CENTRE FOR EUROPEAN REFORM

briefing note

Three questions that Europe must ask about Russia

By Katinka Barysch

* The EU-Russia summit in Samara marks the start of a new era in EU-Russia relations: less ambitious but hopefully also more constructive.

* Poland, Germany and the 25 other EU countries are not going to find a common position on Russia for some time.

* In the meantime, the EU should concentrate on those aspects of the relationship that it can influence. It must have an urgent debate about its energy ties with Russia, especially the misleading concept of 'reciprocity'.

"A complete failure; a sign of a deepening crisis; a step towards a new Cold War" – these are just some of phrases with which Europe's newspapers have chosen to write about the forthcoming EU-Russia summit. In fact, it will be none of these things. Expectations of the meeting are now so low that any positive statement coming from Samara on Friday will look like a success. Moreover, there is too much at stake for all parties involved to let the summit end in frosty disagreement. José Manuel Barroso, the Commission President, will want to display at least a semblance of EU unity, having failed to persuade Poland to lift its veto on EU-Russia talks on a new bilateral treaty. Angela Merkel has made improved relations between the EU and Russia one of the hallmarks of her stint as EU president. And Vladimir Putin will be reluctant to embarrass Merkel, knowing that Germany is not only Russia's weightiest partner but also it best friend in the EU.

Nevertheless, there is no doubt that EU-Russia relations are in trouble: angry mobs outside the Estonian embassy in Moscow; Russian energy deals in Central Asia that seek to frustrate the EU's hopes of diversifying its energy supplies; trade disputes over meat and raw timber; concerns over the murders of Vladimir Litvinenko and Anna Politkovskaya; Kremlin threats towards the Czech Republic and Poland over missile defence; disagreements over Ukraine's EU aspirations and the 'frozen' conflicts in Georgia; thinly veiled warnings to Russians not to attend a London business conference; and Russia's threat to veto UN plans for Kosovo's independence. The list of disagreements is substantial and getting longer.

Russia's political elite has never loved the EU. Now many deem it acceptable to be rude about it. I heard one Russian politician recently describe the EU as "the area

people fly over to get to Asia". Another said that only "uneducated journalists and stupid commentators" could describe Russia as anything but a liberal democracy. Yet another claimed that the EU was worse than the Soviet Union because it is run by the "diktat of bureaucrats".

The growing disdain at the top goes hand in hand with changing public opinion. The Russian people have traditionally had a positive view of the EU. In a recent poll by the Levada Center, a Moscow polling organisation, more than 70 per cent of Russians said they did not consider themselves European, and only a third thought that Russia should develop a long-term relationship with the EU.[1]

Peter Mandelson, the EU's outspoken trade commissioner, summed up the new atmosphere as a "level of misunderstanding or even mistrust we have not seen since the end of the Cold War"[2]. More generally, however, the EU's reaction has been a mixture of befuddlement, complacency and wishful thinking. Although the political rhetoric can be antagonistic and day-to-day co-operation often tedious, the Union and Russia are still officially building a 'strategic partnership' based on 'shared values'. However, both the EU and Russia have changed fundamentally since these objectives were formulated. It is time the EU gave up the pretending that the relationship is something that it is not. The EU's governments and institutions need to start an honest and forward-looking debate about their Russia policy. This debate should involve at least three issues: a clear definition of what the different EU members want and need from Russia; a sober assessment of how much influence the EU has over its biggest neighbour; and contingency plans in case things in Russia turn out better or worse than policy planners.

A new treaty is not the solution

Instead of having such a fundamental debate, the EU is spending a lot of diplomatic effort trying to lift Poland's veto over the negotiations for a new treaty to replace the 1997 'partnership and co-operation agreement' (PCA)[3]. Many European policy-makers are clinging to the hope that such talks could add momentum and purpose to EU-Russia relations.

The German government was hoping to get the bulk of the negotiations done during its tenure as EU president in the first half of 2007. However, since November 2006 the Polish government has insisted that the negotiations could not start before Russia lifts its embargo on Polish meat and live animals. Lithuania is also mulling over a veto, to draw attention to the fact that Russia has not shipped oil to its Mazeikiu refinery since July 2006 (the Russians blame technical faults, but Lithuanians say it is a reprisal for selling Mazeikiu to a Polish energy company, not a Russian one). Estonia could do likewise, following Russia's aggressive over-reaction – including the suspension of rail traffic – to the dispute over a Soviet war memorial. Prime Minister Andrus Ansip on May 2nd said that Russia's reprisals against Estonia were "an attack on the entire EU".

[1] Opinion poll for the EU-Russia Centre, February 2007.
[2] Speech in Bologna, April 20th 2007
http://trade.ec.europa.eu/doclib/docs/2007/april/tradoc_134525.pdf.
[3] The PCA expires in November 2007, but gets extended automatically, unless either side gives notice.

Even if Poland lifted its veto and the Baltic countries did not impose theirs, the prospects for a post-PCA agreement would remain uncertain. In June, Portugal will take over the EU presidency, followed by Slovenia in January 2008. Neither country has much interest in Russia, or the diplomatic clout to push such tricky talks forward. It is only in the second half of 2008 that another big country, France, will lead the EU.

EU officials say that even if there were no further upsets, the new EU-Russia treaty could take five years to complete and ratify in all the member-states. In public, Russian officials still insist on the urgent need for an ambitious new settlement. But in reality the Kremlin appears to have lost interest in the negotiations, perhaps realising that they would not provide many opportunities for quick political point-scoring.

The problem with Poland's veto is not that it delays the post-PCA negotiations. Such talks would only force the EU and Russia to embark on another round of abstract, angry and presumably futile debates about 'common values'. In the current uncertain climate, it may be more useful for both sides to concentrate on the kind of interest-based co-operation encapsulated in the plans for building 'common spaces' in economics, security, research and so on.[4]

The real problem with Warsaw's tactics is that Russia can now smugly claim that the EU really is too divided and difficult to deal with. Poland has delivered the perfect excuse for the Kremlin to ignore the EU and deal directly with the capitals of the big member-states. If the government of Lech and Jaroslaw Kaczyński was hoping to coerce Europe to show solidarity, the attempt has backfired badly.

The removal of Poland's veto would not undo that damage. Instead, it could reveal a host of other challenges. If and when the negotiations start, the EU and Russia will no longer be able to paper over the fact that they have very different objectives. Many in the EU hope that a new agreement will be a tool for making Russia more open, democratic, law-abiding and market-oriented. That is why they will insist on strong language about democracy and human rights in the document.[5] Russia, on the other hand, will only accept a treaty that establishes it as an 'equal partner' to the EU. In other words, any hint that Russia should follow EU rules is likely to be rejected.

EU horse trades may not work

The EU and Russia are also likely to argue about how specific the new agreement should be. They have agreed to leave the small print on trade, visas and so on to supplementary sectoral agreements. But a treaty that consists of vague statements only would hardly be worth ratifying. Nor would it allow the EU to get specific commitments on energy from Russia by offering benefits in other areas.

For years, the Europeans have been trying to persuade Russia to ratify the Energy Charter Treaty, a set of international rules for investment and trade in the oil and gas sector, supplemented by a protocol on energy transit. But the Kremlin cherishes the power that comes with controlling not only the exports of Russian hydrocarbons but

[4] Katinka Barysch, 'The EU and Russia: From principle to pragmatism?', CER policy brief, November 2006.
[5] Some of the EU's new members and perhaps the European Parliament would refuse to ratify an EU-Russia treaty that lacks strong language about values. It could then not enter into force.

also those from the Caspian and Central Asia through its pipeline monopoly. The EU is now trying to get some of the principles from the Energy Charter Treaty included in the post-PCA agreement. In return, it offers Russia a free trade agreement. However, Moscow has limited interest in better EU market access. Three-quarters of Russian exports to the EU now consist of raw materials that are hardly affected by trade rules.

What do we mean by reciprocity?

If this trade-off does not work, the EU may be looking for a deal within the energy sphere. Here, the buzzword is reciprocity. Everyone from President Putin to Chancellor Merkel to Commission officials now insists that this is the way forward in EU-Russia energy co-operation. Reciprocity implies mutual advantage and long-term interdependence. The idea is that Russia should make it easier for companies from the EU to invest in the Russian energy sector, which could help to avert possible future supply shortages. Russia in turn, gets 'security of demand' in Europe, not only through long-term supply contracts with European utilities as in the past, but now also through direct access to gas consumers.

However, this kind of balanced relationship, while superficially attractive, would not translate easily into practical agreements. In fact, the EU and Russia mean different things when they talk about reciprocity, in line with their very different approaches to energy policy: market and rules-based in the EU; state-controlled in Russia. For Europeans, reciprocity means a mutually agreed legal framework that facilitates two-way energy investment. For Russia, reciprocity means top-level talks to identify assets of similar market value, and then swap these assets. Since the EU is not making headway on the Energy Charter Treaty, while Gazprom has been acquiring more and more downstream assets in Europe, it looks like the Russian idea of reciprocity is prevailing at present.

Russian officials routinely complain about EU protectionism but the figures do not support them. Officially recorded outward investment from Russia reached $20 billion in 2006, and once unrecorded transfers are taken into account, the true figure could be twice that.[6] Most of this has gone to Europe. Gazprom now has investments in 16 out of 27 EU countries.[7] In three of the biggest EU gas markets – Italy, Germany and France – it already has direct access to end consumers. In the UK, Gazprom hopes to raise its market share to 10 per cent by the end of the decade. Not content with controlling pipelines, Gazprom is building power plants and gas storage facilities in various EU countries.

Gazprom's growing role in EU markets is not necessarily a problem. It does not matter who controls energy pipelines and power plants in Europe, as long as the owner respects EU rules on transparency, competition and so on. These rules are changing, however, as a result of the Union's attempt to forge a new energy policy. In particular, the European Commission, backed by the UK, Denmark and some other EU governments, wants a new push to build an integrated, EU-wide market for gas and electricity. Such a market, the Commission says, would not only be good for

[6] Philip Hanson, 'Russia as a breeding ground for multinational companies', paper presented at the EU-Russian economic forum, Vienna, April 2007.
[7] Agata Łoskot-Strachota, 'The Russian gas for Europe', Centre for Eastern Studies Warsaw, October 2006.

consumers and businesses, it would also enhance the EU's energy security. If there was problem in one EU country, energy could quickly flow in from elsewhere.[8]

To achieve this, the Commission is suggesting better regulatory oversight and the 'unbundling' of energy production from transmission and distribution.[9] Europe's big vertically integrated energy companies – supported by the governments of their home countries – oppose this idea. They prefer the control they have over their national markets. But the Commission will submit draft laws for unbundling in September. And its tough competition department (DG Comp) has promised to keep investigating the behaviour of Europe's big energy companies.

For the first time, and following a mandate from the March summit of EU leaders, this will include Gazprom. Rumour has it that Putin has already complained in Berlin about the Commission's enquiries regarding Gazprom. Merkel is said to have responded that it is an honour to be treated like Microsoft. Clearly, Russia is in for a "cultural shock", in the words of one European diplomat, if it has to deal with a regulatory authority that cannot be influenced politically.

If and when the EU decides to get serious about unbundling, some of the 30-year contracts that Gazprom has recently concluded with the likes of ENI, BASF and *Gaz de France*, and that give it direct access to end users, may have to be re-negotiated. The Russians are likely to cry foul, accusing the EU of not respecting existing contracts.[10] The EU should be tough, however. When concluding these contracts, Gazprom knew in which direction EU energy policy was heading. Some energy experts suspect that this is exactly why the company is in such a hurry to increase its control over the EU energy market, before it is too late. Moreover, Russia itself keeps re-writing the rules of the game for its own energy market, as BP, Shell and other EU energy companies that are investing there can testify.

Pipelines could divide Europe

Russia could be trying to spoil EU energy plans in another area, namely the diversification of supplies. When Russia temporarily cut off gas supplies to Ukraine at the start of 2006, the EU launched a panicky debate about how to wean itself off its 'over-dependence' on Russian energy. Many Russians may have been positively surprised that they should suddenly look so scary to the EU. "The more Europe frets about energy security, the more tempted Russia will be to play this card", remarks one seasoned EU official. Some energy experts have also warned that the EU's fears of not getting enough energy from Russia could turn into a self-fulfilling prophecy: not

[8] The documents of the Commission's energy package from January 2007 can be found on http://europa.eu/press_room/presspacks/energy/index_en.htm

[9] Under current EU law, energy companies have to run their supply, transport and sales businesses as separate entities. In practice this works badly. Some EU governments are resisting its demand for 'ownership unbundling' which would force companies to sell either their supply or their distribution business. A second, weaker option is under discussion where distribution is transferred to an 'independent system operator'.

[10] The EU has re-opened existing gas supply contracts before, to remove so-called territorial restrictions clauses which prohibited one EU country from selling surplus gas to another EU country. The negotiations with Gazprom were long and arduous.

knowing what its market will be in Europe, Russia will reinforce its efforts to sell more to fast-growing China and other countries.[11]

For the time being, however, all big Russian pipelines go west, to the EU. And it is by no means certain that China wants lots more Russian energy. It has already concluded gas supply contracts with Australia, Indonesia and Kazakhstan, among others. And when it comes to oil, China prefers Africa, where it can gain direct control over resources. "For China, Russia is only a residual energy supplier", says Bobo Lo, a Russia expert at London's Chatham House. Perhaps not surprisingly, China offers Russia less than half the price that the Europeans are currently paying for its gas.

Russian energy sales to the EU do not create a one-sided dependency, as some observers claim. The EU currently buys roughly one-fifth of its energy from Russia. But Russia gets the bulk of its foreign exchange earnings from these sales. It is this money that helps to make Russia rich, stable and self-confident.

While it would be wrong for the Europeans to panic, they do need to have a forward-looking debate about their future energy supplies. Northern Europe can still rely on North Sea gas, while southern EU countries get supplies from Algeria and, increasingly, from Qatar and other Gulf states. It is the Central and East European countries, as well as some of the big eurozone ones such as Germany and Italy, that are predominantly dependent on Gazprom. They would benefit most if the EU had a more coherent energy strategy and gained better access to non-Russian gas.

At present, gas from the Caspian and Central Asia only reaches the EU via Russian pipelines, which – given Gazprom's pipeline monopoly – turns it into Russian gas. The transit protocol to the energy charter treaty would have made it easier for the Europeans to buy gas directly from the likes of Turkmenistan – which is exactly why Russia does not want to ratify it. This reluctance has made the need for alternative pipeline routes more urgent. One is the 'Nabucco' pipeline that would bring gas from the Caspian (and possibly Turkmenistan and Iran) through Turkey, Bulgaria, Romania and Hungary into Austria. Construction of the €5 billion project was supposed to start in 2008 and finish in 2011.

However, the Nabucco consortium, which includes energy companies from all the transit countries, appears to by fraying. In March, Hungary's prime minister, Ferenc Gyurcsany, expressed a sudden an interest in an alternative Russia-controlled project, called Blue Stream II. President Putin has shrewdly promised that this pipeline would turn Hungary into a 'European energy hub'. Incidentally, he has made similar promises to Germany, Austria, Italy, Turkey, Bulgaria, Slovakia, Greece and Belgium. Some politicians in these countries argue that delays in forging a European energy policy justify doing bilateral deals with the Russians.[12] Another blow to Europe's diversification hopes came on May 12th, when Putin reached a preliminary deal with his Kazakh and Turkmen counterparts on a new pipeline from Turkmenistan

[11] Roland Götz, 'Die Debatte um Europa's Energieversorgungssicherheit', SWP discussion paper, March 2007.

[12] This lack of confidence in the EU's ability to ensure energy security is shared by voters. In the Central and East European countries that are most reliant on Russian energy, only very few people think the EU should act as an energy buyer on international markets. Eurobarometer and Gallup, 'Attitudes on issues related to EU energy policy', March 2007.

through Kazakhstan and into Russia. The EU and the US had favoured a route under the Caspian Sea and through Georgia and Turkey. Central Asians may have their own reason for continuing to rely on Russia's pipeline network. But the Europeans urgently need to have a debate about whether bilateral deals or concerted action is best for the EU's energy security.

One voice or many?

The Russians have long tried to 'divide and rule' in their relationship with the EU.[13] Brussels officials had hoped that the Union would be more united and coherent once pro-Putin leaders such as Gerhard Schröder, Silvio Berlusconi and Jaques Chirac had left office. However, enlargement appears has created new challenges. Many of the new member-states harbour historical grievances vis-à-vis Russia. Some, such as Poland and the Baltic countries, have at times tried to use their EU membership to amplify their criticism of Russia. Others, including Bulgaria, Hungary and Slovakia, have mimicked the bigger EU countries by forging closer bilateral ties with the Russians.

The EU should not try to get involved into each and every bilateral issue between Russia and the member-states. But if the EU wants to be taken seriously, it needs to show solidarity when Russia bullies, threatens or punishes one of its members. There is a list of issues that could divide the EU further, including the post-PCA negotiations, Nabucco (still strongly favoured by Austria), the Baltic gas pipeline planned by Germany and Russia but opposed by Poland on political grounds and by Sweden on environmental ones, and trade issues such as an export ban on timber which chiefly affects Finland.

Poland and the Baltic countries rightly complain that the EU makes it too easy for Russia to pick off EU countries one by one. But their conclusion – that drastic action such as their veto is needed to make their voices heard in Berlin and Paris – is questionable. The way forward is not to deepen intra-EU divisions. Instead, the EU needs to find a way to assure its smaller and newer member-states that their interests are properly taken into account.

Clearly, it is no longer enough for Brussels to call on the member-states to 'speak with one voice'. There are real differences in the attitudes and objectives of different member-states vis-à-vis Russia. The EU already has various forums and mechanisms through which the member-states try to reconcile their differences. But these do not seem to be effective. The EU needs to think about what else it can do to encourage member-states to define clearly their objectives with regard to Russia, and to help reconcile them.

Realism, not wishful thinking

Russia is increasingly setting the agenda for EU-Russia relations, while within the EU policy-makers are struggling to come to terms with the fact that their initial blueprint for relations with Russia has not materialised. The EU hoped that by working closely

[13] Katinka Barysch, 'The EU and Russia: Strategic partners or squabbling neighbours?', CER pamphlet, May 2004.

with Russia, and by offering aid, advice and its own best practice, it could help the country become more open and democratic. During the decade or so that the EU has followed this approach, Russia has moved in the opposite direction. Yet many Europeans have been reluctant to question the underlying assumptions of the EU's Russia policy, namely that Russia wants to be 'like us'. Rather than conducting a cool-headed reassessment, the EU has sometimes behaved like a sulking lover whose well-meaning advances have been rejected.

Americans have been faster to start a thorough debate about how to deal with the 'new Russia'.[14] Less concerned about Russia's internal developments, the US now mainly cares about getting Moscow's help (or at least avoiding its obstruction) on international issues such as the fight against terrorism, Iran's nuclear programme or the status of Kosovo. Americans have their own debates about whether Russia's foreign policy is driven by the self-serving interests of a corrupt elite or a more strategic vision of restored great power statues. But they harbour few illusions about a Russia's willingness to compromise on its national interest: "If Russia wanted to be a responsible international stakeholder, it would behave differently", shrugs one senior US official.

For the Europeans, such a reassessment is more difficult, because of history, close trade and energy links, and geographical proximity. But that does not make it any less urgent. Germany has perhaps gone a bit further in crafting a new Russia strategy than other EU countries.[15] The foreign ministry's concept of *Annäherung durch Verflechtung* (loosely translated into 'rapprochement through interdependence') is built on the idea of fostering change gradually, through multiple interaction and everyday contacts. It is, in many ways, the opposite of the 'tough', declaratory policy that some of the new member-states seem to favour.

Critics say that the German approach discards the EU's emphasis on common values. Germans reply that lecturing Russia on values obviously has not worked. Only through working together with Russia in areas of mutual interest can the EU hope to transfer values such as transparency, accountability and respect for law and property rights. Angela Merkel has gained credibility by openly criticising Putin for eroding civil liberties, while at the same time maintaining Germany's traditionally close links to the Kremlin.

In France, Nicolas Sarkozy is unlikely to continue Jacques Chirac's dogged quest for a special relationship with Russia. Sarkozy has made a point of being more critical of the imperfections of Russia's political system than his predecessor was. Chirac had hoped that the Paris-Berlin-Moscow alliance forged in opposition to the Iraq war would grow into a durable coalition that could help to counter-balance American hegemony.[16] For Sarkozy, building close links with Germany, moving France back

[14] Notable contributions in 2006 included the Council on Foreign Relations, 'Russia's wrong direction: What the US can and should do', and the Trilateral Commission (which also included European and Japanese expert), on 'Engaging with Russia: The next phase'.
[15] For example Matthes Buhbe, 'Grundzuege einer deutschen Russland-Strategie', Friedrich Ebert Stiftung, March 2007.
[16] Thomas Gomart, 'France's Russia policy: Balancing interests and values', The Washington Quarterly, Spring 2007.

into the centre of the EU and restoring ties with the US will take priority over having good ties with Russia. If Germany and France co-operated more closely on Russia policy, Italy's instinctively pro-EU premier, Romano Prodi, would surely follow. So far, Prodi has not followed a noticeably different Russia policy from Berlusconi. He has met Putin five times in the last ten months, while Italian-Russian business ties have expanded particularly quickly, making Russia Italy's top export market outside the EU in 2006.

It will take time for the EU to thrash out a revised strategy that all 27 member-states feel comfortable with – and the post-PCA negotiations are not the right framework for doing this! In the meantime, the EU should concentrate on the things that it can do, rather than those over which it has little influence. The EU and its member-states should of course register their disapproval when the Russian authorities trample on human rights and civil liberties. But the EU's continued pretence that it can somehow convert Russia to pluralism and liberalism creates a sense of disappointment in Europe and resentment in Russia.

We need a plan B. And C, and D…

While thinking about a more realistic Russia strategy, the EU also needs to be clearer about its assumptions. Russia's obsession with who will replace Putin in 2008 has infected the Europeans. But despite fevered debates among Russia experts, Kreminologists and other assorted 'insiders', we know remarkably little about the how and who of the 2008 presidential succession. Rather than speculate about personalities, Europe's Russia watchers should ask what the new president is likely to do and how it will affect us. What are the constraints and incentives for Russian leaders in the medium term?

Many Westerners pin their hopes on the emergence of a more demanding middle class in Russia. According to the Russian economics ministry, 20 per cent of Russians could be classified as middle class in 2005, a share that will rise to 30-35 per cent by 2010.[17] Usually, when people get richer they want better protection of property rights and more political participation. If politicians in the EU think that this is likely, the EU should redouble its efforts to support civil society in Russia. For now, however, most Russians appear content with non-political ways of expressing choice and freedom, such as travelling and shopping. A recent EBRD survey found that most Russians are happy with their economic situation and optimistic about the future. But only 20 per cent of them support both democracy and market economics, by far the lowest share in the transition region.[18]

Most observers assume that the new Russian president will perpetuate his predecessor's policies: making Russia a 'sovereign' democracy where the formal institutions of democracy no longer hide a dearth of pluralism; a mixed economy in which the state controls 'strategic' sectors such as energy, but leaves room for private enterprise elsewhere; and a foreign policy that focuses on maintaining influence in the

[17] The ministry uses an income threshold of $600 - $700 per person, as well as property ownership and spare income, for example for holidays. Other ways of defining middle class are professional occupation or self-perception. Dietwald Claus, 'Looking for Russia's middle class', The Moscow News, issue 16/22.

[18] Survey presented at 'Russia's economy: Domestic and international implications', Chatham House, April 16th-17th 2007.

CIS while oscillating between co-operation and confrontation with the West. But others harbour doubts over whether Putinism can continue without Putin. For one, the new president is unlikely to have his predecessor's strong public backing, which has barely fallen below 70 per cent of the electorate. The polls may be questionable. But there is little doubt that Russians support the man who has presided over cumulative GDP growth of almost 50 per cent of since he took over in 2000.

Putin has been popular simply because he is not Yeltsin. The new president will be unpopular simply because he is not Putin. By 2008, Russians will take for granted not only income growth but also political stability and a restored sense of international greatness. Assume Russia's next president lacks public approval. Will he be able to balance the claims of competing power clans, and deflect blame for policy mistakes in the uncanny way Putin has managed to do? If not, will he be tempted to move Russia further towards authoritarianism to retain control? How would the EU react?

Less ambition, more focus

Russia has become a test case for the enlarged EU's ability to formulate and follow a coherent foreign policy. The way EU-Russia relations develop will have big implications for other EU policies too, most notably energy policy, European neighbourhood policy, and the EU's emerging strategy towards Central Asia and the Black Sea region. So it is important for the EU to be clear and coherent in its approach to Russia.

There is no reason to be overly alarmed or pessimistic. There is no new Cold War. Russia at times bullies its neighbours. But it is not imperialist, nor is it trying to spread an anti-Western ideology around the world. Russia sees itself as a civilised Western country. It wants to be part of international clubs, not only the UN but also the WTO, the G8 and now the OECD. Over Iran, Russia has shown that it can work constructively with the Europeans and the Americans, provided its views are taken into account. If Russian rhetoric sounds angry and intimidating at times, this could be because Russian politicians are still smarting from what they see as humiliating weakness in the 1990s. But they know that they need the West, and the EU in particular, to make their country strong. More than half of Russia's trade is with the EU, and most of its rapidly growing foreign investment comes from there. More European money and expertise will be needed to maintain the output in Russia's energy sector and modernise the rest of the economy. Russia's big companies are pushing onto the London stock exchange and buying up Western companies. So both the business and the political elites have a big stake in maintaining good relations with the West.

Nevertheless, the EU needs to scale back the ambitions of its Russia policy. The Samara summit may well mark the end of the EU's old, aspirational Russia strategy. The EU first needs to have a more serious internal debate about what comes next. The EU should concentrate on getting Russian co-operation where it is needed most urgently, for example over Kosovo. It should seek to unblock the post-PCA negotiations, not because the new treaty will bring substantial improvements in bilateral relations, but because the current stand-off deflects attention away from more important issues. For existing disputes, the EU should use the instruments that are available to it. For example, the EU has rightly asked whether Russia should join the

WTO as long as it keeps imposing unilateral export tariffs and import bans that affect EU business. And it should use its well-established competition policy to make sure that Gazprom's growing role in Europe does not frustrate EU plans for an integrated energy policy.

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The CER would like to thank BP p.l.c. for supporting its work on Russia.