the low point reached after the war with Georgia in the summer of 2008. The Russian leadership has to some degree sought reconciliation with Poland and concluded a deal with Norway regarding their borders in the Arctic. There is renewed talk that Russia may, finally, join the World Trade Organisation. Moscow has been careful to avoid another energy crisis since the Ukrainian gas dispute in January 2009. Prime Minister Vladimir Putin wants to see more Western investment in Russia; President Dmitry Medvedev concedes that Russia will need Western assistance if it is to modernise successfully. Moscow has become more constructive in helping the US and its European allies try to contain Iran's nuclear programme and stabilise Afghanistan.

President Barack Obama can claim a 'reset' in US–Russia relations as a promising foreign policy success. Easier relations between Washington and Moscow ought to widen the scope for a turnaround in US–Russia relations. Following an encouraging summit at the end of 2009, the EU is hoping to achieve its own reset with Russia.

However, America's relationship with Russia is strategic and conducted at arms' length. Trade is minimal and the US economy does not rely on Russian energy supplies. The

Obama administration is less concerned with internal developments in Russia and more with Russia's cooperation in international security issues. The US, in its relationship with Russia, can define success as a series of deals, most notably a new bilateral disarmament treaty and Russia's support for tougher sanctions on Iran.

The EU–Russia relationship is much more dense and complex. A strong mutual dependence on energy and several thousand kilometres of common border are part of the equation, as are a potentially unstable shared region, a tumultuous joint history and firm expectations on each side of how the other should behave. Unlike America's deal-based reset, the EU still hopes to change not only what Russia does but also what Russia is. The latest bilateral initiative, the EU–Russia 'partnership for modernisation', is grounded in European hopes that President Medvedev's plans for upgrading and diversifying Russia's economy will produce not only sustainable growth but also be accompanied by political liberalisation.

However, before the EU attempts yet another relaunch of its Russia policy, it should take stock of what works in its existing relationship and what doesn't. Despite numerous attempts to build a genuine partnership, EU–Russia relations have remained full of misunderstandings and frustrations. Although the burgeoning trade, energy and investment relationship is clearly mutually beneficial, it is often a source of tension. Both the EU and Russia have an interest in their shared neighbourhood being stable and prosperous. Yet Moscow mistrusts EU attempts to build stronger links with

the likes of Ukraine and Azerbaijan, while the EU fiercely rejects the idea that Russia should have 'privileged interests' in the region. The complex structure of dialogues, policy forums and high-level meetings that the EU and Russia have built up over the years functions poorly.

This publication is an attempt to explain why the EU and Russia find it so hard to get on, obvious shared interests notwithstanding. Although a comprehensive analysis of EU–Russia relations is beyond the scope of this review, the study offers three very distinct perspectives on the realities of this relationship.

In the first section, Christopher Coker takes what he describes as a cultural view. The perspective is in itself controversial: foreign policymakers tend to shy away from ascribing their successes and failures to something as amorphous as 'culture'. However, given how puzzled both the EU and Russia are about their ongoing incompatibility, it is not only worthwhile but also necessary to take a step back and analyse what makes us different and what unites us. Long-standing Russian claims of 'exceptionalism' and more recent feelings about its own resurgence clash powerfully with the EU's main objective of integrating Russia into the European mainstream and making it look more 'like us'. Most Russians will profess to feeling European. However, the dichotomy between Russia's (European) values and its (corrupt, post-Soviet) norms and institutions does not allow the country to align itself easily with the EU. The Russian elite explain this dichotomy away with terms such as 'sovereign democracy' and the 'power vertical'. The EU made

the need for reform the subject of much lecturing, which was perceived by many Russians as arrogant and ignorant. Consequently, a truly strategic EU policy must start from the premise that Russia is not a Western society.

Section two switches to an economic perspective. The EU is Russia's biggest trading partner and Russia is the EU's single biggest energy supplier. There should be much scope for mutually beneficial integration and joint policy initiatives. Instead, more often than not, trade and energy have become a source of political tension, with some EU countries accusing Russia of using its oil and gas to bully them, the EU getting increasingly frustrated about Russia's protectionist trade policies and Russia accusing the EU of discriminating against Russian investors in European markets. Leszek Jesień's analysis explains why something as seemingly uncontroversial as economics has become so difficult.

Russia sells much more to EU countries than it buys from them. However, most of Russia's westward exports consist of oil, gas and other basic materials such as steel, leaving Russia vulnerable to changes in international commodity markets. EU exports to Russia, on the other hand, are diverse: from cars to consumer goods and, significantly, the machinery, tools and technology that Russia needs for its own modernisation. Moreover, the European market is much more important for Russia than vice versa. From this, one may conclude that the EU should feel strong and confident in its economic dealings with Russia. However, many in the EU have instead a sense of vulnerability and over-dependence on Russia's oil and gas, which undermines the EU's political confidence. This insecurity is fuelled by Russia's repeated

attempts to use energy as a tool to achieve not only economic but also political objectives. Russia can do that because state control of energy and pipeline monopolies allows a coherent use of energy as a weapon. The EU, by contrast, suffers from the absence of a unified energy market and policy, which allows Russia to divide, cajole, threaten and rule. However, Jesień finds reasons to be optimistic: not only has the EU passed another package of laws to achieve energy market liberalisation, it is also putting more effort and money into building the physical links between national grids and pipelines.

The third section looks at how the EU and Russia actually deal with each other. Katinka Barysch charts the ups and downs of EU–Russia relations since the early 1990s and untangles the complex web of agreements and institutions that shape the relationship today. She explains how such promising initiatives as establishing an energy dialogue or building four ‘common spaces’ got stuck before they could produce tangible results. And she asks why regular summits, frequent ministerial get-togethers and a plethora of working groups have made so little progress.

There is no doubt that the various initiatives and institutions have helped the EU and Russia to better understand each other. But sometimes it almost seems that rather than bringing the EU and Russia closer together, this familiarity has bred contempt. The overall impression is that the institutional and legal framework for EU–Russia relations has failed to progress, and still operates according to the expectation formed in the 1990s that Russia would gradually

converge towards EU norms and values. The EU cannot let go of the idea that the main objective of its Russia policy should be to change Russia internally. Russia—although willing and able to work with the EU in many areas—resents that the basis for such cooperation should be EU laws and policies. Barysch concludes with a list of reasons explaining why the EU and Russia struggle to work together. It is this checklist of realism, rather than wishful thinking, that should be the starting point for formulating a new EU policy towards Russia.

1. The Cultural Perspective

‘Culture’ is often the Cinderella subject of international relations. Either we take it for granted, or we ignore it altogether, but in dealing with a country like Russia, both options would be foolish because culture is at the centre of Russia’s self-understanding. Russian intellectuals and the country’s political elite are asking themselves the same basic questions they have been asking since the 1830s. Is Russia’s history comparable with the West or does it have its own unique model of development? Are Russian traditions and customs superior to those of the West or inferior? Such questions still shape the political debate. The most important change is in the Russian definition of the West. In the 1830s, it was a synonym for all things European. Now, for the most

part, it means the United States, which has replaced France as the embodiment of Western values.

In politics, as in ordinary life, perceptions matter. Europe would like the interests of the two sides, as well as their identities, to converge. As far as interests are concerned, the EU remains Russia's largest export market. If Russia is serious about the modernisation of its economy it will need massive European investment. The EU and Russia already have many common interests: not only is the EU Russia's largest export market, Russia also needs European investment and technology, in particular if it is serious about modernisation plans.¹ Biannual EU–Russia summits are important, as is the EU office in Moscow. Access to the internal market, visa waivers and future environmental cooperation are all up for negotiation.² The real stumbling block, however, remains the convergence of identities.

When the EU talks, for example, of greater multilateralism, Russian politicians tend to talk of multipolarity. Theirs is an older vision of power brokering and power politics. When the EU talks of Europe, it means the European space that has been created since 1957: the Europe of the *acquis communautaire*, a Europe still embedded in the transatlantic community. It talks, quite genuinely, of a European civilisational model. This is a problem because any civilisation is defined by a potential conflict between values and norms.

¹ On EU–Russia economic relations, see Section 2 of this paper.

² On institutions for EU–Russian cooperation, see Section 3.

It is important to distinguish between what societies profess and what they practise. We define the two terms ‘values’ and ‘norms’ as categories to be analysed separately: what we profess (values) and what we practise (norms). All cultures depend on translating underlying values into norms of social behaviour. For the most part, they tend to confuse the two, so that any criticism of a given social norm is regarded as an attack on the values it is deemed to represent. While tolerance suggests we respect each other’s values, it does not imply we respect each other’s norms. And it so happens that as a predominately European culture whose literature and music are central to its tradition (in a way that China’s or Japan’s are not), Russia’s values are not very different from those of the European Union; but their respective norms are not the same. In addition, the gap between values and norms in Europe has narrowed enormously in the past 50 years. European society is more legalistic and regulative. The Europeans are condemned to being consistent. Russian society is not regulated to the same degree by the agencies of civil society; nor is the rule of law as strong. In some areas, such as press freedom, it is largely absent.

Recent opinion polls illustrate the central importance of these differences. Thirty per cent of Russians want their country to become part of the European family. A further 30% want it to become normatively European as well, in the hope that one day, perhaps, it might even qualify for membership in the European Union.³ In other words, one-third of Russia is

³ Luxembourg Institute of European and International Studies, ‘Executive summary: the EU, Russia and China – a coming triad?’, Luxembourg, 26 April 2010, 4.

not looking west, but the other two-thirds find themselves divided, emotionally as much as intellectually, between those who are willing to give priority to personal freedom over the pursuit of the Great Power status, political stability and national sovereignty, and those who are not.

The Russian Way

Culture, in short, is important at the level of perceptions. But it is also important at the level of mentalities. We often use the word mentality unthinkingly when describing countries or societies that are very foreign to us, and Russia is one of the most foreign. What is a mentality, after all, but a failure to translate basic abilities into the capabilities that matter? A major problem is that Russia is failing to modernise politically. Putin and Medvedev may speak of building a modern society in which responsible and active citizens can realise their full potential, but in reality the notions of democracy, the rule of law and human rights (repackaged in such Putinist catchwords as ‘sovereign democracy’ and ‘verticality’) are intended to disguise the fact that the system is thoroughly corrupt. Russia is less a functioning nation state than a collection of vested interests, the perpetrators of which quite cynically encourage ‘the old mentality’ to protect themselves, hyping up a sense of injustice about the collapse of the empire and repackaging versions of recent Russian history that still paint the West in hostile colours. It is the middle ground in society (the natural liberals, most of them middle class) which is fighting for its life within the Duma, the

economy and society in general. Russia is still trapped in the old ways of thinking, still perceiving the West as a threat and still dismissing the world's 'ultimate middle ground power', the EU, as nothing more than a glorified Hanseatic League of states. What is more, the political class has learned little or nothing from history. Technically Russia may be a democracy, but it is an illiberal one, and will remain so as long as it treats the law as an instrument of governmental will rather than a tool for society. Putin and his colleagues still see their fellow citizens as members of collectives—corporate bodies, ethnic minorities, public service workers—rather than as individuals with civil rights.

The third reason that culture is important is that the EU has not pursued a coherent strategy towards Russia; it has engaged instead in a series of tactical 'partnerships', or dialogues, or good neighbourhood schemes. None of them have yielded much in the way of results. Strategy, when it has been applied at all, has been driven by the West (the larger community that ties the EU to the US and Canada), and for most Russians, the West is the United States. When the Soviet Union crumbled, most Russians pinned their hopes on the West. Eighty per cent of them viewed the United States positively, and only 6% negatively, according to opinion polls in the early 1990s.⁴ Today, the numbers are almost reversed. They blame the West for the Yeltsin years. Some blame Harvard professors for their misguided economic policies. Putin has transformed anger almost into a foreign policy doctrine. The West may not be quite the Great

⁴ Ibid.

Satan yet (as it is for Iran), but it is identified publicly as Russia's only real adversary. Privately, of course, many Russian politicians fear China and militant Islam. As for institutions, such as the International Monetary Fund, they are seen as standard instruments of American policy, while the EU tends to be written off as a community interested only in trade.

This is why the present financial crisis delighted so many leading Russian politicians. The crisis, according to Russian Foreign Minister Sergey Lavrov, showed that the West 'is losing its monopoly over the globalisation process'. What this meant for Russia is fairly obvious and Lavrov left us in no doubt last year. Russia would no longer have to tolerate the West's 'unfair and humiliating' policy in 'traditional areas of interest' (such as Georgia and Ukraine) that are defined by a 'shared common history' and 'the affinity of our souls'.⁵ Other non-Western states may not share Russia's anti-Western posture or its concern with saving the nation's 'souls', but they are likely to insist that if the West wants its way, it will have to engage in some hard bargaining in the future.

The marginalisation of Europe was partly down to the ex-Soviet intelligentsia close to Gorbachev, who in the dying days of the Soviet Union looked to the US, not Europe, for salvation. Both Gorbachev and the intellectuals in his circle hated what they saw as corrupt, meddling, middle-rank Soviet officials. Both liked the cut and thrust of intellectual debate in European capitals. But although they may have

⁵ Cited in J. Sherr, 'Russia and Georgia: a dangerous game', *The World Today*, 64(10) (2008): 9.

spoken of Russia as a member of ‘a common European house’ they dreamed largely of American models, and this preference ultimately proved fatal. Yeltsin’s policy advisers were too quick to embrace an economic model that devastated the Russian economy twice in the 1990s—at one point the country’s GDP was lower than that of the Netherlands and they destroyed themselves in the process. Jobs in academic institutions were wiped out by the free market; their liberal aspirations were crushed by the oligarchs.

Western Mistakes

The Russian intelligentsia was to blame in another respect—it followed its traditional role. There has always been a strong Russian tradition of self-criticism. Think of the picture of provincial life in Nicolai Gogol’s *Dead Souls*, or Gorky’s diatribes against the peasants, or the satirical sketches of Russian life by Yevgeny Zamiatin in the 1920s. There has always been a feeling either that the westernisation begun by Peter the Great remains incomplete, or that it has gone too far, and that Russia has lost its soul in the process.

A strong argument can be made that Russia did indeed devalue itself in the 1990s in an attempt to join the West, and it was made by one particularly important critic, Joseph Brodsky, a poet of international renown. In an open letter to Vaclav Havel in 1994, he traced the disasters of the Yeltsin years to the American belief that it could provide an example for other countries to follow. American exceptionalism, he

maintained, was as much a danger to Russia as Marxism had been in the past. ‘Isn’t this the juncture at which we find ourselves?... Should “Indians” embark on imitating “cowboys” or should they consult the spirits about other opinions?’⁶ Strong words indeed, but Brodsky, we must remember, had lived in the US for 20 years and was a thoroughly westernised Russian. He argued, as did Alexander Herzen, another émigré, living in Paris in the late nineteenth century, that the re-evaluation of Russian culture must be a Russian, not a Western, concern.

Nevertheless, the US tended to see Russia as another defeated country, one which, though not occupied like Germany and Japan in 1945, could still be anchored into the Western world. In the closing years of his life, Richard Nixon persistently criticised his government for failing to seize the moment to shape world history by bringing Russia into the Western world.

A similar dream, and one which has persisted much longer, unites the European Left, especially in Germany. Since leaving office, Gerhard Schroeder has talked of a *Deutscher Weg*, a deliberate contrast to the American Way, which could be a possible future for Europe.⁷ In this vision, Europeans from the East and West are seen to be normatively different from Americans. Russia would be anchored to a European space in which European norms are

⁶ J. Brodsky, “‘The post-communist nightmare’: an exchange’, *New York Review of Books*, 41 (4) (1994); repr. in *On Grief and Reason* (London: Hamish Hamilton, 1996): 212–23.

⁷ H. Kundnani, ‘Russia or the West?’, *Prospect*, 151 (2008): 119.

translated into values (anti-capital punishment, one of the norms insisted upon by the Council of Europe, among other things). Against this backdrop Russia is no more 'European' than it is 'Western'.

In reality, both hopes are naive. Russia cannot be 'won' for the West or for Europe. If we start with the premise that Russia is not a Western society, then we may begin to find a way out of our present malaise. We must accept that it is a distinctive country, with a very specific cultural identity and normative voice of its own. By acting on that understanding we will be better placed to argue that Russia should act in way that is consistent with the values it professes, which may or may not happen to be our values. Only by granting it a distinctive identity will we be able to acknowledge that its norms may not be ours, any more than ours are America's (for instance, European criticism of the American veneration of God, gun ownership and capital punishment).

The West's second approach to Russia in the late 1990s was left largely to the US to define after 1995. And it led to Russia being progressively marginalised in American thinking. Especially infuriating, in Russian eyes, was American encouragement for 'freedom' in the former Soviet satellites. The European intelligentsia was as guilty as its American counterpart in lumping together the East, when in fact its respective members had little in common except their experience of living under Soviet rule. In the Baltic States, the memory of Soviet occupation was portrayed as worse than that of the Nazis. Presentation is everything with a country like Russia that found it difficult to adjust overnight

from being a superpower to a middle-range country of limited means. During this period, too, the Russian leadership claimed that it was forced to swallow one humiliation after another: the Kosovo War, NATO membership of the Baltic States and the prospect of US missile forces in Poland and the Czech Republic. Again, perceptions matter. The Russians could never have been permitted to veto any of these policies but they were pursued as if the traditional factors of politics no longer applied: because Russia was weak it could be taken out of the frame. The invasion of Georgia in August 2008 was a brutal reminder that Russia was now back in the game. No doubt, Russian imperialism and Georgian nationalism played their part. If Russia was itching to re-enact the aggressive reflexes of the tsars, the Georgians were still heirs to what Andrei Sakharov once called Georgia's 'little empire' complex: its nationalist desire to assimilate minorities.

The Europeans had grave misgivings about any further NATO expansion and voiced them before, during and after the April 2008 Bucharest summit. They recognised the fact that the majority of Ukrainians in favour of NATO membership was a slim one, and admitted in private that a narrow numerical majority was simply not enough when existential issues and interests were at stake. The European response was more realistic than the American one: a genuine commitment to help the country develop economically, socially and politically in ways that would gradually draw it closer to the EU and might one day even make membership possible. But the Americans had their own agenda, as they also had in Georgia. Russian support for the

cessation of the Georgian breakaway provinces of Abkhazia and South Ossetia was well-established long before the August 2008 invasion. There was no question of breakaway regions voluntarily re-integrating with Georgia before the country was admitted to the Alliance. Equally there was no question of Georgia retaining the territories by force without Russian intervention. And there was certainly no question of Georgia being admitted without the two separatist regimes, on the understanding that NATO would add a codicil to the admission excluding the republics from its defence guarantee.⁸ The question of Georgian membership was a strategic muddle and the invasion has put the whole question on the back burner for the foreseeable future. Whether, as Ron Asmus argues in *A Little War that Shook the World*, the Europeans actually encouraged Russia's behaviour is a moot point. Sarkozy's brokering of a withdrawal allowed the Europeans to seize back the initiative though the EU now has the unenviable task of having to underpin the uneasy peace that Sarkozy negotiated on its behalf.

The enlargement of the EU, too, angered the Russians but this time for reasons of cultural identity, not security. Many Russians were mystified by how easily intellectuals such as Václav Havel and Milan Kundera were able to persuade the Western Europeans (to cite one extreme example) that 'Central Europe' had a natural affinity with the West and was fundamentally different from Eastern Europe. On the basis of that logic, Vilnius was described as a 'Central European' city by Czesław Miłosz. But if Poland, let alone Lithuania, is really

⁸R.K. Betts, 'The three faces of NATO', *National Interest* (March–April 2009): 33.

at the centre of Europe, where is the east? Logically, the Russians might have imagined the answer must be Russia, but writers widely read in the West, such as Kundera, denied angrily that Russia ever belonged to European civilisation.⁹

The point is that whatever goodwill might have been purchased as a result of the Yeltsin years, in which Russia did move closer to the West than ever before, was gratuitously squandered in a series of word games and policies. It was squandered intellectually by asking where the front line was to be drawn and where the border of the West actually lay. The definitional problems were not just geographical; they were intensely political. For they reflected a history whose purpose was to separate the 'new' Europe from the Communist era, as well as from a different, and very alien, world: post-Soviet space.

Money, Ideology and Accommodation

So, why was Russia largely taken for granted, or simply ignored? The most likely answer is to be found in the mistaken understanding that Russian foreign policy was no longer driven by ideology, but only by money, and that one day it would have no alternative but to come to terms with that fact, whether it liked it or not. Now, certainly an argument can be made that money counts. The Russian money interests are too deeply entangled with Europe to make confrontation at the moment feasible, particularly

⁹M. Kundera, *The Curtain: An Essay in Seven Parts* (London: Faber and Faber, 2007): 156.

when it comes to business and trade. Russia cannot even play its one strategic card, the denial of energy, as it did with Belarus and Ukraine, because all Gazprom's major pipelines run west. Europe is Russia's biggest customer; Asia takes only 3% of its exports. And although Putin intends to boost this to 20% in the future, it is a future that is still a long way away.¹⁰

Russian businessmen are also keen to buy assets in Western Europe. Medvedev has urged them to go on a spending spree and buy new industries and technologies, just as the Chinese have bought up American corporations. Russians may well buy up many European firms, and many of Russia's most important businessmen, especially those close to the government, have a direct personal stake in the continued prosperity of Western Europe. They have business relationships to maintain, and investments to protect and children at school in countries like Britain. They cannot afford to be nationalist, any more than the Russian government can. If Russian companies, whether state-owned or private, are not able to go toe to toe with the best companies in the world, Russian business can forget the whole game.

But even if this is all true (as much of it is), modern Russian identity is not solely driven by the pursuit of profit. It is also driven by its sense of place in the world. Ideology has no more disappeared with the end of Communism than has the need to define Russia's identity. Like the Americans, the Russians want to be noticed, they want to count for

¹⁰For more on EU–Russia energy trade, see Section 2, 'The state and its assets'.

something. Both societies have a view of their own exceptionalism. At the moment, the Chinese find it useful to rise 'invisibly'. The European Union would like to think more highly of itself, as well as attract the esteem of others, such as China. But the Russians want to be noticed as much as ever.

In short, the EU can have a positive relationship with Russia only if it recognises that its political class will continue to be torn between the need to get rich and the need to be noticed, and that both will be subsumed in the continuing quest for order. Putin may be unpopular in liberal circles, and Medvedev mistakenly seen as a liberal, but both leaders are trying to offer the Russian people some sense of national self-esteem.

And so we come to the third policy option: accommodation, the presiding theme of Western policy since, at least, the Georgian invasion in 2008. The US now recognises that it lacks sufficient leverage to compel Russia to acquiesce in some of its policy preferences (as was witnessed most recently in major differences over the future status of Kosovo). The long, tortuous era of civilising missions may well be at an end, together with grandiose civil society-building schemes. Effective geopolitics in the twenty-first century will mean promoting values by different means, probably through the use of soft, not hard, power. And it will mean standing up to a Russia that also wants to pursue a grandiose but threatening policy of promoting spheres of 'privileged interest' (read influence) and a reshuffling of the European security architecture in ways that would threaten the transatlantic link.

So, any hope of a successful dialogue between the EU and Russia must address two issues:

1. The EU must assist Russia in translating its abilities into capabilities by helping it modernise its society and economy as much as it is within its power to do so.
2. To this end it must adopt a strategic perspective, and not pursue a series of tactical moves which bring at best short-term returns. Its main strategy should be to engage with Russia on equal terms, but equality of status means that there can be no return to the old politics of spheres of influence which would threaten the political integrity of its former satellites.

Neither of these challenges is easily met. Success will depend on many things but with cultural convergence, there are two possible avenues open: the EU can try to sell a European model, or buy into a Eurasian one.

The European model is attractive for many reasons. Russia is smaller in geographical terms than at any time since the 1690s. Two-thirds of its citizens now live in European Russia, and their number is set to increase as more and more citizens emigrate from the East. Yet Russia finds itself excluded from the management of European security by not being a member of either the European Union or NATO, the two institutions that determine Europe's future. If we are to come up with a more satisfactory working partnership with Russia, we must either reform the existing mechanisms for dialogue, or introduce new institutions

altogether. Medvedev has proposed a new pan-European security arrangement, a European Security Council. But the problem here is that he does not want a normative regime with its emphasis on human rights and democracy. He wants an energy regime that would cover nearly all energy sources including fossil and nuclear fuel, as well as the entire production process from extraction to supply and transit. This may well be a way forward, but there will be a lot of hard bargaining and choices to be made for both sides in the process. And it is by no means certain that it would be in the EU's interests to encourage this model. Indeed, quite the opposite.

One alternative might be to extend our intellectual horizons and think not in terms of Europe but Eurasia. Much is made of the term in Russia, but to no particular end so far. It was Solzhenitsyn who wrote that beyond the Urals lay the lands that would forge Russia's destiny, the 'lands awaiting our love'. But how much love does Russia have for Siberia? Most young Russians find it boring and desperately poor, as well as dangerous and criminal. And then there are the 34 million people who live along the Kazakh border, almost exclusively Russian. Beyond Baikal lies a vast area with only six million people—remote from the rest of Russia, a patchwork of different republics and minorities. Moreover, relations with China are guarded. Based on current projections, there could be 15 million foreigners, 20% of the working population, employed in Russia by 2025, and the Russians know that a large majority will be Chinese. Vladivostok is already a Chinese city, both economically and culturally. The Chinese make up more than half the

population of Khabarovsk. Seventy per cent of Russian territory (all in the East) is fast being abandoned.

So Russia finds itself in the invidious position of being unanchored both culturally and emotionally to Eurasia (knowing, of course, that that is where its future may be determined). Without European and Chinese investment there is no Eurasia option. But the EU, too, has reason to invest, to forge closer ties with the Central Asian republics, especially in issues of water management and related environmental concerns. Central Asia, into which we need to fit energy-rich Afghanistan, is likely to remain a major energy provider. It should not be left to the Chinese to stake their own claims in the region, and it is unlikely the Russians would want that either.

In the end, it may not have to be one or the other—either the EU or Eurasia. The fact that Kazakhstan is a member both of NATO's Partnership for Peace and the Shanghai Cooperation Organisation (SCO) suggests a new networked system of security may evolve over time. Multiple concatenacy, as the historian Norman Davies describes it, is the highly complex network of networks that is gradually shaping the world scene, each consisting of interconnecting and partially interlocking organisations.¹¹ The world no longer demands, as it once did, that a country should be an exclusive member of one security bloc. It is the interface between various concatenations that is likely to determine the future of international politics. And if the EU is to exploit

¹¹ N. Davies, *Europe: East and West* (London: Jonathan Cape, 2006): 389.

such an interface, culturally as well as economically, it may have to extend its horizons. Beyond the old geographical and political categories of East and West, and Europe and Asia, history may be forged on terms of engagement that are different from those of the past.

2. Energy Relations and Trade

While it is virtually impossible to cover the EU–Russia economic and energy relationship fully in a short article such as this, the intention here is to pinpoint the most important aspects of the relationship and draw essential conclusions for the future of EU policy on energy trade in particular. This section attempts to characterise the Russian economy in general and its energy exports in particular. It also analyses the EU's responses so far to the growing challenges in energy relations with Russia and offers suggestions for ways in which to deal with them. If the EU wants to arrive at a more balanced relationship with Russia, it needs to have a fully fledged single policy on energy with an internal market and an external approach.

Trade and financial exchanges between the EU and Russia are important not only in terms of their volume, but also the commodities involved, which are mainly energy

sources. In short, the EU–Russia economic relationship is, in reality, about oil and gas. As witnessed in a number of conflicting situations, including several cases of suspension of oil and natural gas deliveries as well as various embargoes, EU–Russia relations are in bad shape.

The backbone of the Russian economy is raw materials. It produces mainly unprocessed, raw goods: oil and natural gas, as well as metals and so on. From abroad it needs mainly processed goods for consumption as well as machinery and technology to continue its extraction of primary resources. Hence, the trade figures show important imbalances that both affect current relations and indicate future problems. In its trade of goods, the EU shows a large deficit, with exports valued at €65.6 billion and imports at €115 billion.¹² More than three-quarters of what the EU imports from Russia (77.3%) consists of energy and fuel, while its exports are fairly balanced. Interestingly, given good natural conditions for food production in western and southern parts of the country, Russia still remains a net agricultural importer from the EU, with €4.7 billion worth of imports. As a result of these imbalances and its development needs, Russia naturally remains a large net capital importer, as evidenced by foreign direct investment (FDI) figures. The EU's outward investment in Russia was, in 2008, worth €25 billion, while Russian FDIs in the EU were 12 times lower, at €2 billion.

¹² These figures and those that follow are for 2009, and are taken from European Commission, DG Trade, 'Russia: EU bilateral trade and trade with the world', 25 May 2010; http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113440.pdf, accessed 25 August 2010.

Russia as a whole remains fairly important for the EU as a trade partner. During the period 2005–2009, the share of imports from Russia, which were energy dominated, was roughly 10% of total EU imports. In the same period, the share of the EU's exports to Russia, which are more diverse, was slightly less important for the EU as a whole, making up 5.4%–8.0% of total EU exports.

This picture looks dramatically different when seen from a Russian perspective. The EU's share of all Russian imports is almost half: 44.0%–46.5% for roughly the same period, 2005–2008. Even more important, for all Russian exports, the EU's share is substantially more than half: 56.0%–61.1%, again in the same period. In short, in 2006, Russian exports to the EU were almost two-thirds of Russia's exports to the whole world. Three-quarters of the latter were energy resources.¹³

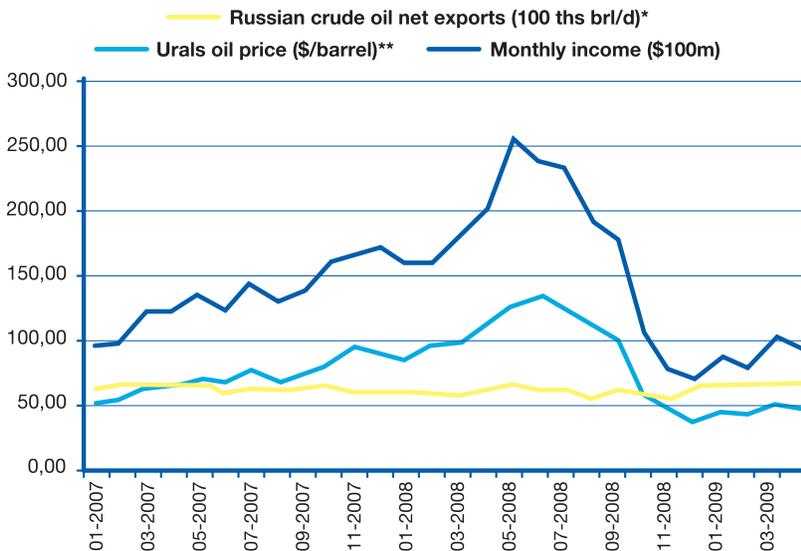
Hence, Russia is heavily dependent in terms of its exports on the European Union's markets and those exports tend to be heavily energy based. This dependency has remained roughly unchanged in recent years. Given future energy projects, in particular in natural gas (North Stream to Germany, South Stream to the Balkans and a contract recently concluded with Poland that will lead to an increased supply until 2022) Russia's dependency on trade with the EU in general, and this trade dependency on the energy component in particular, is going to increase. At this rate, in

¹³ For an assessment of the institutional framework for EU–Russia economic cooperation, see Section 3.

the years to come, two-thirds of Russia’s exports will land in the EU and three quarters or even more of those will be energy. Russia is dependent on the EU and not vice versa. Clearly, this remark does not take into account any effects of technological advances necessary to achieve a greening of the EU economy, or any commitments the EU has entered into so far to tackle the climate change issue.

Russian dependency on energy exports is key to understanding its performance at the time of the recent financial, economic and, in the end, fiscal global crisis. Russian income from energy dropped dramatically, as reflected in Figure 1.

Figure 1: Income from Russian Oil Exports at the Time of the 2008–2009 Crisis



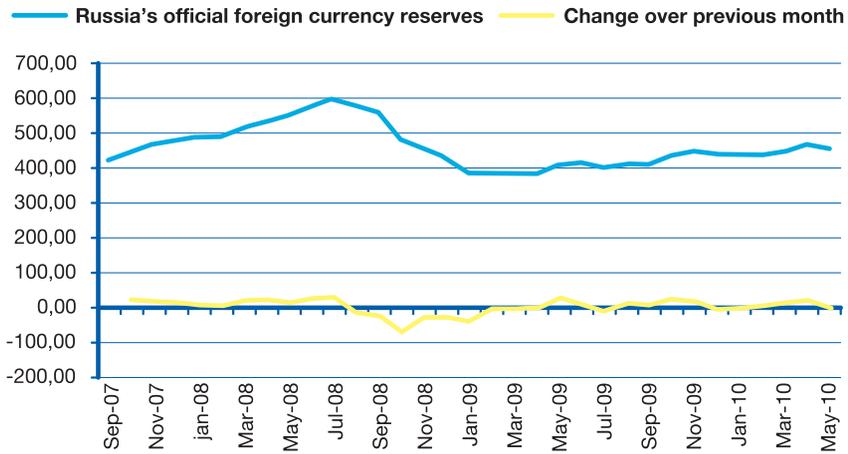
Sources: * Russian crude oil net exports (100 thousand barrels/day), daily average. International Energy Agency, Oil Market Report, Supply; <http://omrpublic.iea.org/omrarchive/>, accessed 24 August 2010; ** Weekly Mediterranean, end of month. US Energy Information Administration, <http://tonto.eia.doe.gov/dnav/pet/hist/wepcuralsw.htm>, accessed 24 August 2010, own calculations.

Generally, the level of oil exported remained roughly unchanged (though later on, as a result of contracting economies worldwide, the demand also dropped), but there was a significant drop in oil prices as shown on the graph. This, of course, resulted in an equally important drop in oil revenues. Since the prices of the natural gas exported by Gazprom are generally based on the oil price formula, but with a time shift of six to nine months,¹⁴ the combined effect on income from exported energy has hit the Russian exporters and the state tax revenues. The effects of the oil price change were felt immediately, and those of the natural gas price change had an impact from mid-2009 onwards. The revenue from exporting energy, via taxes and customs, accounts for almost half of the federal budget.

As a result of a positive, energy-based balance of trade in recent years, strengthened by rising energy prices in the periods of economic growth before the Lehman Brothers collapse triggered the crisis, the Russian Federation managed to amass great reserve assets, peaking in July 2008 when they reached almost \$600 billion. The cost of the crisis from this perspective alone was about \$200 billion, which was spent by the Russian central bank between August 2008 and April 2009, at which point the first renewed increase of the reserves after the downturn was officially noted by the IMF.

¹⁴ The export price for natural gas is indexed based on the prices of oil products and takes into account the previous six to nine months. See Gazprom Export, 'How do we set natural gas price for end users in Europe? A mechanism of establishing the natural gas prices—the gas formula', http://www.cire.pl/pliki/2/mechanizm_cen_gazu.pdf, accessed 26 August 2010; document in Polish.

Figure 2: Official currency reserves of the Russian Federation (\$ million)



Source: International Monetary Fund, <http://www.imf.org/external/np/sta/ir/IRProcessWeb/data/rus/eng/crurus.htm>, accessed 3 December 2010.

Russia has managed to roughly offset the crisis without losing its room for manoeuvre in economic terms. In 2009 its GDP shrank by as much as 7.93%, lowering its purchasing power and that of Russians abroad as well. However, as a result of a late 2009 increase in oil prices, the first quarter of 2010 showed modest economic growth of 2.9%, slowing to 2.7% in the third quarter of the year.¹⁵ These changes are important because Russia has tried to develop on the basis of accrued income from energy and other primary commodities traded abroad. There is nothing inherently wrong with this kind of model for a country as rich in natural resources as Russia. However, it makes the country very vulnerable to external shocks, as was the case with the 2008–2009 crisis.

15 Data from Trading Economics, <http://www.tradingeconomics.com/Economics/GDP-Growth.aspx?Symbol=RUB>, accessed 6 December 2010.

As recognised officially by the Russian authorities in their document, the local economy is vastly inefficient.¹⁶ It consumes as much as three times more energy for production than the EU or Japan. Compared with the US, the Russian economy is twice as inefficient, and 2.3 times more inefficient than the world's average. The reasons provided, aside from the unavoidably harsh climate, are the use of outdated energy equipment and that energy-intensive industry makes up 60% of the local economy.

The State and its Assets

The story of the Russian economy in the post-Soviet era is a story of the state's involvement. There is no better example than the energy sector. Initially, as a result of a mostly unfair privatisation process, the state share in the oil production sector dropped from 85% in 1995 to a mere 13% in 2003. Only four years later, through the deliberate efforts of the Putin administration, the state's share had recovered to 38%. Today the state share amounts to more than 50% and on the basis of this trend the state is expected to acquire as much as 60% in years to come. Oil exports via pipeline are fully managed by the state-owned monopoly Transneft, which effectively controls as much as 80% of total exports.¹⁷

¹⁶ See Energy Charter Protocol on Energy Efficiency and Related Environmental Aspects (PEEREA, Russian Federation), 'Regular Review of Energy Efficiency Policies 2007'; available at http://www.encharter.org/fileadmin/user_upload/document/EE_rr_Russia_2007_ENG.pdf, accessed 27 August 2010. Comparisons adjusted for local purchasing power.

¹⁷ E. Wyciszkievicz, 'Russian oil and gas sector: internal determinants and external aspirations', in E. Wyciszkievicz (ed.), *Geopolitics of Pipelines: Energy Interdependence and Inter-State Relations in the Post-Soviet Area* (Warsaw: PISM, 2009): 18–22.

The situation is even more straightforward in the natural gas sector. Here, Gazprom, a state-owned corporation, dominates with a share of least 51%. It is responsible for about 85% of total Russian downstream production and fully controls exports. Its export monopoly is legally recognised by a 2006 parliamentary regulation. Gazprom is probably the most clear-cut example of a corporation which is a combination of the new Russian business elite (some of it already Western educated) and the old (both Communist and tsarist) imperialist mentality that still exists in state administration and politics, with the oligarch acting as a go-between.¹⁸

Russia has combined its energy policy with foreign policy principles, particularly in the area defined as the Commonwealth of Independent States (CIS) and the 'near abroad'. Russia has a long history of using energy supplies for foreign policy objectives. In subsequent cases of dispute between this energy-producing country and various transit countries (that is, Belarus, Ukraine and Georgia), the Russians usually claim a breach of contract by the transiting partner. The most recent example is the June 2010 dispute between—again—Russia and Belarus about payments for natural gas delivery for previous quarters. The most famous case is the suspension of natural gas deliveries to and via Ukraine during the first two weeks of 2009, which not only resulted in a serious drop in supplies to as many as 14 EU Member States but also accelerated intra-EU considerations over its internal energy security arrangements (which are yet

¹⁸ E. Lucas, *The New Cold War: How the Kremlin Menaces Both Russia and the West* (London: Bloomsbury, 2009).

to be concluded). A report found more than 50 instances where Russia used energy as a foreign policy lever, exercising political and economic pressures on a number of neighbouring countries over a period of 15 years (1991–2006).¹⁹ In the post-1989 era the first case of energy being used as a foreign policy tool by the Russian (still at that time Soviet) authorities occurred in early 1990 when Lithuania declared independence. Soon afterwards Moscow attempted an energy and other raw materials blockade on the breakaway republic. It lasted three months.²⁰

In August 2006 the Russian oil export company Transneft suspended deliveries to the Mažeikių refinery in Lithuania. This happened a few weeks after a deal was agreed that saw the Polish oil company PKN Orlen beat off competition from another bidder, the Russian Lukoil, to acquire shares in Mažeikių. The shares at stake were from the Yukos oil company, made bankrupt months earlier by the Russian authorities. Deliveries have not resumed.²¹

Perhaps the most symbolic Russian achievement in this area was the 2010 Kharkov agreement with the new administration of Ukraine to extend the stationing of the

19 R.L. Larsson, 'Russia's energy policy: security dimensions and Russia's reliability as an energy supplier', FOI – Swedish Defence Research Agency, March 2006.

20 See for example, G. Vitkus, 'Russian pipeline diplomacy: a Lithuanian response', *Acta Slavica Iaponica*, 26 (2009): 25–46, available at <http://src-h.slav.hokudai.ac.jp/publicn/acta/26/02Vitkus.pdf>, accessed 30 August 2010.

21 See the account by the CEO of PKN Orlen in I. Chalupec and C. Filipowicz, 'Rosja, ropa, polityka, czyli o najwi kszej inwestycji PKN Orlen' [Russia, oil, politics: about the largest PKN Orlen investment] (Warsaw: Prószy ski Media, 2009).

Russian Black Sea fleet in Crimea until 2042 in exchange for a rebate in the price of natural gas pumped into Kiev. It is clear that energy supplies are indeed used for foreign policy purposes. Moreover, energy is just one of many strategic commodities that Russia has recently used as security leverage.²²

There are several points about the Russian use of energy and raw materials as bargaining tools in foreign policy. First, they are able to use the tool in a coherent way, dealing with partners as a single entity, regardless of whether they go via corporate, diplomatic, financial or indeed market channels. Second, they are adept at applying the primary tools of foreign policy to the energy sector, that is, approaches as simple and old in foreign affairs as divide and conquer, paying off those reluctant to cooperate, using threats, setting up non-transparent deals and companies, and generating increased uncertainty about assets and pricing.²³ Third, acting as a typical modern state in the area of energy, Russia is keen to understand energy in terms of its sphere of influence, geopolitics and power rather than merely in terms of markets and profits. For Russia, energy seems to be more like a chess game than a market game. Fourth, the Russian position shows an essential contradiction: it plays against the market it is most dependent on. A part of this paradox is that Russia does not seem to be able to distinguish between, or to play its energy cards differently with the other CIS countries and the EU Member States, particularly those that gained

²² J. Leijonhielm and R.L. Larsson, 'Russia's strategic commodities: energy and metals as security levers', FOI – Swedish Defence Research Agency, November 2004.

²³ R. Kupchinsky, 'Gazprom's European web', The Jamestown Foundation, 18 February 2009.

membership of the EU in 2004 and 2007. A reason for this may be that the Russian leadership is inherently unable to deal differently with countries that have long had a stable international status and standing, and which, in their different ways, are able now to stand up to the Russian energy challenge. Whatever the reasons, the Russian strategy seems to be based on misconceived realities. Regardless of how wrong it may be, however, the EU still needs to take it and its full consequences into account.

Today there are three powerful and coherent players involved in the global energy play-ground: Russia, the US and China. A fourth, the European Union, lacks internal cohesion, is prone to division and is inherently weaker than the other three. The EU is not a state entity and will not be able to play energy games the way the others do, which again seems to be the current strategy (forces of the state and the private sector combined). But it can do a lot to improve its position in terms of energy, vis à vis Russia especially.

EU Responses in the Area of Energy

For a long time, the EU has run its energy policies against a triple challenge. First, it has tried to get the internal market in order and gradually liberalise it. Second, it was assumed that the markets themselves would provide security of supply, if fully operational and unrestrained. Hence, the problems of security of supply were often overlooked. Third, when problems on the supply side were encountered, they were

dealt with in the same way as was the early 1970s oil embargo imposed by the Arab countries: the main response was to build up reserves of oil and oil products (today, this amounts to at least 90 days of average consumption) and to offset the challenge with an additional excise duty in price. Russia, for its part, was perceived as a relatively stable alternative energy supplier.

However, none of these challenges has been properly overcome. We have not yet arrived at a fully fledged internal energy market. Subsequent reports from the European Commission note only a limited amount of intra-EU trans-border internal energy transactions.²⁴ The internal market is not yet there and the EU energy landscape has been dominated by a number of companies that still are not sufficiently European while they remain too national. They are supported in that mode by their respective states, both politically and via public aid and contracts. The concept of market-based energy security has been undermined, particularly as a result of natural gas and oil supply disruptions by the Russian companies. The natural gas sector has been especially hard hit, as the oil markets seem to be much more flexible globally. This was proved by effective cooperation in the aftermath of the Katrina hurricane in 2005, mainly via the International Energy Agency. Finally, it was precisely where the solution to energy security was

²⁴ See, e.g., European Commission, 'Accompanying the legislative package on the internal market for electricity and gas: impact assessment', Commission Staff Working Document, SEC(2007) 1179, Brussels, 19 September 2007; available at http://ec.europa.eu/energy/gas_electricity/interpretative_notes/doc/2007_09_19_impact_assessment.pdf, accessed 31 August 2010.

expected to be found, in the Russian suppliers, that problems occurred—when they stopped supplying.

Seen from this perspective, the EU has to review the premise of its approach to its energy problems with Russia. First, it needs to continue to build up a single energy market as quickly as possible. Here the third legislative package proposed by the Commission in 2007 and adopted by the EU in 2009 is a step in the right direction. It needs a quick and effective transposition and further steps in the near future. The third package has been strengthened with additional money for infrastructure projects from the European Economic Recovery Plan of late 2008. Also, the collaboration of energy regulating authorities in the EU Member States is going to be streamlined, with the new Agency for Cooperation of Energy Regulators (ACER) set to start operating in 2011. The overall objective should be to arrive at a fully fledged and effective market in oil and oil products, as well as in natural gas and electricity. However, the sequence of liberalisation versus diversification of supply needs to be carefully considered. Regions and countries that depend heavily on non-diversified supplies from unreliable directions, and this is the case for a number of EU Member States in Central Europe, may need to diversify first, before liberalising. Reverse order would not mean certainty of energy provision for the end-users, in other words, households and businesses.

Secondly, the EU has to become a single entity in energy matters. There are two main ways it can achieve this. One is to work on energy issues from foreign and security

perspectives, as was the approach of the European Parliament's 2007 resolution.²⁵ The other is to base the EU capacity to act on treating energy as any other commodity. The EU is quite a powerful player internationally wherever we can deal with the trade issues based on article 207 TFEU (former article 133 TEC) where the Union's competences derive from effective internal market operations and the customs union. The AETR case in the Court of Justice, which is seeking external competences for the Union wherever the single market exists, may be a useful approach to this end.²⁶ An interesting example of practical and effective cooperation in the energy sector is the Euratom Supply Agency.

Third, there is no reason why the EU regulatory framework—so effectively used in many other markets such as computer software, car manufacturing, pharmaceuticals and so on—could not be used for the energy sector and financial cooperation with Russian companies. The EU has an elaborate, effective and well-tested toolbox in its competition policy, which is based on the principles of antitrust, abuse of a dominant position and financial transparency; a toolbox that should be fully and unequivocally used in any business deals which involve Russian companies as much as it is used

²⁵ European Parliament, 'Towards a common European foreign policy on energy', resolution of 26 September 2007, P6_TA(2007)0413, <http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P6-TA-2007-0413&language=EN&ring=A6-2007-0312>, accessed 6 December 2010.

²⁶ Court of Justice AETR case (22/70), the Commission versus the Council on the European Agreement on Road Transport (*Accord européen sur les transports routiers—AETR*) of 31 March 1971. See also L. Jesieñski, 'Conditions for the European Union's external energy policy: energy security ex post or ex ante?', in L. Jesieñski (ed.), *The European Union Policies in the Making* (Kraków: Tischner European University, 2008): 265–84.

whenever American or Japanese companies operate within the internal market.

A vigorous application of the EU regulatory framework of competition and trade policies is particularly important in view of a Russian tradition of appointing as intermediaries various proxies and subsidiaries whose shareholding structures, registration and management networks are fairly unclear.²⁷ RosUkrEnergo was perhaps the most striking example of this. In 2004 this Swiss-registered company was introduced by Gazprom and Russian authorities as a necessary intermediary in natural gas deals with Ukraine and Central European countries. The ultimate shareholder structure and the reasons for its selection to make deals in large regional contracts remained unclear, and financial statements were extremely limited.²⁸ In 2009, as a consequence of yet another Russia–Ukraine natural gas dispute and settlement, it was eliminated as an intermediary. The others, however, remain active.

In general, the EU, long concerned about the direction its Russian partner is taking, should also start becoming concerned about its own interests, understood as the single interest of the whole European Union. Clarity of deals done, a confident antitrust policy and an effective energy trading

²⁷ See e.g. K.C. Smith, 'Lack of transparency in Russian energy trade. The risks to Europe', Centre for Strategic and International Studies, July 2010; available at http://csis.org/files/publication/100702_Smith_LackOfTransparency_Web.pdf, accessed 30 August 2010.

²⁸ The company's official website, which claims that a 'joint political resolution' lies at the origin of the company, does not show RosUkrEnergo's ownership structure; and its financial statements—while claiming revenues of over \$800m per year (for 2006 and 2007)—are a mere one-and-a-half pages in length; available at <http://www.rosukrenergo.ch/eng/index.html>, accessed 29 July 2010.

approach, together with unbundling and corporate transparency for the internal market, should serve the EU well. Its Russian partner is well used to playing international games. Russia clearly recognises the scope and magnitude of its general trade reliance, and in particular its energy dependency on European markets. The EU should get together to do the same.

3. The Institutional Framework

The relationship between the EU and Russia over the past decade has often been difficult. Despite many small successes and countless engagements, the EU has made limited progress towards its declared objectives, such as encouraging liberal reforms in Russia or working constructively with it in the common neighbourhood. There have been many attempts at reviving this vital relationship: the launch of an energy dialogue, plans to build four 'common spaces', promises of visa-free travel, or the start of negotiations on a comprehensive new cooperation treaty. None of these has made a transformative impact on a relationship that appears often stagnant and sometimes tense.

Milestones in EU–Russia Relations

Russia and the EU signed a Partnership and Co-operation Agreement (PCA) in 1994.²⁹ It entered into force in December 1997 and to the present day forms the legal basis of EU–Russia relations. The document reflected the EU’s optimism at the time, namely that Russia would follow a similar path towards liberal reform as was visible in the Central and Eastern European countries and seek to join the ‘European mainstream’. The PCA stated that Russia should align its laws and trading standards with those of the EU to allow for deeper integration and, eventually, a free-trade area with no mutual trade barriers. The PCA also established a regular political dialogue and set up the institutional machinery for cooperation and consultation between the EU and Russia. The overarching objective of EU–Russia relations was defined as building a ‘strategic partnership based on common values’.

In 1999, the EU Member States agreed on a ‘common strategy’ toward Russia as part of their nascent Common Foreign and Security Policy. The strategy laid out broad and ambitious objectives, including the consolidation of Russia’s democracy and its integration into a European economic and social area. Against the backdrop of the 1998 rouble crisis and the increasingly erratic leadership of then president Boris Yeltsin, the common strategy’s objectives already looked unrealistic when adopted by the EU. Russia responded to the

²⁹ All official agreements governing EU–Russia relations are available at http://eeas.europa.eu/russia/docs/index_en.htm, accessed 7 June 2010.

common strategy in 1999 with a ‘medium-term strategy towards the EU’. The document highlighted the Kremlin’s anti-Western turn after NATO’s Kosovo campaign in 1999, as well as Moscow’s distaste for being the ‘object’ of any EU strategy or policy. According to Russia’s own strategy, the main objective of EU–Russia cooperation was to balance US power and improve Russian access to EU markets and investment.

Undeterred, the EU and Russia continued to expand the institutional framework for their relationship. In 2000, they launched a bilateral ‘energy dialogue’ to discuss issues of mutual interest, such as oil and gas production, transport and transit, and EU investment in the Russian energy sector. They subsequently set up a working group on energy savings, market analysis and energy policy to drive the agenda forward. Although there have been a number of useful pilot projects, there has been little agreement on the important issues such as the investment climate or gas transit rules.³⁰ In 2003 the EU and Russia incorporated the energy dialogue into a much broader and more ambitious plan to build four ‘common spaces’: in economics and energy; freedom, security and justice; external security, including crisis management and non-proliferation; and education, research and culture. It then took Moscow and Brussels two years to work out ‘road maps’ for their implementation. The documents list about 400 potential areas of cooperation and dialogue. They contain few concrete projects and no deadlines.³¹

³⁰ P. Baev et al., ‘Pipelines, politics and power: The future of EU–Russia energy relations’, Centre for European Reform report, October 2008.

³¹ M. Emerson, ‘EU–Russia: four common spaces and the proliferation of the fuzzy’, Centre for European Policy Studies Policy Brief, May 2005.

By the time of the launch of the common spaces, EU–Russia relations were already deteriorating. This realisation was reflected in a 2004 communication from the European Commission, which took stock of the functioning of the bilateral relationship. The immediate trigger was the growing intra-EU division among the Member States over Russia, with Germany, Italy and France repeatedly discarding pre-agreed EU positions to strengthen their own bilateral ties with Moscow. The Commission paper also illustrated a gradual and growing disillusionment, referring to ‘increasing strain’ and ‘insufficient overall progress’ in EU–Russia relations. The accession of 10 new Member States in 2004 complicated EU–Russia relations further. Moscow sought last-minute compensation because it alleged that the accession of the Central and Eastern European countries to the EU would result in Russian companies having to pay higher tariffs when exporting to these markets. Disagreements also ensued about how to regulate the transit of goods and people to and from the Russian exclave of Kaliningrad (now surrounded by EU members) and about the new visa requirements that Russian citizens faced when travelling to countries such as Poland or Hungary. Although it proved possible to resolve these issues, the accession of the Central and Eastern European countries led to growing divisions within the EU over what the right Russia policy should look like. The new Member States harboured historical grievances and accused the larger EU countries of ignoring Russian bullying tactics employed in the former Soviet Union. Poland and Lithuania blocked negotiations between the EU and Russia to draw attention to what they perceived as Russian misbehaviour in trade and energy.

In 2005, the EU launched its 'European Neighbourhood Policy', to bring the countries along its new eastern and Mediterranean borders closer. The ENP offers neighbouring countries the prospect of trade liberalisation, aid and political cooperation in return for reform commitments. Russia declined to join the ENP, arguing that it should not be treated in the same way as the likes of Morocco and Moldova. Moscow's initial concern that the ENP was an EU attempt to 'encroach on its backyard' softened when it became clear that the ENP in its initial guise had little immediate impact on countries such as Ukraine or Azerbaijan. However, the EU's 'Eastern Partnership' initiative, launched in May 2009, met with renewed scepticism from Moscow. The EaP intends to achieve deeper integration and reinforced cooperation with six countries in Eastern Europe and the Caucasus beyond what is on offer to the EU's Mediterranean neighbours. The EaP was launched not too long after the Russia–Georgia war of August 2008, after which even Russia's traditional allies in the region sought to build stronger links with the EU and the West in order to become less reliant on Russia.³²

The EU and Russia started negotiations on a new bilateral treaty when the original PCA came to the end of its 10-year lifespan in 2007. Although the PCA is extended automatically unless either side gives notice, the EU and Russia agreed that its provisions, negotiated in the early 1990s, were out of date and no longer reflected the breadth and ambition of the

³² S. Stewart, 'Russia and the Eastern partnership: loud criticism, quiet interest in cooperation', Stiftung Wissenschaft und Politik, SWP-Comments, May 2009; available at http://www.swp-berlin.org/en/common/get_document.php?asset_id=6000.

bilateral relationship. Negotiations were difficult from the start as the EU and Russia disagreed not only over the content but also the form and scope of the new partnership agreement ('PCA2', as the treaty's name has not been agreed upon yet). After a temporary suspension of negotiations in the aftermath of the Russia–Georgia war, the PCA2 negotiations reached their ninth round in mid-2010 without having produced much substantive agreement in the areas that matter most: trade and energy. The EU had hoped that a 'grand bargain' could be at the heart of the PCA2: Russia would get full access to the EU's lucrative single market and in return it would agree that the rather liberal principles of the Energy Charter Treaty would govern the energy provisions of the new agreement. However, Russia's prevarications over WTO accession have prevented any meaningful discussion about an EU–Russia free trade area. And Moscow's decision to withdraw its signature from the Energy Charter Treaty (ECT), which it had hitherto refused to ratify, undermined hopes that the ECT principles could be embodied in the PCA2.

A second review of EU–Russia relations by the Commission, published at the end of 2008, reflected the low point that was reached after the Russia–Georgia war in August that year. Taking notice of how hard Russia had been hit by the global financial and economic crisis and by plunging oil prices, the Commission advised the EU to 'approach its relationship with Russia with some confidence'. It argued that Russia needed the EU more than vice versa, certainly in the areas of trade and energy, and that this fact should be reflected in the EU's stance towards the country. Although the Commission

highlighted that the numerous bilateral communication channels and cooperation forums were proving useful, it was also explicit about ongoing disagreements, for example in the area of human rights. The gas crisis of January 2009 added further tensions to EU–Russia relations.³³

A more positive atmosphere characterised the EU–Russia summit in November 2009. Although little of substance was decided at the summit, EU officials reported that the Russian side had shown a greater willingness to engage in constructive discussions than was the case on previous such occasions. Commission President Jose Manuel Barroso called the summit ‘one of the best we have had’ and suggested to President Medvedev that the EU and Russia should construct a bilateral ‘modernisation partnership’. The following summit, in May 2010, adopted a brief joint statement to this effect but did not result in other concrete agreements on the issues on the agenda, including visas and crisis management.³⁴

The Institutions at Work

At the highest level, the EU and Russia meet at a summit every six months. Russia is the only country in the world with which the EU holds bi-annual summits, which is meant to reflect the importance that the Union accords to its relationship with its biggest neighbour. In the past, the

³³ See Section 2 of this volume.

³⁴ K. Barysch, ‘Can the EU help Russia modernise?’, Centre for European Reform Insight, 28 May 2010.

summits gave the country holding the rotating EU presidency an opportunity to imprint its own priorities on the bilateral relationship. Each presidency would seek to produce results, or ‘deliverables’, at ‘its’ summit with Russia. As a consequence, the EU–Russia framework has become littered with new agreements, dialogues and fora. Once the presidency moved on to the next EU member state, there was rarely sufficient follow-up.

The Lisbon treaty should, in theory, allow the EU to achieve more continuity in its relationship with Russia. EU–Russia summits now take place between the Russian president and the EU’s highest officials, most notably the new European Council President, Herman van Rompuy, and Commission President Barroso (the role of the EU’s new High Representative for Foreign Policy, Cathy Ashton, remains to be fully defined). Individual Member States can still influence the agenda. The Spanish government, for example, which held the rotating presidency in the first half of 2010, pushed for progress on visa facilitation with Russia. Rotating presidencies still play a role in chairing many of the more specific dialogues between the EU and Russia. It will take time for the new arrangements of the Lisbon treaty to settle down before the impact of the EU’s relations with third countries can be fully assessed.

The EU–Russia summits have produced a plethora of agreements and have been an important barometer for the overall state of EU–Russia relations. However, the agenda has often been dominated by the latest crisis. In calmer periods, the meetings have tended to be overly scripted and

focused on technical issues, sometimes allowing insufficient time for debate on medium-term priorities. Given the slow progress in EU–Russia relations, it may be legitimate to ask whether the summits fulfil their purpose in providing guidance and structure.

Current political issues are discussed throughout the year in the ‘political dialogue’ that is conducted between the EU’s High Representative and the Russian foreign minister. The dialogues usually take place two or three times a year but the interlocutors meet more frequently at the margins of international gatherings to discuss issues such as Iran’s nuclear programme or piracy off the coast of Somalia.

For the more technical discussions, the EU and Russia have built a complex web of technical committees and working groups that now cover dozens of areas ranging from maritime safety to social policy. Since the committees that were initially planned for in the PCA have not met in years, the EU and Russia have built a new structure for technical and policy dialogues on the basis of the road maps for the four common spaces. Most of the working groups and committees listed in the road maps have met once or twice a year since 2006. Others have not met at all or only very infrequently, in some cases because the Russian side has not appointed a representative from the responsible ministry or body.

For all areas covered by the four common spaces, monitoring and guidance is supposed to be provided by the ministerial-level ‘permanent partnership councils’ (PPCs).

These are flexible formats in which Russian ministers meet with EU counterparts and top officials from the European Commission. In some areas—justice, for example—PPCs take place regularly every six months and therefore provide continuity and supervision. Other PPCs, from environment to transport, meet less frequently.

The institutional structure put in place to implement the four common spaces has allowed the EU and Russia to broaden contacts beyond the traditional interlocutors, namely the ministries of foreign affairs and economics/trade on the Russian side and the directorates-general for external relations and trade on the EU side. Regular contacts now take place between a large number of Russian ministries and the various directorates-general of the European Commission. The formats of these dialogues have been adaptable, with industry representatives and experts brought in if that is considered useful. The economic and technical dialogues have allowed the EU to learn about Russian laws and policies and vice versa. However, actual progress, in the sense of approximation of laws or agreement on specific projects, has been limited. The Commission's 2009 progress report on the four common spaces reports small steps in selected areas but in most others, 'success' is defined as the group having met and opinions having been exchanged.³⁵

³⁵ European Commission, 'EU–Russia common spaces: Progress report 2009', Brussels, March 2010.

The Reality of EU-Russia Relations

The current structure of EU–Russia relations reflects the breadth and depth of a relationship that has developed significantly since the end of the Cold War. However, measured against the EU’s original objectives—a strategic partnership based on common values, a free trade area, an energy partnership and constructive cooperation across the European continent and at an international level—progress in EU–Russia relations has been disappointing.

There are several structural reasons why the EU’s initial blueprint for its relationship with Russia could not be implemented smoothly.

- The EU and Russia are very different entities. Russia is a unitary state with a strong, centralised leadership. The EU is a federation of nation states with strong supranational elements that functions on the basis of consensus seeking.
- Russia considers itself a great power but is aware that its oil-dependent economy is too weak to support that status. It therefore likes to stress high-level political ties over economic ones. The EU’s power is mainly in the economic realm and in other ‘soft’ areas such as climate change.

- Large parts of the Russian policy establishment remain wedded to old-fashioned concepts such as spheres of influence, zero-sum games and strict reciprocity. Many EU policymakers and most Brussels officials believe in 'post-modern' ideas of statecraft, such as mutual interest, shared sovereignty and win-win cooperation.
- The EU is a community based on law. It likes to build relations with third countries on mutually agreed rules, preferably the *acquis communautaire*. Since the EU's initiatives with Russia, most notably the four common spaces, require adherence to rules, the EU has made a strengthening of the rule of law a priority in its Russia policy. Russia has a rather different attitude towards the law. Russia's own laws are often contradictory and confusing. They can serve as a basis of bureaucratic interference and bribe-seeking as much to protect the citizen against the state as to regulate relations between private entities. For Russian leaders, it seems, the law of power is still sometimes as important as the power of the law.
- The EU likes to uphold the idea that all countries are equal and that the way the EU functions is based on best practices and workable compromises. Most Russians believe that their country is *sui generis*. They argue that Russia needs to do things the Russian way, not the European or Western way. Such perceptions act as a powerful impediment to Russia accepting EU conditionality or agreeing to unilaterally converge towards the EU. Russian politicians and officials tend to stress that any convergence of rules and standards between the EU

and Russia would have to be mutual, as befits a genuine partnership. For most policymakers in the EU, the thought that the EU should converge towards Russian laws, values and standards is equally unappealing.

For these reasons, EU–Russia relations would probably remain problematic even if further crises could be avoided. More importantly, the underlying objective of the EU’s Russia policy—to make Russia look more ‘like us’—has not materialised and is starting to look unrealistic. Many EU officials admit in private that the EU is not in a position to wield much influence over internal development in Russia. Nevertheless, the EU still officially insists on defining the objective of its Russia strategy as positive change within Russia. It still hopes to find a way—some big idea, an institutional fix—that could reinvigorate EU–Russia relations across the board. The reality, however, is that the EU and Russia can work together constructively in some areas while vehemently disagreeing in others.

The institutional and legal framework of EU–Russia relations reflects the initial optimism (prevalent not only on the EU side but also within Russia) that Russia was on a fairly linear path towards a pluralist democracy and a liberal market economy. Today’s reality shows a Russia that feels strong despite its many weaknesses. It wants the EU’s cooperation, even help, in addressing these weaknesses, but within the overall framework of a relationship that fully accepts Russia as an equal.

4. Conclusion

The EU's policy towards Russia is full of wishful thinking and short on realism. In some ways, this triumph of hope over truth is commendable: the Europeans are right to believe that Russia would be better off with a pluralist democracy and a diversified, open market economy. Many Russians share this belief. However, after 15 years of trying to make Russia look more 'like us', the EU must acknowledge that its influence over Russia is limited.

Russia has changed tremendously since it negotiated the partnership and cooperation agreement with the EU in the early 1990s, but not necessarily in a way that many EU politicians and officials would have hoped for. While its economy has boomed and has in many sectors become more open, the state has regained control over various 'strategic sectors' (the definition of which itself seems to be expanding). An overbearing, sometimes corrupt and often meddlesome bureaucracy is regularly cited as the biggest impediment to doing business in Russia. Rather than honouring the 'common values' on which the EU–Russia partnership is supposed to be based (and to which Russia signed up in the framework of the Organization of Security and Co-operation in Europe (OSCE) and the Council of Europe), Russia's democracy has atrophied. Today there is no real opposition to the leadership of Prime Minister Putin and President Medvedev. Media freedom has been severely restricted and violations of human rights and civil liberties are

frequent and often go unpunished. Although Medvedev highlights the need to modernise Russia and diversify its economy away from oil and gas, few observers believe that significant change is possible under the current regime. Nevertheless, the EU still defines the success of its Russia policy in terms of internal change in Russia.

There have been numerous attempts to adjust the EU's policy over the past decade: to shift the emphasis from 'common values' to 'common interests'; to be more hard-nosed in the shared neighbourhood; to highlight the rule of law; to acknowledge that Russia is an equal partner, not a subject of EU policy; or, conversely, to take more account of the fact that Russia needs the EU more than the EU needs Russia, in particular in energy. Often these attempts were caught up in the EU's struggle to achieve a unified position among 27 Member States. Today, intra-EU divisions are no longer the main impediment to an effective Russia policy. The EU is learning how to speak with one voice, but it does not always know what to say. What should be the objectives of the EU's Russia policy? What tools does the EU have?

The three sections in this publication all make a powerful case for the EU to perform a reality check on its relationship with Russia. The authors call on the EU to work with Russia as it is. Russia shares the EU's values. But because Russia functions very differently, these values do not translate into the same outcomes as they do in the EU. Lecturing Russia on the superiority of European norms cannot change this reality. The EU should focus on helping Russia change the way it functions by supporting its modernisation wherever

possible. But it must accept Russia's sense of idiosyncrasy and its need to be treated not only as a European but also as a Eurasian power.

The current institutions for EU–Russia relations function badly. But, when looking at the wasteland of dysfunctional or semi-functional road maps, dialogues and working groups, it is legitimate to ask whether an institutional fix, however cleverly constructed, could fundamentally improve EU–Russia relations. The EU is faced with the conundrum that the existing institutional architecture is built on the premise that a transfer of EU rules and norms should form the basis of cooperation with Russia. Russia, on the other hand, wants the institutions to reflect its status as an equal and as a great power.

Analysing the reality of EU–Russia relations is one thing. Drawing the right conclusions for policy formulation is quite another. In many respects, a better Russia policy must start within the EU. For example, a truly European energy policy would allow the EU to speak with one voice to Russia in this core area of the bilateral relationship. While keeping its own markets open to the EU, the Commission should use its muscular competition policy to make sure that Russian investments do not result in undue influence or market power.

A more realistic EU policy towards Russia should start with a clear formulation of the EU's own interests while taking full account of changing circumstances. The EU must ask itself what it really needs from Russia, and then set priorities and

remove non-essential components accordingly. The EU needs Russian cooperation on European security, but equally it needs Russia to accept that the countries of the shared neighbourhood have the right to choose their own paths and affiliations. While both the EU and Russia are busy redefining their neighbourhood policies, some of the countries in this region are carving out more space for an independent foreign policy. The EU needs Russian oil and gas, but probably not as much as Russia needs the EU energy market. The EU's gradual progress towards a common energy policy is further strengthening the EU's position in this area, as is the surplus of supplies on global gas markets. An EU that sees itself as an increasingly important actor on the global scene needs Russian cooperation on issues ranging from stopping Iran's nuclear programme to fighting international terrorism. Finally, the EU needs Russia to be prosperous, stable and at peace with itself and its neighbours. A chaotic, angry and unstable Russia is a risk to EU security and prosperity. Therefore, the EU will continue to offer assistance and advice in helping Russia strengthen the rule of law, build solid institutions, diversify its economy and develop a vibrant civil society.

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