

The New Eastern Europe:

Challenges and Opportunities for the EU

Svante Cornell



The EU's Eastern Policy:

Challenges and Opportunities

Svante Cornell

CREDITS

Centre for European Studies
Design: RARO S.L.
Printed in Brussels by Drukkerij Jo Vandenbulcke
Brussels
Centre for European Studies
Rue du Commerce 10
Brussels, BE – 1000

The Centre for European Studies (CES) is the official think-tank of the European People's Party (EPP) dedicated to the promotion of Christian democrat, conservative and like-minded political values.
For more information please visit:

www.thinkingeurope.eu

This publication receives funding from the European Parliament.

© Centre for European Studies 2009

Photos used in this publication: Centre for European Studies 2009

The European Parliament and the Centre European Studies assume no responsibility for facts or opinions expressed in this publication or their subsequent use. Sole responsibility lies on the author of this publication.

Table of Contents

Executive Summary and Recommendations	5
1 The New Eastern Europe	10
1.1 Defining the New Eastern Europe	11
1.2 Europe’s Interests in the New Eastern Europe.....	13
2 Governance and Political Development	15
2.1 A Mixed but Bleak Picture.....	15
2.2 The Failure of Western Policies: Ignoring Security and Sovereignty.....	17
3 Security	21
3.1 Weak States in Europe	22
3.2 Unresolved Conflicts.....	24
3.3 Opportunities for Security Cooperation	26
4 Energy Politics	27
4.1 Europe’s Energy Woes and the Role of the New Eastern Europe	27
4.2 Russia’s Declining Production	31
4.3 The Promise of Caspian Natural Gas Suppliers.....	34
4.4 The Caspian corridor: Europe’s Choice	37

5 Russia’s Resurgence 38

 5.1 Governance 39

 5.2 Security..... 41

 5.3 Energy 44

6 America’s Retreat? 47

7 The EU’s Challenge 50

8 Conclusions 54

Executive Summary and Recommendations

Two decades after the fall of the Berlin wall, those European nations that were locked up inside the Soviet Union remain only half free. They are locked in limbo, both in terms of their foreign relations and their domestic realities. In terms of foreign relations, they are caught in no man's land between the increasingly secure and wealthy members of the EU and NATO, to their west, and an increasingly aggressive and authoritarian Russia, to their east. This limbo is reflected also in their domestic politics, as they continue to be torn, to different degrees, between progressive, democratic tendencies, and the forces of authoritarianism and instability.

Indeed, the six states of the "Eastern Partnership" – Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine – can be termed the "New Eastern Europe". Torn to various degrees in different directions, these states all share a fundamental insecurity problem: no proven and agreed upon mechanism exists for the handling of security issues in the region. The consequences of this were most obviously illustrated during the 2008 war in Georgia, in which Moscow showed its ability and readiness to flout the most crucial principles of the post-cold war European security architecture, including the prohibition against the use of force to alter internationally recognized borders. Yet, for a variety of reasons including the global financial crisis, European leaders have yet to act to address the challenges to the European security order that are geographically concentrated in this area.

If allowed to endure, this situation of limbo will ensure that the states of the New Eastern Europe remain a primary focus of European security – but for the wrong reasons. While these states have important and positive roles to play in building Europe’s security as a whole, they are not likely to remain a focus point because of the opportunities they present, but rather because of the instability and crises likely to develop in the area as a result of their current predicament.

It is in the interest of the EU and NATO to prevent such a scenario from developing, and to promote the building of more secure, democratic and prosperous nations in their eastern neighbourhood. Moreover, Europe’s interests correspond exactly to the interests of the nations and peoples of these six countries.

Europe has proven in the past that it has the ability to exert a transformative influence on its neighbours. That said, the challenges in this region differ from those of the 1990s in Central and Eastern Europe. The former member-states of the Soviet Union face a much steeper uphill battle to build and reform their states; the countries of the EU and NATO are less certain whether the states in question really do belong to the European project; and Russia is actively pursuing an adversarial agenda directly at odds with European interests in the region. Despite all this, however, there is little question that both the states and peoples of this region remain strongly attracted to the West. It remains to be seen whether Europe will be ready to meet this challenge.

Recommendations

- The economics-based approach implies by definition the use of sound economic analysis in competition cases, since economic theory provides the right tools to evaluate the impact of business conduct on consumer welfare.
- As such, Europe must categorically reject the concept of “privileged interests” or the division of the continent into “spheres of influences.” Such concepts are incompatible with the basic principles of European security; moreover, they have been proven in the past to undermine rather than build stability.
- Europe should treat the countries of the New Eastern Europe as sovereign subjects, and reject any suggestion that they be treated as objects in dialogues between great powers. Above all, Europe should never negotiate the fate of these countries with other powers over their heads.
- Europe should invigorate the Eastern Partnership and invest resources and efforts in this promising initiative, which can grow into the primary instrument for the Europeanization and stabilization of the region. For that to happen, however, considerably larger levels of high-level attention and financial resources will be needed.
- Europe should take seriously the security concerns of its eastern neighbors; include especially the problem of unresolved conflicts, but also the external challenges to their sovereignty and independence. European leaders should consider launching and deepening a yearly dialogue on security issues with the regional states, in which governance issues should be included, as well as avenues for the development of further security cooperation.

- Europe's potential to contribute to the resolution of the unresolved conflicts of the region is generally underestimated, as is the threat these conflicts pose to Europe. Concerning the Armenian-Azerbaijani conflict and the conflict over Transnistria, a greater effort toward European engagement is needed.
- An expanded European security presence on the ground is needed in the most vulnerable areas, in particular Georgia. In particular, the EU Monitoring Mission (EUMM) can be fruitfully developed. More broadly, a stronger political commitment toward a security presence on the ground will require the improvement of the military and civilian conflict management capabilities within the EU. The recently approved Lisbon Treaty provides opportunities for this.
- Europe should further develop the southern energy corridor, and expedite the building of the Nabucco natural gas pipeline. With a potential to transport both Middle Eastern and Caspian gas to Europe, the project should be of the highest priority to the new European Commission.
- European officials should reiterate in all meetings with Russian counterparts their commitment to the principles of European security as outlined in the Charter of Paris. They may also recall Russia's repeated written commitment to these principles. While continuing to seek a dialogue over their 'common neighborhood' with Russia, European leaders must communicate more clearly the centrality of all parties' respect for the sovereignty and independence of the states in question.

- As a result, European officials should be mindful of the explicit and implicit implications of recent Russian demands for an institutionalized “New European Security Architecture.” While engaging in dialogue with their Russian counterparts, they should be careful not to allow the pillars of European security – the 1975 Helsinki Final Act, the 1990 Charter of Paris, and the pivotal roles of the OSCE and NATO – to be undermined. Any proposals implying any reduction in sovereignty for the countries of the “common neighborhood” should be rejected. In this context, European leaders should be mindful that the security problems in the region are largely a result of the current dominance in Moscow of imperial ambitions. Such thinking is not necessarily going to continue to dominate Russian thinking in the long term. In other words, Russia’s adversarial policies may in the long term give way to more cooperative ones as a result of domestic development in Russia.
- In view of the U.S. Government’s recently reduced interest in Eastern Europe’s security, it is imperative that the EU and the U.S. make more persistent efforts at achieving a strategic consensus on relations with the neighborhood countries and Russia. Europe and America today need a transatlantic Eastern policy.
- Turkey is a key country to Europe in its own right, but also an important interlocutor with regard to the New Eastern Europe. As such, European leaders should include discussion on policies toward this region in talks with their Turkish counterparts, seeking to find common interests.

1 The New Eastern Europe

Twenty years ago, the Iron Curtain still divided Europe into East and West. The two sides lived in different worlds: the values underlying their political and economic organization differed, as did their levels of freedom and living standards. Western Europe was free and democratic, and came to enjoy an unprecedented level of welfare. Meanwhile, Eastern Europe lived under the stagnant and repressive rule of Communism. These notions of Western and Eastern Europe were so enduring and firmly rooted that it is difficult even today for many Europeans to mentally detach themselves from the divisions that existed during the Cold War. Today, however, cold war-era divisions have little meaning. Most members of what formerly was the Warsaw Pact are now fully integrated into the preeminent institutions of the continent: the European Union and NATO. In a sense, they have ‘returned to Europe,’ as Vaclav Havel termed it. The past two decades have been an amazing success story. Seldom, if ever, have societies changed so remarkably for the better in such a short space of time as during the transformation of East-Central Europe in the 1990s. That has in turn implied a quantum leap in the struggle to create a Europe “Whole and Free”, the vision that U.S. President George H. W. Bush formulated in Mainz in May 1989. However, as significant as that step may have been, still more remains to be done. Success in the construction of democratic and modern societies has been geographically limited to Central-Eastern Europe and the Baltic republics. Indeed, of the thirty-odd post-Communist nations that emerged from the collapse of Communism, most of the Western Balkans and the former Soviet Union have not developed in a similar fashion.

1.1 Defining the New Eastern Europe

The states bypassed by this development can be roughly divided into four distinct categories. The closest to Europe is the Western Balkans, where the trauma of the wars that raged during the 1990s still endures - a fact testified to by ongoing disputes between states and unruly arrangements within them. While much remains to be done before this region is fully integrated into Europe, its future in Europe is hardly disputed, and the regional states have managed to construct rudimentary democracies.

The most distant consists of the five republics of Central Asia - countries that have the consolidation of a form of semi-authoritarian or authoritarian rule in common with one another,¹ and who have increasingly turned to the east and south for models of development and trade partners. While Europe has important interests in Central Asia, the region does not realistically have a European future. Indeed, government institutions across the West increasingly treat Central Asia under departments covering Asia.

The third category is Russia. Given its size and its former hegemonic status in the Communist bloc, Russia poses very specific challenges. Since Vladimir Putin's coming to power in 1999, Russia has chosen an increasingly authoritarian model of political and economic organization, and no longer seeks to adopt Western values and institutions. Indeed, Moscow is very unlikely to adapt to European regulatory structures. Instead, the Russian leadership has built an

¹ Semi-authoritarian systems are understood in this paper in the definition of Marina Ottaway, as "ambiguous systems that combine rhetorical acceptance of liberal democracy, the existence of some formal democratic institutions, and political liberties with essentially illiberal or even authoritarian traits." Marina Ottaway, *Democracy Challenged: The Rise of Semi-Authoritarianism*, Washington DC: Carnegie Endowment for International Peace, 2003, p. 3.

alternative model, which it terms “sovereign democracy”. In spite of the name, the Russian political system has transitioned from one form of authoritarian rule to another. Moscow views itself as both a partner and a competitor to Europe - but certainly as an equal. The Russian government has unequivocally voiced its ambition to restore a sphere of exclusive influence that remains to be defined. Although this certainly includes the former Soviet Union, it is an open question as to how far into East-Central Europe it would extend. Moscow explicitly seeks to remake European security structures, targeting the role of NATO and the United States primarily, which it views as a threat to its influence over the European continent. While Russia is a member of the Council of Europe, its present domestic and international behavior makes a mockery of the values and principles of that organization. Russia is an important power that Europe will have to maintain relations with, but which neither desires nor warrants integration with the rest of Europe.

The final category, and the one which will be the subject of this paper, is the region which may be termed the “New Eastern Europe”. It consists of the states wedged between the EU and Turkey, in the West, Russia and the Caspian Sea, in the East, and Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. While they are in many ways disparate, several common factors characterize these states. Firstly, they share a European identity, exemplified by their membership of the Council of Europe and their interest in deepening cooperation with the EU. Secondly, they are the primary target of Russia’s plans for its self-declared “sphere of influence”, but seek to maintain their independence from Moscow. Indeed, although with great variations, their societies are stuck in a no man’s land between democracy and authoritarianism, from the more authoritarian Belarus to the more democratic Georgia and Ukraine. Thirdly, with the

exception of Belarus, all states are marred by significant internal tensions or unresolved conflicts. Finally, unlike the case of East-Central Europe in the 1990s or the western Balkans today, the carrot of membership of the EU or NATO is all but absent in the medium term for these states, earlier hopes to the contrary notwithstanding.

1.2 Europe's Interests in the New Eastern Europe

The states of the New Eastern Europe pose particular opportunities and challenges for the EU and NATO. These stem not only from concerns arising from the instability of the region that have a direct bearing on the rest of Europe, but also from objective European interests there –two factors which are, of course, intertwined.

While European in their own right, these states are not included in the most significant European cooperative structures. The parallel enlargement of the European Union and NATO in 2004-7 greatly increased the security and economic prospects of its new member states; but it also considerably amplified the gap between members and non-members. Poland and Ukraine did not differ greatly in status in 1999, yet ten years later differences were palpable. NATO membership led Poland to be included in a solid security mechanism, while Ukraine was left with no such resource. The Schengen treaty provided Polish citizens with great opportunities to travel and work in the rest of Europe. Ukrainians lack these opportunities, and also saw their access to the important Polish market reduced. With enlargement fatigue dimming the prospects of new countries gaining membership, the risk of a new wall cutting through Europe is palpable. The problems and challenges of non-members therefore appear more permanent than transient in character.

Irrespective of where one stands on the question of these countries' future membership of the EU and NATO, their very proximity to the boundaries of these institutions means that they are deeply intertwined with the rest of Europe. Consequently, the EU has a stake in their security and prosperity, which impact directly on that of the EU itself.

Europe's interests in the region can be divided into three categories – security, governance and economics. As the Russian invasion of Georgia showed, the unresolved conflicts of the region are not “frozen”. Rather, they are dynamic processes that become more and more dangerous as they were left to linger. The war also forced Europe to accept, somewhat reluctantly, that conflicts in the region are a European security problem. The region is home to security threats that Europe can afford to ignore only at its own risk. Aside from the very real danger of military conflict, these also include soft security risks like organized crime and drug trafficking. Moreover, the region is an important transit area to NATO operations in Afghanistan and to the Middle East. In the field of governance, Europe has a clear stake in the development of democratic states in its eastern neighbourhood. In the long term, this is linked to the security of both the region itself and Europe as a whole, because more democratic states in the region will also be more secure. Finally, Europe has important interests in the economies of the region. They are an important source of energy for Europe, and their economic development is central to reducing the gap in living standards between the region's states and the rest of Europe – something which is in turn a crucial factor for the development of smooth relations with the EU itself.

2 Governance and Political Development

The countries of the New Eastern Europe have a checkered record in terms of governance – used here as a broad term encompassing democracy, accountability and human rights. The assessment must be relative, however. Their record does appear dismal if compared with the new EU and NATO members to their west; but in comparison with the norm across the former Soviet Union, several of the region's states – particularly Georgia and Ukraine – stand out as more similar to southeastern European states than to their post-Soviet neighbours. Important progress has therefore taken place. Nevertheless, these countries have all stated their desire for closer ties with the EU and NATO, and are therefore obliged to compare themselves to standards to their west, not to their east.

2.1 A Mixed but Bleak Picture

In political terms, the region is by no means homogeneous. One can talk of a continuum with a consolidated authoritarian government in Belarus on the one hand, and transitional regimes with substantial democratic features in Georgia and Ukraine on the other. Armenia, Azerbaijan and Moldova range in between, with Moldova being the most pluralistic of the three, and Armenia and Azerbaijan becoming less and less so.

In spite of this disparity, the region's states share numerous problems, though all to different degrees. A central issue is the weakness of state institutions and the strength of informal power structures. These can take the form of the individual

authority of a president, as is the case in Belarus; the domination of regionally based elites, as in Azerbaijan or Armenia; or the sustained influence of an informal “kitchen cabinet” surrounding the president, as is the case in Georgia. While the power of presidents may be great on paper, the ability of the state leadership to govern the country is severely limited by a lack of resources and trained officials, as well as by the persistence of strong power networks based on region, kinship, or economic interest that wield real power in and especially outside the capitals, thwarting central governmental authority.

The weakness of institutions also leads to substantial problems of accountability. Corruption and mismanagement permeate government institutions, and form key impediments to good governance. Transparency International’s index confirms this picture: in 2009, four of the region’s states ranked in the bottom third of the index.² Moldova performed slightly better, ranking 89th. Only Georgia, having conducted a serious anti-corruption program following the Rose Revolution, stands out, ranking 66th in the world – a ranking which leaves it just behind Italy and ahead of Greece and Romania.

Electoral performance is another key problem, given that most of the region’s states have yet to pass the ultimate test of democracy: the ousting of an incumbent leadership and its replacement with opposition forces. Ukraine and Moldova appear to have progressed the most in this regard, actually achieving changes in government through elections. In spite of its progress in other areas, Georgia has a less developed electoral environment, though its recent elections were

² Armenia at 120, Belarus at 139, Azerbaijan at 143 and Ukraine at 146 of 180 countries. See Corruption Perceptions Index 2009, at http://www.transparency.org/policy_research/surveys_indices/cpi/2009/cpi_2009_table.

deemed to constitute serious progress. Election in Armenia, Azerbaijan and Belarus cannot be said to be free or fair. In Moldova and Ukraine, even if elections may offer the possibility for opposition forces to win, they are not necessarily fair, given the efforts by forces on all sides of the political spectrum to influence results in ways that are often highly questionable, if not illegal. Moreover, in these two states electoral politics generate substantial political instability, rather than acting as a stabilizing element.

Finally, the regional states often fail to live up to their commitments in terms of human rights. Even in the more advanced states of Georgia and Ukraine, the judicial systems leave much to be desired, not having undergone significant reform yet. Media freedom remains problematic across the region, with television in particular still strongly influenced or controlled by the government, and journalists subjected to government repression in several states, notably Azerbaijan and Belarus.

2.2 The Failure of Western Policies: Ignoring Security and Sovereignty

The democratic deficit in the region has been a key impediment to the region's European integration and to deeper EU engagement with the regional states. However, Western policies are partly to blame for the general lack of democratic progress in the region.

The main focus of Western strategies to support democratization in the region has been on achieving free and fair elections, while a secondary focus has been the strengthening of civil society. These are important objectives by any measure. However, the focus on elections and civil

society has often been excessive, and has overshadowed the deeper and equally important question of building functioning state institutions. Moreover, the resources invested in these objectives have been insignificant in comparison to those invested in East-Central Europe, despite the greater challenge that the region presents.

It is therefore clear that Western assistance to the region has largely failed to achieve its stated objectives. As will be discussed later in this study, Western policies have failed to fully grasp that the challenge posed by Moscow to the West in this region is not only geopolitical, but also ideological. Moreover, the Western states fundamentally misunderstood the region's politics and their implications. In the early 1990s, a "transition paradigm" was prevalent in Western thinking. It assumed, in simplified form, that "any country moving away from dictatorial rule can be considered a country in transition toward democracy."³ This proved to be correct in East-Central Europe, where European engagement was the most ardent. But it did not prove correct elsewhere, where the socialist state system came to be replaced by other forms of semi-authoritarianism.

The transition paradigm suffered from determinism: it failed to foresee that a transition away from authoritarian rule could very well lead to the consolidation of another form of authoritarian rule. It also made the mistake of over-emphasizing elections as the key to promoting democracy. As political theorist Thomas Carothers has observed, it failed to "give significant attention to the challenge of a society trying to democratize while it is grappling with the reality of building a state from scratch or coping with an existent but largely nonfunctional state."⁴

³ Thomas Carothers, "The End of the Transition Paradigm," *Journal of Democracy*, vol. 13 no. 1, 2002, p. 8.

⁴ *Ibid.*, pp. 8-9.

The failure of policies concentrating on elections and civil society has led to a new consensus that the building of functioning, sovereign states – what Fukuyama calls “stateness” – is a prerequisite for the development of representative and participatory institutions.⁵ However, one could argue, as Fareed Zakaria has done, that the premature imposition of electoral democracy on a country can do more harm than good, if it is the case that it ignores the development of constitutional liberties, the rule of law, and fundamental state institutions. In such conditions, electoral democracy has tended to give way to illiberal democracy, which in turn risks being transformed into popular authoritarianism or even fascistoid regimes. If elected rulers are not subject to strong constitutional limitations on their power, there is a considerable risk that they will end up ignoring legal limits and even depriving their citizens of rights, ruling by decree and doing little to develop civil liberties.⁶ Russia is an excellent example of this. As Zakaria argues, the best examples of emerging liberal democracies

⁵ “The development-policy community thus finds itself in an ironic position. The post-Cold War era began under the intellectual dominance of economists, who pushed strongly for liberalization and a minimal state. Ten years later, many economists have concluded that some of the most important variables affecting development are not economic but institutional and political in nature. There was an entire missing dimension of stateness—that of state-building—and hence of development studies that had been ignored amid all the talk about state scope. Many economists found themselves blowing the dust off half-century-old books on public administration, or else reinventing the wheel with regard to anticorruption strategies.” Francis Fukuyama, “The Imperative of State-Building,” *Journal of Democracy*, vol. 15 no. 2, 2004, 17-31. See also a fully developed argument in Francis Fukuyama, *State-Building: Governance and World Order in the Twenty-First Century* (Ithaca: Cornell University Press, 2004).

⁶ In his original article “The Rise of Illiberal Democracy”, published in *Foreign Affairs*, November 1997, Zakaria argued the case as follows: “Democratically elected regimes, often ones that have been re-elected or reaffirmed through referenda, are routinely ignoring constitutional limits on their power and depriving their citizens of basic rights and freedoms. From Peru to the Palestinian Authority, from Sierra Leone to Slovakia, from Pakistan to the Philippines, we see the rise of a disturbing phenomenon in international life -- illiberal democracy.”

are those where a strong constitutional liberal infrastructure developed in parallel or prior to the liberalization of the electoral system.⁷

Western policies not only ignored institutions, they also ignored the reality of limited state sovereignty and the deep security deficit of the region. The interrelationship between sovereignty and democracy is nowhere more relevant than in a region where one of the most striking characteristics has been the failure of states to build sovereignty, starting at its very basis: territorial control. However, sovereignty is the precondition of a functioning political system capable of ensuring law and order, as well as a regulatory framework, and of facilitating the political participation of its citizens and guaranteeing their rights. Good governance is hence very difficult to establish in the absence of sovereignty and in conditions of continued insecurity. Indeed, the same reasons that prevent the building of sovereignty and good governance – unresolved armed conflict and the strength of entrenched and non-transparent informal networks – also thwart the aspirations of the people of the region to live in safety, protected by law, and able to participate in political processes, selecting their own leaders.

The failure to build secure and sovereign states in the region is directly related to the weakness of their democratic credentials. It is hence in Europe's long-term interest to build sovereignty, governance and democratic government simultaneously in these regions. So far, however, the West has pursued its goals for security and governance separately.

⁷ Zakaria, op. cit.

3 Security

The EU and NATO have a deep stake in the peace and stability of their eastern neighbours. This was true even before the 2009 Russian invasion of Georgia, which highlighted the dangers of conceiving of the region's unresolved conflicts – which are continuously changing processes – as “frozen”. Yet European governments and institutions chose not to engage meaningfully in conflict management and security provision in the region, apparently believing that inaction comes at no cost. Western inaction partially contributed to relations between Russia and Georgia being allowed to spiral out of control.⁸

The war in Georgia, however, forced Europe to take on the unintended role of stability provider in Georgia, through its financial contributions to Georgia's reconstruction, as well as through the creation of an EU Monitoring Mission along the conflict zones. Whether European leaders liked it or not, they had to accept that the war in Georgia was a European security problem. In this respect, much has changed since the conflicts broke out across the region in the early 1990s. From that time until 2008, Western powers and organizations kept their distance, partly as a result of their deference to Russia's role in the former Soviet Union, but mainly due to lack of interest, as eyes were far more focused on the Balkan conflicts. Yet, it had been EU and NATO enlargement, and developments in the region itself, that were responsible for bringing these regions and their conflicts to the EU's doorstep.

⁸ Stephen Blank, “From Neglect to Duress: The West and the Georgian Crisis Before the 2008 War” and James Sherr, “The External Implications of the Russia Georgia War”, in Svante E. Cornell and S. Frederick Starr, *The Guns of August 2008: Russia's War in Georgia*, Armonk: M.E. Sharpe, 2009.

Of the six states of the region, two (Armenia and Belarus), for their own specific reasons, reluctantly accepted the Russian security umbrella, which was institutionalized through the Collective Security Treaty Organization. The remaining four have refused to join Russian-controlled security structures, seeking instead integration into the West. There are therefore four European states – Azerbaijan, Georgia, Moldova and Ukraine – for whom no security mechanisms whatsoever are in place, in regions where internal and external security challenges are considerable, and where states are characterized by their weakness. Clearly the insecurity of these countries cannot but affect the security of the rest of Europe.

3.1 Weak States in Europe

At the end of the Cold War, European leaders vowed to build an undivided Europe. The gradual expansion of the major European institutions – the Council of Europe, NATO and the EU – contributed greatly towards the construction of a Europe where all countries share basic values and norms of democratic governance, market economy and rule of law. However, several developments – primarily enlargement fatigue and Russian opposition – have caused the expansion of European institutions to stop while still incomplete. The EU has, perhaps understandably, focused on consolidating internally and digesting its new member states. That has led to great progress in the construction of stronger and more secure states in Central and Eastern Europe. Yet paradoxically it has also contributed to highlighting and even exacerbating the weaknesses of the states of the New Eastern Europe.

The states of this region are often described as authoritarian. Of course, the word authoritarian should not be confused

with strength. Quite to the contrary, the authoritarian tendencies of their governments are very much the result of their own perceived weaknesses, which in turn relates to their Soviet past. Unlike the states of Central and Eastern Europe, these states were not independent before or during the Cold War. As a result, the task of building the basic institutions of a state – from border controls and police to parliament, bureaucracy and tax collection – was much greater. And whereas the West offered substantial economic resources and the carrot of future membership to the Central and Eastern European states, the states of the New Eastern Europe received none of this, in spite of the greater obstacles which they faced. It is therefore not surprising that their political and economic development has lagged far behind their western neighbours. As a result, a new dividing line is gradually emerging in Europe, where the states of New Eastern Europe risk seeing the weaknesses of their states perpetuated, and their western neighbours gaining prosperity and security through their EU and NATO membership.

State weakness has its origin in several inter-related problems. One that has already been mentioned is the problem of institutional weakness, which leads to an inability to perform the functions of government correctly. All of these states are characterized by the dominance of informal networks of power in place of formal institutions – a formidable impediment to the consolidation of democracy and good governance.⁹ Related to this is the considerable scale of corruption and organized crime that, to various degrees, permeates state institutions in these states.

⁹ For a description of the problem of informal power networks in the Central Asian context, see S. Frederick Starr, *Clans, Authoritarian Rulers and Parliaments in Central Asia*, Washington: Central Asia-Caucasus Institute Silk Road Paper, 2006.

However, perhaps the most serious problem of these regional states - and a problem which also affects other areas - is the territorial problem that all, apart from Belarus, are experiencing. There are unresolved territorial conflicts between Azerbaijan and Armenia, Georgia and Moldova, and a potential territorial issue in Ukraine's Crimea.

3.2 Unresolved Conflicts

In 2006, a study of the role of the region in European security came to the following conclusions:

The EU membership of Romania and Bulgaria brings the frozen conflicts to the EU's very doorstep. ...Continued instability in these conflict zones cannot but affect Europe. Should these conflicts erupt to large-scale violence – an eventuality whose likelihood is growing, not receding, Europe will be affected significantly ... the EU's proximity to the region would require the Union to play a leading role in conflict resolution and peacekeeping. Indeed, this is made all the more pressing by Russia's partial role in the conflicts, making it unviable as a peacekeeper and honest broker. Building stability in this environment is hence an increasingly important priority for the EU. This, in turn, can only be achieved through the resolution of the conflicts of the region.¹⁰

While the EU was forced to intervene only belatedly in a much deteriorated security situation in Georgia, the conflicts of Transnistria in Moldova and Mountainous Karabakh in

¹⁰ Svante E. Cornell et. Al., *The Wider Black Sea Region: An Emerging Hub of European Security*, Silk Road Paper, Washington DC: Central Asia-Caucasus Institute, November 2006.

Azerbaijan remain unresolved, and the Crimean issue in Ukraine looms large, especially as the 2017 deadline for the closure of the Russian naval base at Sevastopol approaches. The bottom line is that the security order established following the collapse of the USSR – or rather the lack of such an order – has manifestly failed to resolve the outstanding security concerns in the region. In fact, with NATO and EU membership for any of the region's states off the table for the foreseeable future, a deeply troubling security situation has emerged, especially as a result of Russian ambitions to acquire a zone of exclusive influence, and of its determination to exploit territorial conflicts and separatism for that purpose.

Unfortunately, Europe does not appear to have learnt the lesson of its failure to engage in conflict management and resolution in Georgia. Since 2008, no concerted and purposeful European efforts have emerged to step up the process of conflict resolution in Transnistria and Mountainous Karabakh. Indeed, Europe remained a mere spectator during the serious crises in Moldovan politics and in Ukraine's economy in 2009. As for Karabakh, Europe has enthusiastically supported the rapprochement between Turkey and Armenia – a laudable process in its own right – but has failed to match this with enthusiasm for resolving the lingering conflict between Armenia and Azerbaijan. This has been the case, moreover, in spite of continuous protestations from Turkey that it would in all likelihood be impossible to bring the rapprochement with Armenia to a conclusion without some progress towards a resolution in the Armenian-Azerbaijani conflict. Though everyone realizes these processes are tightly linked, for better or for worse Europe has chosen to ignore this reality.

Nevertheless, the Georgian war illustrated that the insecurity of the states of the New Eastern Europe, and in particular their unresolved conflicts, have a profound impact on European security and on the EU and NATO. To begin with, any return to violence in Transnistria, or much more likely between Armenia and Azerbaijan or Russia and Georgia, will rock the entire foundations of European security, just as the 2008 war in Georgia did. Redoubled efforts to manage and, if possible, resolve these conflicts would in this regard be much less costly in both political and economic terms compared to the resources that would be needed if a flare-up was to materialize. Secondly, the internal political and economic instability of the regional states cannot but affect the EU and NATO. The embedded organized crime in these countries is a problem that deeply affects the EU, irrespective of the Schengen treaty.

3.3 Opportunities for Security Cooperation

It may seem from the above that the states of this region only create problems for Europe in terms of security. However, they also provide opportunities. To begin with, the states of the New Eastern Europe are key transit points for Euro-Atlantic operations in Afghanistan. Several of them have contributed to peacekeeping operations in Kosovo, Iraq and Afghanistan – contributions that have moved from the symbolic to the substantial. Georgia's contribution to Afghanistan, 800-strong in 2010, will place it among the ten largest contingents in stability operations in that country. Ukraine and Georgia also provided some of the largest contingents to Iraq – 1,650 and 2,000, respectively. Moreover, the contribution of the regional states to Europe's energy security – discussed in the previous section – makes the region a strategic arena for Europe to enhance its

security in. Put simply, in spite of all their problems, the regional states are gradually becoming providers, and not only consumers, of security. Their capacity to become net contributors to Europe's security in the future should not be underestimated.

In sum, the EU and NATO have compelling reason to engage themselves more profoundly in the security of the New Eastern Europe. Ultimately, the region is part of Europe geographically and politically, and that makes its security problems the problems of Europe as a whole. What's more, the region provides important opportunities for Europe to enhance its security in the medium to long term. It is clear, however, that Western governments have not sufficiently internalized these realities in their policies.

4 Energy Politics

4.1 Europe's Energy Woes and the Role of the New Eastern Europe

Over the past decade, growing attention has been paid to Europe's energy supplies, and particularly to that of natural gas. This process has been dictated as much by economics as by politics. The central issue is of an economic nature: Europe's growing dependence on imported fossil energy. This is a result of the depletion of Europe's own fossil fuels, coupled with the past and projected growth of European energy consumption. Even in the most optimistic scenarios, improvements in energy efficiency and in the development of alternative energy sources will not be enough to reduce the

projected consumption of fossil fuels. This ensures Europe's growing dependence on imported oil, and in particular on natural gas, a cleaner-burning commodity than oil, which is found in relative abundance in Europe's proximity.

In 2003, indigenous European production of natural gas accounted for the first time for less than half of Europe's consumption of gas; in 2007, of a total consumption of 500 billion cubic meters, 300 bcm were imported. In 2030, Europe is expected to import 80 percent of its natural gas, compared to 50% in 2003. This implies a near-exponential increase in imports.¹¹ But where will this gas come from? The only truly global commodity in the gas market is Liquefied Natural Gas (LNG). However, LNG will, even in optimistic scenarios, constitute only 15% of world demand for gas by 2020.¹² Thus, Europe will remain largely dependent on gas-producing areas in its geographical proximity that can deliver gas by pipeline. Indeed, some of the world's largest gas reserves are in Europe's proximity – the former Soviet Union, Iran, and North Africa together account for over two thirds of the world's gas reserves. Their effective transportation to Europe, however, requires functioning infrastructure and entails political complications.

While Southern Europe is dependent on gas supplies not from Russia but from North African suppliers, the role of Russian gas in the European energy mix is remarkable: over 50 percent of Europe's imported gas came from Russia in 2006, compared to slightly less than a quarter each for

¹¹ EU forecast, EU Energy, issue 86, July 2, 2004. Also Bruce Pannier, "Energy: Nabucco Chief Eyes Iranian, Russian Gas Despite U.S. Objections", RFE/RL, 23 June 2008.

¹² Linda Cook, "The Role of LNG in a Global Gas Market", Oil & Money Conference, London, 21 September 2005. (http://www-static.shell.com/static/media/downloads/speeches/lcook_speech_oilandmoneyconf.pdf)

Algeria and Norway.¹³ This reality makes the energy situation in the former Soviet Union fundamentally important for the future of the European market.

Unlike oil, there is no global market for natural gas. Aside from small quantities of LNG that can be transported across oceans, gas is transported via pipelines from producer to consumer, generating dependence both for producers and consumers and making natural gas a strongly politicized commodity. If consumer markets are diversified, this generates political leverage for the consumer. However, in the absence of diversification, leverage is created for the producer, who can extract political or economic concessions from consumers whose economies are dependent on energy supplies. Russia, Europe's main source of gas, has a strong track record of using its energy policies for political purposes – purposes that are often diametrically opposed to Western interests. Indeed, a 2007 Swedish Defense Research Agency study found no less than fifty-five instances of politically motivated Russian manipulations of supply to other countries - mainly, but not exclusively, to former Soviet or Communist states.¹⁴

The New Eastern European states play a key role in European energy security. First, the region includes producers of energy, primarily Azerbaijan, which is endowed with rich oil and natural gas reserves. Secondly, the region constitutes a transit area for both Russian and Central Asian energy resources to the EU: Ukraine and Belarus are transit countries for Russian energy, Georgia and potentially

¹³ EU figures in Energimyndigheten, Europas naturgasberoende: åtgärder för tryggad naturgasförsörjning Eskilstuna: Energimyndigheten, p. 21.

¹⁴ Jakob Hedenskog and Robert Larsson, Russian Leverage on the CIS and the Baltic States, Stockholm: Swedish Defense Research Institute, June 2007,

Ukraine are transit countries for Azerbaijani energy, and the three latter are transit countries for Central Asian reserves.

It is in this context that a Southern corridor for natural gas supplies to Europe is being developed. The new energy-producing states of the Caspian basin – Azerbaijan, Kazakhstan and Turkmenistan – have all expressed strong interest in exporting their most valuable resource to Europe. As a result of major recent infrastructural projects, Azerbaijan’s oil and gas fields are now linked to Turkey, making it possible to export these resources to Europe. The Baku-Tbilisi-Ceyhan (BTC) oil pipeline laid the ground for the South Caucasus energy and transportation corridor, which also consists of the South Caucasus gas pipeline (SCP) and the Baku-Tbilisi-Kars railroad.¹⁵ This was a major achievement for the construction of new supply routes for European energy, but only a first step in the construction of a broader corridor linking the EU to the totality of Caspian producers. Indeed, this has led to the concept of a Southern Energy Corridor being developed, which would link Europe with energy-producing states both in the Caspian region and in the Middle East. The realization of this corridor depends on the construction of a set of pipeline projects, the most crucial of which is the Nabucco pipeline project, which is intended to deliver Caspian gas to Europe.

The construction of the Southern Energy Corridor is often termed an anti-Russian project, and phrases such as “bypassing” or “circumventing” Russia are often used.¹⁶ Yet these characterizations implicitly accept a notion that there is

¹⁵ See S. Frederick Starr and Svante E. Cornell, eds., *The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West*, Washington, DC: Central Asia-Caucasus Institute, 2005.

¹⁶ Joshua Kucera, “Caspian Basin: Russia And Turkey Raise Obstacles For Us Energy Policy”, Eurasianet, 28 January 2009; Bruce Pannier, “Nabucco Pipeline Conference Ends With EU Support, But No Cash”, RFE/RL, 27 January 2009.

a technical, economic or political justification for relying entirely on a Russian route for the export of these countries' resources. However, there is no such justification. Russian routes are not technically less challenging or economically less costly than direct routes from the Caspian to Europe. Neither are they politically more advantageous. Yet the policy does contradict the Kremlin's stated ambition of seeking a monopoly over the export of energy resources – in particular of natural gas – of the states of the former Soviet Union. That makes the policy anti-monopolistic, but by no means anti-Russian. This fact was best illustrated by the three pipeline projects supported by the United States in the 1990s for the export of Caspian resources. Aside from BTC, the U.S. (unsuccessfully) supported a Trans-Caspian pipeline for Turkmenistan's gas, as well as (successfully) a purely Russian export option: the Caspian Pipeline Consortium project linking Tengiz in Kazakhstan to Russia's port of Novorossiysk. Had the policy been anti-Russian, the U.S. would have supported a non-Russian export option for Kazakh oil instead.

4.2 Russia's Declining Production

Russia possesses the world's largest natural gas reserves. However, for both technical and political reasons, Europe faces a growing need to diversify its supplies. More than reserve statistics, what matters is production figures, which in turn are directly linked to investments in extraction and transportation infrastructure. It is here, long before any political considerations enter the equation, that there is cause for concern.

In spite of its giant reserves, Russia is not in a position to single-handedly provide a substantial portion of Europe's

growing gas consumption. As former Russian Deputy Minister of Energy Vladimir Milov observed in 2006, Russia “faces an investment crisis, especially in gas,” and has “done nothing” to invest in infrastructure that would enable it to increase production substantially.¹⁷ Unfortunately, the situation has not changed. Part of the problem lies in the monopolistic position occupied by the Gazprom corporation in Russia’s natural gas sector. A notoriously opaque and mismanaged firm, Gazprom is an arm of the Russian state rather than a modern corporation built for profit. On numerous occasions, Gazprom’s decisions have appeared to be motivated not by efficiency or by profit, but rather by the political considerations of the Kremlin.¹⁸ More broadly speaking, Gazprom is unable to conduct the type of reforms needed to maintain its competitiveness, because it performs a political function as much as it does an economic one. As Anders Åslund has put it, “the problem is that Gazprom is not very good at producing gas”.¹⁹

Gazprom has consistently failed to invest in new field infrastructure, relying on large Soviet-era fields for the bulk of its production. Hence, since 2007, Gazprom’s output has actually begun to decline.²⁰ Russia’s natural gas production has reached a level that cannot grow – let alone generate substantial new export capacities – without substantial

¹⁷ “How Sustainable is Russia’s Future as an Energy Superpower?”, Summary of presentation by Vladimir Milov at Carnegie Endowment for International Peace, 16 March 2006. [<http://list.carnegieendowment.org/t/80287/192304/42757/0/>].

¹⁸ The most notorious example is the series of intermediary companies that were set up to handle gas sales to Ukraine. Given that Gazprom-controlled gas was shipped to Ukraine via Gazprom-owned pipelines, the need for intermediary companies making hundreds of millions of dollars yearly made no economic sense. Nevertheless, it provided Moscow with levers to influence the gas industry in Ukraine.

¹⁹ Anders Åslund, “Gazprom’s Risky Strategy”, *European Energy Review*, June 2008.

²⁰ Robert E. Ebel, *The Geopolitics of Russian Energy: Looking Back, Looking Forward*, Washington DC: CSIS, 2009, 33-36; Vladimir Socor, “Gazprom Hit by Gas Shortfall”, *Eurasia Daily Monitor*, 16 July 2008.

investments amounting to tens of billions of dollars in either the Yamal peninsula or the arctic subsea Shtokman field. The current political outlook does not bode well for Russia's investment climate. As Moscow seeks to develop its fields alone or with the use of Western firms as sub-contractors rather than partners, the development of the country's enormous resources is likely to be marred by long delays and mismanagement.

Even optimistic forecasts predict a growing Russian gas deficit. The urgency of these figures may have been alleviated somewhat by temporary decreases in European demand resulting from the global economic downturn, but that does not change the broader picture. Gazprom's leadership has now found that its best strategy is to import Central Asian gas through the existing Soviet-era transmission system rather than to invest in its own fields. Indeed, Russia's energy strategy states how long-term availability of Central Asian energy is essential to "preserve Russia's northern gas fields for the next generation, avoid boosting investment in their development, and decrease the pressure on the markets presenting strategic interest for Russia itself."²¹ In other words, Russia has opted to import Central Asian gas to re-export it to Europe.

This presents Europe with a dilemma and a choice. The dilemma is that Russia – and Gazprom – is inherently a problematic source of supply. Indeed, the wisdom of relying on a company such as Gazprom for the lion's share of Europe's supply of natural gas in the foreseeable future is highly questionable. The choice, in turn, derives from the realization that Europe will be consuming substantial amounts of Caspian gas – however, it can choose to import

²¹ "Energy Strategy of the Russian Federation for the Period Until 2020," August 28, 2003, p. 53.

this gas through a monopolistic intermediary - Gazprom - or through direct agreements with the producers themselves through direct transportation lines. It is now necessary for us to take a closer look at these producers.

4.3 The Promise of Caspian Natural Gas Suppliers

The countries of the Caspian sea region provide an alternative source of natural gas imports for Europe. The energy-producing states of the Caspian basin – Azerbaijan, Kazakhstan and Turkmenistan – have large untapped potential for production of both oil and natural gas.

Azerbaijan is mainly an oil-producing country, and oil from its Azeri, Chirag and Guneshli fields forms the backbone of the quantities traveling to the West through the BTC pipeline. Azerbaijan's reserves are in the region of 7 billion barrels, amounting to the twentieth-largest reserves in the world.²² Azerbaijan also possesses a large gas deposit called Shah Deniz, which was discovered in 1999. This was a discovery that contributed greatly to making the BTC pipeline feasible due to the economies of scale in building two parallel pipelines, with the South Caucasus gas pipeline extending to Erzurum. Azerbaijan's gas reserves are currently estimated at around two trillion cubic meters.²³ In addition to this, substantial deposits under the Caspian seabed remain untouched due to disputes. The Serdar/Kyapaz field, disputed by both Azerbaijan and Turkmenistan, is estimated to contain 4 billion barrels of oil equivalent (bboe), mainly

²² Jonathan Elkind, "Economic Implications of the Baku-Tbilisi-Ceyhan Pipeline", in S. Frederick Starr and Svante E. Cornell, eds., *The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West*, Washington: CACI & SRSP, 2005, p. 45.

²³ Note? Was 1 million, Aliyev and Statoil then said 2 sometime in 2008?

consisting of natural gas and condensate. The Araz/Sharq/Alov field, disputed by both Azerbaijan and Iran, is thought to be of comparable size. As a whole, Azerbaijan is likely to develop a production capacity of perhaps 50 bcm in the medium term. Of these, domestic consumption and Georgian needs are likely to make up for 10-15 bcm. Available export volumes can therefore be expected to be in the 30 bcm range.²⁴

Kazakhstan is a considerable oil producer, likely to develop a production of over two million barrels per day over the next few decades. The much-delayed supergiant Kashagan field, as well as other fields such as Tengiz and Karachaganak, also generate substantial amounts of associated gas. Reserves are estimated at 1.8 tcm for land-based fields and 3.3 tcm for seabed fields.²⁵ Kazakhstan's main problem is a lack of transportation infrastructure which would allow it to make use of this associated gas. In fact, the country flares a considerable amount of gas that it lacks the infrastructure to export or consume. Karachaganak gas is sold to Russia, while pipeline projects connecting Kazakhstan to China have been developed. The Tengiz and Kashagan fields, lying to the extreme west of the country, are nevertheless unlikely to be exported to China. Kazakhstan produced ca 30 bcm in 2007, a figure expected to rise threefold by 2020.²⁶ As domestic consumption is projected to remain under 20 bcm, Kazakhstan will have considerable export capacities. Although due account should be taken of the likelihood that much of the gas from Kashagan will be re-injected into the oilfield, it is

²⁴ Robert Cutler, "Turkey Risks Gas Bypass", *Asia Times*, 20 March 2009.

²⁵ Amina Jalilova, "Golubaya Mechta dlia Kitaya" [Blue Dream for China], *Novoye Pokoleniye*, February 11, 2005, [<http://www.np.kz/2005/06/rissled3.html>] cited in Ariel Cohen, *Kazakhstan: the road to Independence*, Washington: Central Asia-Caucasus Institute & Silk Road Studies Program, 2008.

²⁶ "Kazakhstan Gas Production", *APS Review Gas Market Trends*, 28 July 2008.

nevertheless obvious that Kazakhstan will be a substantial producer of gas consumed in Europe. Its export capacities to the West in a ten-year period could exceed 30 bcm.

Turkmenistan is the gas kingdom of the region. While it was known to have large deposits of natural gas, the country's erratic late president, Saparmurad Niyazov, refused to allow an independent audit of the reserves until his death in 2006. But in mid-October 2008, the British consultancy company Gaffney, Cline & Associates (GCA) released the first results of an audit of Turkmenistan's gas reserves, which confirmed that the South Yoloten-Osman deposits, situated in the south-east of the country, are alone estimated to contain at least 4 trillion cubic meters of gas but could contain up to 14 trillion cubic meters. Even the preliminary findings guaranteed more "than sufficient gas to fulfill Turkmenistan's existing contract commitments."²⁷ It is therefore highly likely that Turkmenistan could retain and even increase exports to Russia, while simultaneously meeting commitments with China, Iran, and the European market. A logical division between fields along geographical lines also exists, where Russian and Chinese investors appear to compete mainly for fields in Eastern Turkmenistan, and Europe's interest primarily revolves around onshore and offshore fields in Turkmenistan's west, for example Serdar/Kyapaz. Turkmenistan committed in 2008 to selling 10bcm of gas to Europe, in addition to possible new fields.²⁸ Turkmenistan alone produced 90 bcm per year in the late Soviet era. The opening up of the country to the world since 2006 has begun to bring in foreign investors that could help Turkmenistan return to, and exceed, Soviet-era

²⁷ Asia Times, October 17, 2008.

²⁸ Renata Goldirova, "Turkmenistan to Cut EU Dependence on Russian Gas", EU Observer, 14 April 2008.

production levels.²⁹ With a small population of five million, Turkmenistan's domestic consumption is not an obstacle to export. So far, however, China has moved much more aggressively than Europe to emerge as the most likely benefactor of Turkmen gas reserves.

The energy producers of the Caspian region therefore have a substantial gas export potential. Indeed, with the right investments and European political support, Caspian gas produced for European markets could easily exceed 100 bcm. That is not far from Gazprom's entire current exports to Europe, at about 140 bcm. Meanwhile, their domestic markets are considerably smaller, whereas Russia's export capacity stands to be affected significantly by ups or downs in domestic consumption. But how much of the natural gas available in the three Caspian states will flow directly to Europe? This clearly depends on how much is appropriated by China and Russia, which in turn depends on how serious Europe will be in moving in to compete for these reserves.

4.4 The Caspian corridor: Europe's Choice

The gas-producing states of the Caspian have long made their interest in western export routes clear. Azerbaijan has been the most effective in acting upon this commitment, taking significant political risk to contribute to the building of the twin export pipelines. Kazakhstan and Turkmenistan have done the same given their more significant constraints. This in itself is remarkable, given the increasing political risk these governments are taking to do so. The Russian

²⁹ See Jan Sir and Slavomir Horak, *Dismantling Totalitarianism? Turkmenistan under Berdimuhamedow*, Washington/Stockholm: Central Asia Caucasus Institute & Silk Road Studies Program Joint Center Silk Road Paper, March 2009.

government has made its displeasure about such export routes increasingly obvious. Plans for direct pipelines linking the Caspian to Europe have thus developed over the past decade, chief among which is the Nabucco pipeline, which would connect the Austrian hub of Baumgarten to Eastern Turkey, where it could be fed with both Caspian and Middle Eastern gas. But as discussed below, European support for the Nabucco project has, unfortunately, been lackluster.

5 Russia's Resurgence

Russia's resurgence on the international scene has had a strong focus on re-establishing Moscow's primary influence in the former Soviet sphere. Since September 1, 2008 – significantly, just after invading Georgia– Moscow has explicitly demanded a zone of 'privileged interests' there. Policies to that effect have, however, existed for much longer. After all, it was Boris Yeltsin who warned in 1994 of a 'cold peace' should the Clinton administration keep pushing for the expansion of NATO to East-Central Europe. In the New Eastern Europe, Russia has consistently viewed American and NATO influence with great suspicion, while it initially did not appear as concerned with the EU's presence in these countries. Nevertheless, this gradually changed during Vladimir Putin's second presidential term. Moscow has now gone so far as to term the EU Eastern Partnership an attempt at creating a 'sphere of influence' in its own backyard.³⁰

³⁰ Ahto Lobjakas, "Eastern Partnership - The EU's Accidental Sphere Of Influence", RFE/RL, 7 May 2009.

In practice, Russian policies during the Putin era have come increasingly into open conflict with fundamental European interests in the region, whether it be in terms of governance, security, or energy. In fact, these three categories are strongly intertwined – from Moscow’s zero-sum perspective, European influence in the field of governance, energy and security in the region all contribute towards denying Russia’s domination over the region, something that it in turn perceives as a threat to its own security.

5.1 Governance

The driving force behind Russia’s antagonistic policies towards the EU in the New Eastern Europe is as much based on ideology as it is on *realpolitik*. This aspect is central, but often overlooked. In fact, Russian foreign policy has become progressively more antagonistic with its increasingly authoritarian domestic trajectory. This is no mere coincidence. Indeed, the consolidation in the Kremlin of an authoritarian regime asserting control over Russia’s economic wealth led Russian policies to voice increasing objections to Western support for democratization, either in Russia itself or in its neighborhood. Moscow states openly that western-style democracy is not suitable for Russia or other former Soviet states, and that its own authoritarian system – described under the euphemisms ‘sovereign democracy’ and ‘vertical power’ – is the most appropriate model for political development.

Russian policies did not initially target the EU directly, as the Kremlin did not view it as a threat to its own system of government or to its interests. That changed, however, with the ‘color revolutions’ in Georgia and Ukraine, which inadvertently added an ideological dimension to the Russian

challenge to European interests in the region. This was based on considerations of both regime security and geopolitics. While Moscow saw the emergence of pro-Western and democratic governments in its neighborhood as a danger to its regional influence, it also viewed the process of diffusion or contagion of democratic upheavals across the post-Soviet space with great alarm, fearing that the trend could spread to Russia and endanger its own position in power. The EU, by virtue of its support for democratic government, came to be seen increasingly as an adversary by the Kremlin. In particular, the Ukrainian 'Orange Revolution' marked a turning point for two reasons: firstly, because the Orange Revolution made the Georgian revolution a year earlier appear part of a broader trend rather than an isolated event; and secondly, because the EU became more deeply involved in the crisis than Moscow had expected, openly expressing its disagreement on the issue and having a decisive impact on the outcome of the crisis.

As political scientist Thomas Ambrosio has observed, Moscow formulated a five-pronged strategy to counteract the spread of democracy in its neighborhood. This involved a plan to "insulate, redefine, bolster, subvert and coordinate" its efforts³¹ The term 'insulate' refers to the domestic dimension, and to the Kremlin's attempt to prevent a democratic upheaval at home through a variety of mainly repressive measures. 'Redefine' refers to its rhetorical attempts to defend its own system by inventing terminology such as 'sovereign democracy', and by questioning the West's democratic credentials. The next two terms, 'bolster' and 'subvert', refer to Russian policy in the New Eastern Europe: 'Bolster,' according to Ambrosio, refers to the Kremlin's

³¹ Thomas Ambrosio, *Authoritarian Backlash: Russian Resistance to Democratization in the Former Soviet Union*, Burlington, VT: Ashgate, 2009.

attempts to support authoritarian governments in countries such as Belarus, while ‘subvert’ refers to the Kremlin’s systematic attempts to undermine democracy and security in Ukraine and Georgia, in order to discredit the democratic experiment of these countries to their own citizens and their neighbours. Finally, the term ‘coordinate’ refers to the Kremlin’s efforts to synchronize policies with other non-democratic regimes, in order to counterbalance the West’s support for democracy.

Against this background, Russian efforts to undermine the security and statehood of democratizing countries in the region, to bolster authoritarian regimes, and to continue to dominate energy transport routes should all be seen as interrelated, and closely linked to the emphasis placed by Russia on preventing the emergence of democratic and sovereign states willing to integrate with the rest of Europe on its borders.

5.2 Security

Moscow’s policy in the New Eastern Europe is based on the assumption that the ability to influence, and ideally control, the states of the former Soviet Union is vital to Russia’s security interests. Thus, Russia considers the region a “zone of special interest”, in which it claims a right to directly influence domestic developments and foreign policy formulation. The right to exert such influence is viewed as exclusively Russian, and it therefore considers the involvement of the U.S., and to a lesser extent the EU, as well as independent and Western-oriented foreign policies on the part of the regional states, as directly contradicting Russian interests. Efforts to extend the influence of NATO in the region, as well as the “color revolutions” in Georgia and

Ukraine, are viewed in Moscow as attempts on the part of the U.S. to gain a foothold in Russia's own backyard, and to reduce Russia's influence over its neighbours, and therefore as threats to Russian security interests. This perception has only grown stronger over the past decade, and now seems to be somewhat of a general belief in Russia, in spite of well-meaning and genuine Western beliefs that Western support for democratic and stable societies is in the long term in Russia's interest as well. This may be true in objective terms, but to the current Russian leadership, such states are viewed as threats to a view of national security that is increasingly indistinguishable from regime security.

In order to maintain its influence over its "near abroad", Russia makes use of a range of mechanisms inherited from the Soviet Union to reward positive behavior or punish undesirable actions on the part of neighbouring states. However, Moscow makes much more use of sticks than carrots. While rewards include privileged export deals or subsidized energy prices, punishments are many. They include economic sanctions and embargos, manipulation of the price and supply of energy, intervention in domestic politics and unresolved conflicts, subversive activities, military provocations, and ultimately, as in Georgia, the use of full-scale military force.³²

In relation to unresolved conflicts, Russia long pursued an interventionist policy that accelerated rapidly from 2005 onward. This included illegally granting Russian citizenship to inhabitants of Abkhazia and South Ossetia, as well as Transnistria and Crimea. This served to legitimize Russian

³² See Hedenskog and Larsson, Russian Leverage on the CIS and the Baltic States, for a comprehensive analysis of Russia's application of political levers in its near abroad.

interests and engagement in the conflict regions. In the war with Georgia, defense of Russian ‘citizens’ in South Ossetia served as Moscow’s main pretext for invasion. Military presence in neighbouring states, such as military bases in Armenia, the Russian Black Sea Fleet in Sevastopol, ‘peacekeeping’ contingents in Transnistria and formerly in Georgia, which have now been turned into permanent military bases, are also used in a similarly strategic way.

A key factor underpinning Russia’s utilization of unresolved conflicts as leverage has been the control it has had over the negotiation processes in all conflicts – in the cases of Abkhazia, South Ossetia and Transnistria. This has prevented any form of internationalization of these processes. An additional and often overlooked instrument has been the increasingly direct Russian control over governing structures in the de facto governments of secessionist entities, especially in South Ossetia, Abkhazia and Transnistria. Large parts of these governments from 2005 onward consisted of Russian security services personnel, directly seconded from Moscow in violation of international law. These territories, far from operating independently, effectively became Russian vassals.

Russia’s policies within the former Soviet space have been both destabilizing and counterproductive. Moscow may have successfully managed to reinforce its ties with states with which it already had a positive relationship, such as Armenia and Tajikistan, and to coerce Moldova. Yet Russian bullying has alienated even its erstwhile closest ally, Belarus. Moreover, Moscow has failed to reverse the orientation away from Russia of some states in its sphere of influence, especially Georgia and Ukraine, but also Azerbaijan. In fact, the repeated application of negative pressure by Russia has provided an even firmer reason for most regional

governments to believe that their national security concerns are best protected through orientation away from Russia and toward Western integration. In sum, the current Russian leadership appears able to exert influence only through coercion. This is hardly a reliable strategy in the long term.

5.3 Energy

Energy has been the Kremlin's main tool in its plan to regain Russia's position as a great power. Dominance over the European gas market has been part and parcel of Moscow's effort to improve its negotiating position vis-à-vis the EU. This ambition has taken numerous shapes. One example has been Moscow's attempts to coordinate policy with other gas producers, leading to fears of the creation of a 'Gas OPEC'.³³ Moscow has even sought to position itself in other major suppliers to Europe, such as Algeria, to gain leverage. Another example is Gazprom's efforts to acquire downstream assets in Europe, while curtailing Europe's abilities to invest upstream in Russian production.³⁴

Moscow's overarching goal has been to dominate the supply of gas to Europe, and gaining control of supplies coming from the former Soviet Union's producers has been a key element of this. This policy has been partly dictated by necessity, as Gazprom's own shortfall in production requires it to control Central Asian gas to fulfill its supply

³³ Vladimir Socor, "Gazprom, the Prospects of a Gas Cartel, and Europe's Energy Security", in Svante E. Cornell and Niklas Nilsson, eds., *Europe's Energy Security: Gazprom's Dominance and Caspian Supply Alternatives*, Washington and Stockholm: Central Asia-Caucasus Institute & Silk Road Studies Program, 2007, pp. 71-84; Ariel Cohen, "Gas OPEC: A Stealthy Cartel Emerges", Heritage Foundation Webmemo no. 1423, 12 April 2007;.

³⁴ Igor Torbakov, "Europe Rejects Gazprom's Ultimatum", Eurasia Daily Monitor, 20 April 2006.

requirements. However, the main motive is political. On the one hand, Moscow seeks to ensure its position vis-à-vis Europe, which would be weakened if Caspian suppliers could export gas independently to Europe. On the other, Moscow knows that independent export capacities would strengthen the political independence of these states, providing an additional impetus to its determination to dominate export routes.

Moscow has been pursuing this goal through a combination of tactics. Firstly, it has sought to gobble up the Caspian gas resources by mixing carrots and sticks: by promising increasingly high prices to Azerbaijan, Kazakhstan and Turkmenistan for their gas, while also seeking to intimidate these countries into withdrawing from western export routes. Secondly, Gazprom and the Kremlin have sought to spread disinformation in Europe regarding the gas reserves and production capacities of the Caspian producers, in order to convince potential consumers that there is not enough gas in the region. Thirdly, and most importantly, the Kremlin has sought aggressively to build pipelines that would directly connect Russia to friendly EU countries, bypassing transit countries in the New Eastern Europe as well as the Baltic states and Poland, and pre-empting direct pipeline projects from the Caspian such as the Nabucco project.

Two separate projects have played key roles in this regard: the “Nord Stream” and “South Stream” projects. Nord Stream is designed to link Russia’s Baltic shoreline near St. Petersburg with the German coast, while the South Stream project aspires to connect Russia’s Black Sea coast with Bulgaria. There are two problems with these projects however. The first is their exorbitant cost. Even official Russian estimates put the price tag for South Stream at \$20 billion,

and for Nord Stream at \$10 billion.³⁵ In both cases, the price tags are several times higher than the cost for land-based pipelines through Eastern Europe. The second problem is that there appears to be no designated fields to supply gas to the pipelines. The designated field for Nord Stream, Yuzhno-Russkoye, is not sufficient to fill even one of the project's two scheduled parallel pipes, and the potential resources of the Shtokman field could only feed the pipeline a decade from now at the earliest.³⁶ Similarly for South Stream, there is no dedicated field. The project would only make financial sense if large volumes of gas presently transited from Russia through Ukraine to Europe would be diverted, and if additional Central Asian gas supplies would be included.

As such, both projects serve to increase Moscow's leverage over production and transit countries in the New Eastern Europe and Central Asia. Here the term "bypass" is appropriate, since Moscow and its European partners – chiefly Germany and Italy – are going out of their way and spending billions of additional dollars to avoid these states. For example, South Stream's costs are about 50 percent higher than the EU-supported Nabucco project, estimated to cost \$12 billion. Moscow's policies aggressively seek to prevent the stated objective of the EU's energy policy from being realised: diversification of supply.³⁷ This fulfills a number of functions, not least of which is preventing the EU from gaining influence in the region, something which Moscow considers to be against its best interests.

³⁵ Vladimir Socor, "Kremlin Revisits Cost for Expensive South Stream Project", Eurasia Daily Monitor, 30 July 2008; "Russia Says It May Abandon Nord Stream Pipeline", Eurasia Daily Monitor, 20 November 2008.

³⁶ Vladimir Socor, "Nord Stream Pipeline Still Short of Resources", Eurasia Daily Monitor, 12 November 2009.

³⁷ Robert Larsson, Nord Stream, Sweden, and Baltic Sea Security, Stockholm: Swedish Defense Research Institute, March 2007. (<http://www2.foi.se/rapp/foir2280.pdf>)

6 America's Retreat?

For most of the post-cold war era, Europe and America have pursued similar, complementary policies in the New Eastern Europe. The leading role was invariably played by the United States, given its greater ability to act strategically, its stronger cohesion, and, compared to a Europe that is only belatedly developing an ability to act cohesively on foreign and security policy, its considerable resources.

Indeed, looking back at the major Western achievements in the region, most have been driven by Washington. This was certainly the case for the Caucasian energy corridor, as the Clinton administration played a decisive role in bringing the BTC project to fruition. Likewise, the development of security relations between the West and the region in the 2000s was very much a result of the American interest in the region following September 11, 2001. Only with the events of 2004-2005 in the Ukraine, and later the launch of the Eastern Partnership, has Europe assumed a greater role in the region. This took place at a time of gradual decrease in American attention to the region. While the first two years after September 11 seemed to lead to greater American engagement, the Iraq war changed that. The occupation of Iraq and the unforeseen difficulties the U.S. experienced there, in particular until 2007, diverted huge amounts of resources and attention away from other areas of the world, not least Eastern Europe. When the situation in Iraq stabilized, the situation in Afghanistan worsened, and the controversy over Iran's nuclear program heated up. The U.S. election cycle also kicked in. The Bush administration's failure to either prevent the Russian invasion of Georgia or to respond adequately once it happened exemplifies this trend. Indeed, it was the EU, under the French presidency, that

stepped up to the challenge of negotiating a cease-fire agreement. The agreement was deeply flawed, but the U.S., significantly, was absent from it.

Since the advent of the Obama administration, there is no sign that renewed interest in Eastern Europe will be forthcoming. Indeed, several factors seem to point in this direction. One is the sense in the U.S. that Europe is an issue that was handled during the 1990s, and which is now more or less resolved. A second is the renewed priority in Washington to “reset” relations with Russia, which has ensured that the U.S. does not aggressively pursue its interests in the New Eastern Europe. The Obama administration did act in the summer of 2009 to warn Moscow against new provocations with Georgia, indicating that America’s low profile in the region would depend on Russia refraining from aggressive moves of its own. It is nevertheless clear that the priority accorded to the region in Washington is comparably low. This in turn may also be related to another important factor: the elite in the U.S., including the President himself, has increasingly fewer connections with Europe and cannot be assumed to take an interest in European affairs. As Timothy Garton Ash has observed, not only is Obama young enough not to have been shaped by the Cold War (in which Europe was the major focal point), he is also “the personification of a trend that analysts have identified in the abstract: a demographic shift, since the mid-1960s, toward Americans of non-European origin, weakening cultural and historical transatlantic ties.”³⁸ As Ash concludes, building a strong and united Europe is simply not among America’s priorities. Basically, Europe is increasingly on its own.

³⁸ Timothy Garton Ash, “The Most European of U.S. Presidents is also the Least”, *Globe and Mail*, 7 October 2009.

Obama's handling of the missile defense issue in East-Central Europe is symptomatic of this new reality. To be fair, it should be said that the Obama administration had been made a hostage to the mistakes of its predecessor and its western European allies. The Bush administration's error was to seek to kill two birds with one stone: to build up defenses against a future Iranian missile threat, while simultaneously soothing the growing security concerns of Central and Eastern European states. The problem was that these security concerns had to do with Russia and not with Iranian missiles, something the Bush administration knew full well but never openly admitted. However, the Obama administration is not without fault. In the summer of 2009, two dozen leading politicians and thinkers from the region sent Obama an open letter, stressing their concerns about the diminished American commitment to Eastern Europe.³⁹ Had the administration taken these concerns seriously, it would have acted in a way that calmed rather than exacerbated the region's growing sense of insecurity. But it chose not to do so, instead allowing concerns over its allegiances to mount.

This does not mean that America will be irrelevant in the New Eastern Europe. It simply means that Europe can no longer count on America to take a leading role in realizing policy objectives that Brussels and Washington share; it may find that it will only be able to draw America constructively into the affairs of the region by getting its act together and stepping up to the challenge of formulating and implementing policies to advance its interests in the region.

³⁹ See "An Open Letter to the Obama Administration from Central and Eastern Europe", *Gazeta Wyborcza*, 15 July 2009, by Valdas Adamkus, Martin Butora, Emil Constantinescu, Pavol Demes, Lubos Dobrovsky, Matyas Eorsi, Istvan Gyarmati, Vaclav Havel, Rastislav Kacer, Sandra Kalniete, Karel Schwarzenberg, Michal Kovac, Ivan Krastev, Alexander Kwasniewski, Mart Laar, Kadri Liik, Janos Martonyi, Janusz Onyszkiewicz, Adam Rotfeld, Vaira Vike-Freiberga, Alexandr Vondra, and Lech Walesa.

7 The EU's Challenge

In spite of the EU's obvious interests in the New Eastern Europe, the EU has yet to develop appropriate tools to further its interests and to exert a positive influence in the region. This reality stands in stark contrast to the EU's potential influence, given its political and economic significance to the region's states and its attraction to their populations. It also contrasts with the influence the EU wielded in East-Central Europe in the 1990s. In fact, it is difficult to escape the conclusion that the EU is far from reaching its objectives in its most immediate neighbourhood.

That is not to say that the EU has remained passive. In fact, the EU has launched a number of initiatives and instruments to develop a presence in the New Eastern Europe. The European Neighborhood Policy is the most prominent example of this. Launched in 2003, the initiative provided an institutionalized structure for the EU's interaction with its eastern and southern neighbours. Nevertheless, the EU's engagement with the region remained half-hearted. While the Wider Europe initiative that preceded the ENP included over a dozen states in the Mediterranean, it only included three states in the eastern neighborhood: Belarus, Moldova and Ukraine. Although the three South Caucasian states – unlike any Mediterranean partners – were already members of the Council of Europe, they were left out of the initiative, only to be included in 2004. The EU also created the office of Special Representatives, including one to the South Caucasus and one to Moldova. However, the mandate and staffing of these officials has remained relatively limited. In Moldova, the EU did succeed in establishing a Border Assistance Mission on the border between Ukraine and Transnistria, with substantial positive consequences.

Yet when the EU worked to develop the ENP in 2007, its policies failed to consider the importance of a balance between the southern and eastern neighbours. Instead, the EU institutionalized the southern dimension first by upgrading the Barcelona Process in the creation of the Union for the Mediterranean in July 2008. At that time, no similar structure was considered for the eastern neighbours. Only in spring 2008 did Poland and Sweden launch the idea of an Eastern Partnership initiative, which was not embraced by the majority of members until the Russian invasion of Georgia illustrated the vacuum in the New Eastern Europe. Even then it remained underfunded, being granted a budget of only €600 million for the first three years, and it is unclear how much of that was new funds compared to already committed monies.

In any case, the EU's efforts have so far failed to keep pace with the rapid transformation of its eastern neighbourhood. The main sins are those of omission: the EU has failed to take into consideration the cost of inaction in the region. Especially at a time when Russia has reasserted itself forcefully with profound consequences for the New Eastern Europe, the EU has been unable to realize its potential. One reason, clearly, lies in the general difficulties surrounding the building of the Common Foreign and Security Policy. Nevertheless, that does not explain the dwindling attention being paid to the eastern neighbours compared to Mediterranean or other external policy issues. Instead, the reasons appear to lie in internal divisions within the EU on the very desirability and contents of policies toward the Eastern neighbours. Whereas there are in principle no opponents to greater engagement with the south, any eastern initiatives have met with resistance from some members, primarily as a result of concerns relating to Russia.

Yet it is clear that deference to Russia is not a replacement for a policy.

French and German policies, in particular, have caused alarm. In the French case, the reticence appears to be mainly a result of concerns that the Eastern Partnership would deflect attention from the French priority, the Union for the Mediterranean. France's business deals with Moscow, especially the controversial sale of the Mistral assault ships to Russia, nevertheless indicate that other factors may be at play. German policies are even more worrisome, because they appear to be the result of the increasingly close relations between Berlin and Moscow. Until late 2009, the dominance over German foreign policy by the German Social Democratic Party was a key element of the problem. Gerhard Schröder, Germany's former Chancellor turned Gazprom executive, epitomizes the character of the SPD's relationship to Moscow. Although Schröder left office in 2005 after an electoral defeat and immediately took up a job with Gazprom's Nord Stream consortium, his loyal deputy, Frank-Walter Steinmeier, remained at the helm of German foreign policy until 2009. And during this period, on issue after issue, Berlin's policies aligned more closely with Moscow than with its NATO and EU allies. To take just one example, in March 2009 Berlin vetoed the allocation of EU funds to the Nabucco pipeline project, the major prospective alternative supplier of natural gas to Europe not controlled by Russia. Germany's move paid no attention to the project's status as an official priority of the EU Commission, and only Romania's threat to veto the entire EU funding package restored funds to the Nabucco project. Germany also led opposition in NATO to granting even an action plan for Georgian and Ukrainian membership, and spearheaded Europe's meek reaction to Russia's invasion of Georgia. It remains to be seen whether

the new right-of-center coalition in Germany will introduce any changes in German foreign policy.

The Lisbon treaty, ratified in 2009, will only generate very gradual changes to the mode of operation of the European Union. Moreover, the appointments of unknown politicians to the two new top jobs in the EU reinforced the notion that member states will only delegate influence over EU foreign and security policy gradually and reluctantly. Major changes in the EU's internal mechanisms and how they relate to the Eastern neighborhood are therefore unlikely.

But the Eastern Partnership shows that even when member states disagree on Russian policy, they can launch positive and potentially transformative instruments in what the EU defines as its common neighbourhood with Russia. The problem, of course, is that so far the Eastern Partnership lacks two aspects that made previous EU programs transformative in East-Central Europe: the financial strength to have a truly transformative role, and the carrot of membership to speed up reluctant reform. Indeed, to take the example of deep free trade agreements, states like Georgia and Ukraine are in a bind. If they carry out the necessary reforms, they risk losing their attractiveness to foreign investment to liberal, less regulated economies. However, they do not know for sure what positive implications for their European integration, in terms of economics and security, will flow from completing these reforms. In an environment where pro-European and democratic policies have a price tag attached to them, the question is whether or not the incentives will be enough to push the states of the New Eastern Europe in the right direction.

8 Conclusions

Two decades after the fall of the Berlin wall, those European nations that were locked up inside the Soviet Union remain only half free. They are trapped in a limbo between the increasingly secure and wealthy members of the EU and NATO, to their west, and an increasingly aggressive and authoritarian Russia, to their east and north. Domestically, their situations reflect this limbo, being torn between progressive, democratic tendencies, and the forces of authoritarianism and instability. This situation of limbo, if allowed to endure, will ensure that these states remain a primary focus of European security. However, this will not be the case because of the opportunities that they present for the West to boost European security, but rather because of the instability and crises likely to develop in the area as a result of their current predicament. It is in the interests of the EU and NATO to prevent such a scenario from developing, and to promote the building of more secure, democratic and prosperous nations in its eastern neighbourhood. Moreover, these interests correspond exactly to the interests of the nations and peoples of the six countries which form part of this neighbourhood.

Europe has proven in the past that it has the ability to exert a transformative influence on its neighbours. Of course, times have changed: the former member-states of the Soviet Union face a much sharper uphill climb to build and reform their states, while the EU and NATO have a much stronger adversary pursuing an entirely different and contradictory agenda in the region: Russia. However, there is little question that the attractiveness of the West to both the states and peoples of this region remains strong. It remains to be seen whether Europe will be ready to meet this challenge.

Svante Cornell

Svante Cornell is the Research Director of the Institute for Security and Development Policy in Stockholm as well as Associate Professor in Government at Uppsala University and Assistant Research Professor at Johns Hopkins University's Paul H. Nitze School of Advanced International Studies. Cornell holds a Ph.D. in Peace and Conflict Studies from Uppsala University, a B.Sc. with High Honor in International Relations from the Middle East Technical University in Ankara, Turkey, and an honorary doctoral degree from the Behmenyar Institute of Law and Philosophy of the National Academy of Sciences of Azerbaijan. He is a member of the Swedish Royal Academy of Military Science. His main areas of expertise are security issues, state-building, and transnational crime in Southwest and Central Asia, with a specific focus on the Caucasus and Turkey. He is the Editor of the Central Asia-Caucasus Analyst, the Joint Center's bi-weekly publication, and of the Joint Center's Silk Road Papers series of occasional papers. Cornell is the author of four books, including *Small Nations and Great Powers*, the first comprehensive study of the post-Soviet conflicts in the Caucasus. His articles have appeared in numerous leading academic and journals such as *World Politics*, the *Washington Quarterly*, *Current History*, *Journal of Democracy*, *Europe-Asia Studies*, etc.

