

How the EU can help Russia

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The views expressed in this pamphlet are the author's own and should not be taken as an expression of British government policy.



THE CER's RESEARCH PROGRAMME ON RUSSIA IN EUROPE

Following the success of Rodric Braithwaite's *Russia in Europe*, published in 1999, the CER has established a research programme on that subject. This will focus on Russia's links with the European Union, asking what the EU can do to help Russia, and what Russia can do to help itself. It will look at Russia's place in Europe's emerging security structures, including the Russian relationship with NATO. And it will examine the economic reform process within Russia.

Our Russian partner in this work programme is the Moscow School of Political Studies, which has already translated several CER pamphlets into Russian. David Gowan's *How the EU can help Russia* is the first in a series of pamphlets that will come out of the CER's Russia programme. The CER is grateful to Accenture and to BP Amoco for supporting its work on Russia.



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1 Introduction

The Cat only grinned when it saw Alice. It looked good-natured, she thought: still it had very long claws and a great many teeth, so she thought that it ought to be treated with respect.

Alice's Adventures in Wonderland, Lewis Carroll

Russia and the European Union (EU) are both inclined to view each other as the Cheshire Cat. Russia now regards the EU as a strong but ambiguous organisation that could either encroach on Russia's interests or be helpful. Likewise, the EU is uncertain how to develop its relations with Russia, which remains complex and sometimes unpredictable. But Russia also offers opportunities—even if it shows no sign of transforming itself into *felix domesticus*.

In the early years of Boris Yeltsin's presidency, Russia paid lip service to the EU but did not make a sustained effort to understand its structure, its powers or the relationship between the EU and its member-states. Russia opposes NATO enlargement, but has tended to view EU enlargement as a harmless surrogate for the Central European and Baltic States. It had hoped that EU membership would reduce their interest in joining NATO. In the mid-1990s Russia began to worry about the effects of EU enlargement on Russian trade interests and freedom of movement. Yet Russian policy towards the EU remained largely declaratory and sterile.

Since late 1999, however, Russian policy has begun to change. Vladimir Putin places greater emphasis on what Russia can learn from some of the values of western Europe. Partly as a result of his grounding in German politics, these values weigh more with him than the tired rhetoric about Russia's "Euro-Asian" identity. Under his influence, Moscow shows greater awareness of the EU's economic and commercial importance, and is allocating more staff and resources to the management of EU-related issues. Russian trade experts acknowledge that the closer co-operation

with the EU could be a catalyst that will help Russia's application to join the World Trade Organisation (WTO).

At the same time, an enlarging European Union is advancing towards Russia's borders. Even the new generation of Russian leaders is unsure whether this presents a threat or an opportunity. Will the consequence be political isolation, with Russia left on the fringes of an inward-looking EU? Will the Schengen border controls and tight visa regime of an enlarged EU create new divisions between Russia and its neighbours? Or will the accession of the Central and Eastern European countries strengthen commercial, financial and human contacts between Russia and the Union, and help to energise the western regions of Russia?

Russia hopes to gain some leverage over the enlargement process and wishes to be consulted on those aspects which affect its interests. But the EU has made it plain that Russia is a third party and does not have a seat in the enlargement negotiations. It remains unclear how the EU and Russia will handle issues of mutual interest that stem from enlargement.

Russia's policies towards the EU should also be considered in the context of its broader security interests and the development of a European defence policy. Russia has not finally decided whether to view this aspect of European integration an instrument for driving a wedge in the transatlantic alliance, or as an opportunity to engage with the EU in crisis management.

From the west European standpoint, the EU needs to develop a balanced and coherent policy towards Russia. EU leaders have been highly critical of the Russian government's handling of Chechnya, but there is support for a firm line against genuine terrorism. Putin's attempt to impose more control from the centre, and his launching of investigations into the activities of the "oligarchs", have provoked concerns about the future of democracy and the freedom of the press. Furthermore, his government's handling of the sinking of the nuclear submarine Kursk showed that old Soviet habits die hard.

Nevertheless, EU leaders are rightly keen to build on the openings presented by Putin. More work is needed in Brussels to develop a strategy for handling Russia, and to establish a more flexible EU-Russia

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consultative process that matches the needs of the relationship.

Russia is a challenge for the EU's Common Foreign and Security Policy (CFSP), which is still in its early days and remains the junior partner in relation to the individual policies of national governments. There needs to be more effective co-ordination between the EU institutions and the member-state capitals, and also between the EU, NATO and the US government.

A key underlying question—although some pretend it does not exist—is whether Russia may desire a closer form of association with the EU, and eventually even membership. Any such Russian ambitions are confused and reflect a lack of knowledge about the nature of the EU; they are certainly for the very long term. But Russia has always wanted to be a member of the major fora, such as the Council of Europe and the Group of 7 (now 8). It is unlikely to be content to remain on the fringes of an increasingly powerful political and economic Union.

2 Russia and Europe

Russia, and the Soviet Union before it, has always had a genuine sense of European identity, based on historical, cultural and emotional links with the rest of the continent. During the late Soviet period, this European identity manifested itself as a political aspiration for a “greater Europe” and the “common European home”. For some Russians, these notions had one aim: to weaken the unity of the West.

Nevertheless, recent studies have drawn attention to the surprising amount of ignorance about the EU. This can be partly explained by the low profile of international issues in general in Russia. Relations with the EU are considered to be primarily economic and technical, and of little relevance to the daily lives of Russians. There is little media coverage of the European institutions and policies. Many Russians, even among the professional élites, have no clear understanding of the powers and decision-making processes of the EU. They often confuse it with the Council of Europe.

Officials dealing with Europe in the Russian foreign affairs, economic development and trade ministries are familiar with the structure of the EU, and some have been competent operators in Brussels. There is also an impressive community of EU specialists in the Institute of Europe of the Russian Academy of Sciences, and in some other institutions. Nevertheless, policy-makers in Moscow generally find the EU opaque.

Preference for bilateral relationships

Russian and Soviet governments have traditionally pursued foreign policy and trade issues on a bilateral basis. Russia’s relationship with the United States continues to dominate its relations with the West as a whole. As a nuclear power and permanent member of the UN Security Council, Russia needs a unique relationship with the US, the one remaining superpower. EU-Russian relations are set in the context of this special relationship between the two former Cold War adversaries.

Until the mid-1990s Russia dealt with the major European countries only on a bilateral basis. It tended to regard the EU as an additional yet subordinate body, with some power in trade policy, and with a certain political significance since it was more-or-less NATO minus the United States. Even now, Russia sometimes prefers bilateral dialogue with individual EU governments about trade issues, despite the fact that it is the Commission that negotiates trade policy for the EU. Russia did not hide its disappointment when responsibility for trade policy was transferred from the governments of Austria, Finland and Sweden to Brussels, when they joined the EU in 1995.

Likewise, most EU member-states have focused on bilateral contacts with Russia. The importance of personal contacts at president/prime minister level, however, has been overestimated. The personal relationship between Boris Yeltsin and Helmut Kohl was much less important in political terms than the myth would suggest.

The complex and evolving nature of European integration has not helped Moscow. If Russia wants a political dialogue, it is faced with the "Kissinger question": whom should it call? Romano Prodi, the president of the Commission; Chris Patten, external relations commissioner; Javier Solana, the High Representative for CFSP; or the foreign minister of the country holding the EU's rotating presidency? Moscow has difficulty in adjusting to a new president of the EU every six months, especially when it is a smaller country with which Russia does not have a substantial bilateral dialogue.

Trade and investment asymmetry

Some 40 per cent of Russia's foreign trade is with the EU. This will increase to over 50 per cent when the first wave of East European countries joins the EU. The EU is also the largest source of foreign direct investment in Russia. In 1998, Russian exports to the EU, predominantly commodities, totalled €23 billion and imports from the EU totalled €21 billion. But, as a result of the August 1998 financial crisis, EU exports to Russia fell by about half in 1999, while Russian exports to the EU dipped only marginally. Thus Russia now has a trade surplus of about €10 billion a year.

In terms of trade and investment, Russia does not matter to the EU to the same extent that the EU matters to Russia. In 1998, Russia accounted for

around only 3 per cent of the EU's external trade. However, within this total, it supplies 21 per cent of the EU's natural gas and 12-15 per cent of its oil and oil products.

The euro

Russian policymakers have taken a close interest in the euro, and tend to believe that in the long run it will strengthen the EU's economic power. An article by foreign ministry officials in 1999 said:

Russia will have in the shape of the [enlarged] EU a partner whose weight will grow significantly as a result of the strengthening of EMU and the real transition to a single currency. The EU will have levers for influencing Russia in a direction which is advantageous for itself, and which will not necessarily be so advantageous for Russia.¹

At present, around 80 per cent of Russian foreign trade is in US dollars. According to a specialist working closely with the Central Bank of Russia, it has a policy of increasing holdings in euros, and this increase is likely to accelerate. The Russians are watching closely for indications of a switch of the commodities and goods that are traditionally traded in dollars into euros.

¹ "New Countries on the threshold of the EU" by VN Pozdnyakov and SP Ganzha,

The fluctuation and decline of the euro has caused some problems for the Central Bank. It will have suffered losses from the decline in value of its holdings in Deutschmarks (DM) and other currencies that are now part of the euro (although these losses may have been offset by the strengthening of its dollar holdings).

Mezhdunarodnaya Zhizn, vol 3, 1999

Meanwhile, Russian commercial banks are still inefficient at handling transactions in euros. It seems that instructions from the Central Bank have either been misunderstood or disregarded. There have been cases of retail banks advising Russian importers with DM holdings that, in order to pay an invoice (from Germany) in euros, it is necessary to make a double exchange: from DM to roubles and then from roubles to euros. Thus the Russian importer is quite unnecessarily charged two sets of commission, when payment could in fact be made direct to the invoicing bank in DM.

Despite the current uncertainties and inefficiencies, the assumption in Moscow is that the euro will, in the longer term, become a major currency; that it will give greater leverage to the EU; and that it will increasingly affect Russia's strategy for currency holdings.

² Both Prime Minister Viktor Chernomyrdin and Boris Yeltsin made comments at separate times that Russia might apply to the EU, but neither followed through.

Russian objectives

Recently, Russia has gone out of its way to emphasise that it has no aspiration to join the EU.² Thus the Russian government's medium-term strategy for relations with the EU, presented by Putin on behalf of Yeltsin at the EU-Russia summit at Helsinki in October 1999, rejected any objective of accession to or "association" with the EU.

³ An association of countries formerly in the Soviet Union, usually referred to as the CIS. The Baltic states are not members.

It said: "As a world power situated on two continents, Russia should retain its status and advantages as a Euro-Asian state and the largest country in the Commonwealth of Independent States³, and independence of its position and activities in international organisations."

This is still the formal Russian position, but statements made by the Russian government since Putin took over from Yeltsin have become softer and more Eurocentric.

3 The framework of EU-Russia relations

The formal basis of the EU-Russia relationship is the Partnership and Co-operation Agreement (PCA), signed by EU leaders and President Yeltsin at Corfu in June 1994, and in force since December 1997.

The PCA is a binding treaty. It serves primarily as an ambitious normative framework, designed to bring Russia closer to EU legislative, economic and trading standards.⁴ The provisions of the agreement include the mutual granting of most-favoured nation (MFN) trading status, and other steps that are intended to lead to an EU-Russia free trade area. The PCA does not pretend to be a stepping-stone towards membership of the EU, and is thus very different from the association agreements (known as Europe Agreements) between the EU and the 12 countries that are negotiating to join it.

⁴ See
Appendix for
main
provisions

The PCA does reach to the heart of the issues that Russia needs to address if it wishes to become a normal trading partner of the EU—such as opening its markets to competition, and bringing commercial and regulatory legislation into line with that of the EU. But there has been little progress in implementing the agreement. The reasons are mostly domestic: the succession of political and economic crises, including the devaluation of the rouble in August 1998; a lack of Russian commitment to effective structural and economic reform; and, more recently, the conflict in Chechnya.

The consultative structures created by the PCA do function, but are intricate and excessively bureaucratic. The EU-Russia summit takes place every six months. The Co-operation Council meets annually and is co-chaired by the foreign ministers of the country holding the EU presidency and Russia. The subordinate Co-operation Committee meets every six months, and is chaired by senior officials. It has nine sub-committees dealing with specific issues. Problems are often passed up and down the chain of this structure

without being resolved. This activity has—at least until recently—been a disappointment to both the EU and Russia. In the words of one senior Commission official, it is a “triumph of process over substance”.

Common strategies

The EU’s “Common Strategy” of June 4, 1999 is, in technical terms, an internal operational document drawn up in accordance with the Treaty of Amsterdam. At a more political level it was addressed to the Russian government and was also intended as a political “landmark” of Germany’s presidency of the EU. It is of interest because—despite its bold objectives—it illustrates a measure of frustration on the part of the EU with the state of the relationship, and it provoked a revealing response from Moscow.

The EU’s Common Strategy begins with a bold statement of strategic goals:

- ★ “a stable, open and pluralistic democracy in Russia, governed by the rule of law and underpinning a prosperous market economy benefiting alike the people of Russia and of the European Union;”
- ★ “maintaining European stability, promoting global security and responding to the common challenges of the continent through intensified co-operation with Russia.”

The document states: “The Union and its member-states offer to share with Russia their various experiences in building modern political,

⁵ *Author’s italics* economic, social and administrative structures, *fully recognising that the main responsibility for Russia’s future lies with Russia itself.*”⁵

The strategy sets out a wide-ranging list of primary objectives: the consolidation of democracy, the rule of law and public institutions; the integration of Russia into the common European economic and social area; co-operation to strengthen stability and security in Europe and beyond; and common challenges in the fields of energy, nuclear safety and crime. The strategy also touches on defence, committing the EU to consider “the participation of Russia when the EU avails itself of the Western European Union missions within the Petersberg tasks” (see below).

The strategy also prescribes a number of “specific initiatives”. These are cautiously worded, largely restating existing policies, but they also set some modest targets. On two of them—the non-proliferation of weapons of mass destruction and disarmament; and organised crime—the EU has succeeded in setting up consultation mechanisms.

The Russian reply came in the form of the medium-term strategy of October 1999. It is a raw document. It shows how the conflict in Kosovo had affected Russian perceptions of the EU, and it gives some insights (often in unguarded terms) into the Russians’ tactical objectives in their dealings with the EU.

The message is that Russia wants a “strategic partnership” with the EU. While there are areas where Russia would welcome help, it does not see itself either as a petitioner or as the *object* of an EU strategy. Moscow clearly resented what it felt to be a tone of condescension and hubris in the EU’s approach. Hence the strategy’s emphasis that Russia is a world power and that it has no interest in accession to the EU.

The key elements are as follows:

- ★ An attempt to drive a wedge between Europe and America. One purpose of Russian engagement over security issues would be “to counterbalance...NATO-centrism in Europe.” This is linked to Russia’s belief in the primacy of the Organisation for Security and Co-operation in Europe (OSCE)—as “a key basis of European security”. The OSCE is important to the Russians because it gives them both a seat at the table and the pretext to oppose any crisis management operations that might be organised through another channel, such as NATO. The Russians attach even greater importance to the role of the United Nations Security Council in approving peacekeeping missions.
- ★ Expectation of support for Russian membership of the WTO and reference to the importance of establishing a free trade area. The document nevertheless cautions against any step by the EU that would hamper CIS economic integration or damage Russia’s interests in the CIS. (This understandably became a major bone of contention with other CIS countries. The EU made clear explicitly that it did not endorse the implied Russian *droit de regard* over its neighbours.)

- ★ Sweeping, but mostly imprecise, proposals on trade and investment. These amount to maximisation of market advantages to Russia, favourable terms for the export of nuclear fuel to the EU (and protection of these exports to the Central European and Baltic countries) and an end to all the EU's anti-dumping procedures and quotas.
- ★ Proposals for an expansion of the EU's technical assistance programme, Tacis [Technical Assistance for the Commonwealth of Independent States, a programme which applies to the states formerly in the Soviet Union and now also to Mongolia], and for the partial write-off or restructuring of Russia's debts to EU countries.
- ★ A determination to gain all the possible benefits of the EU's eastward enlargement (such as reduced tariffs on Russian exports) but to avoid any possible adverse consequences. The Russians asked for "consultations" with individual members and candidates, and highlighted protecting the rights of the Russian-speaking population in the Baltic States.
- ★ Support for pan-European programmes, for example in the fields of transport, infrastructure and energy, that would benefit Russia; and for co-operation on crime and law enforcement.
- ★ Encouragement of cross-border and inter-regional co-operation, including projects stemming from the EU's "Northern Dimension"—a programme initiated by Finland in 1997 to improve EU ties with the north-west of Russia. This section of the document highlights the problem of the Russian enclave of Kaliningrad. It proposes a special agreement with the EU, "safeguarding the interests of the Kaliningrad region as an entity of the Russian Federation in the process of EU expansion as well as its transformation into a pilot region within the framework of Euro-Russian co-operation in the 21st century."

That the two EU and Russian documents scarcely connect is a reflection of the divergence between the EU and Russian agendas on the eve of Putin's presidency. The EU's Common Strategy is little more than a restatement of current policy. It does not break much new ground, and it

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makes the mistake of talking down to Russia. The Russian strategy is a demanding and irritable response. It contains little recognition of the complexity of the issues as seen from the EU standpoint.

But even if there is little common ground, the fact that the EU strategy prompted a Russian reply was valuable in itself. The EU and Russia may have been talking past each other, but at least they were doing so in the same room.

4 EU enlargement: threat or opportunity?

Until the mid-1990s, Russia's attitude towards the possible entry of the Central European countries into the EU was either neutral or benign. An article by the Russian foreign ministry describes the position in the following terms:

If the entry of the Central and East European (CEE) countries into NATO was regarded as being unambiguously negative and therefore categorically opposed by Russia, then their entry into the EU appeared to be almost a benefit, another brick in the foundation of the "common European process".⁶

However, since the accession of Austria, Finland and Sweden in 1995, the Russians have begun to qualify their approach to enlargement. Russian concern was triggered by the apparent loss of trade with the new members, especially Finland, allegedly the result of EU restrictions. There is an element of truth in this. But it has become an exaggerated and misleading Russian mantra that Russian exports to Finland were seriously damaged by Finnish accession.

Until the collapse of the Soviet Union, trade with Finland was governed by a special "clearing" agreement. This enabled the Finns to buy hydrocarbons on advantageous terms, while some sectors of Finnish industry had a captive market in the Soviet Union. This artificially supported trade collapsed when the arrangement came to an end in 1991, its total two-way value falling from \$6 billion in 1990 to \$2.4 billion three years later. According to IMF figures, turnover then increased each year with a very small dip in 1996, reflecting a drop in Russian imports. According to Finnish statistics quoted by the Russians, there was a small drop in turnover in 1995 but a recovery in 1996. The value of trade in 1998 and 1999 was affected by the Russian economic crisis of August 1998.

Although the decline in trade with Finland was caused by the end of the clearing agreement four years before the Finnish accession, the distorted version (that accession can be damaging for Russian trade with new EU

⁷ ID Ivanov, members) has stuck.

*'Enlargement of
the EU: scenarios,
problems and
consequences',
Mirovaya
Ekonomika,
Vol. 9, 1998.*

By 1998, the Russian government had compiled a list of concerns about enlargement, focusing primarily on its implications for trade and the effects of the Schengen agreement on professional and personal travel. Russian concerns had been widely aired, for example in an article by Ivan Ivanov, at that time Russia's deputy permanent representative to the EU, now deputy foreign minister.⁷

They were presented formally to the Commission in August 1999.

The issues (described below in the terms used by Russia) can be grouped into four categories:

Trade and investment. As the Central European countries—which Russia describes as its “traditional trading partners”—accede, the extension of EU tariffs and trade policies to these countries could have a negative effect on Russian exports. The Russian government is concerned about the effect of non-tariff restrictions (quantitative restrictions) and of competition and anti-dumping policies. It also fears that the acceding members will tend to redirect their trade and investment towards their new partners, at Russia's expense (as is discussed below). In particular, this would affect trade in food and agricultural products (in both directions), and in defence equipment.

Furthermore, the accession countries will have to adopt EU standards and certification procedures in place of existing Russian-based standards that date back to the time of the Council for Mutual Economic Assistance (COMECON). Russian exporters will thus have to switch to EU standards in order to continue their trade with their former COMECON partners.

Energy exports. Russia is worried that its exports of nuclear fuel will suffer. A guideline of the EU's Euratom Supply Agency states that not more than a quarter of a member-state's supply of natural and enriched uranium should come from one source. Russia is the sole or dominant supplier of nuclear fuel to most Central and East European countries.

Some Russian commentators have also voiced concerns that the new members could be subject to limits on the proportion of total energy supplies received from any one source. There appears to be no basis for this particular worry. Furthermore, a constraint of this sort would not be viable: Russia supplies more than 50 per cent of the Central and Eastern European countries' requirement of oil and over 60 per cent of their gas requirements. There is no alternative source of supply that is equally competitive.

Immigration: the Schengen rules. Russia is concerned that relatively liberal travel regimes for Russian travellers to Central and East European countries will be replaced with more restrictive and costly arrangements under the Schengen rules on immigration. Some of the applicant countries already have started to impose visa requirements on Russians. Such requirements will create particular problems for the Russian exclave of Kaliningrad (see below).

Freedom of transit for Russian products. Russia wants guarantees of unimpeded transit of goods to and from Kaliningrad through Lithuania.

The Russian position is, however, more nuanced—and less consistent—than this summary might suggest. The spectrum of Russian views includes both a recognition of the benefits which EU enlargement could bring to Russia, and a more metaphysical as well as practical anxiety about the political consequences of a new “division of Europe”. Ivan Ivanov brings together these two threads in the above-mentioned article. On the positive side, he notes:

- ★ The dynamic effect of the acceleration and expansion of the EU market. Ivanov argues that this will give new impetus to Russian exports (especially in the energy sector) and to the provision of transport services in the new member-states. The extended common border with the EU will provide enhanced opportunities for joint activity, and will breathe new life into multilateral economic co-operation in the Barents and Baltic Seas, in the north, and the Black Sea basin in the south.
- ★ The single customs tariff in the acceding countries will be more advantageous than the existing national tariffs. Russian trade will

also benefit from the extension of the PCA to the acceding members.

- ★ Improved legislation will help Russian-owned companies in the accession countries.

Ivanov's discussion of the wider consequences is ambiguous. He acknowledges the benefit of increased contact with the EU, and mentions trade, support for Russian economic reforms, political dialogue, and co-operation over crime and drugs. In colourful terms he then describes his fear that EU enlargement will lead to the exclusion of Russia, leaving it "without a 'residence permit' on the edge of the continent, not necessarily in a friendly situation". His concerns are that:

- ★ The EU is paying little attention to Russian interests in Europe. Now that ideological differences have ended, Brussels has tried to bring about a political redivision to the EU's advantage, while Russia is still on its knees.
- ★ In reality there is a link between EU and NATO enlargement. He quotes from the EU's Agenda 2000 document: "The enlargement of the EU...will necessarily have as an aim the guarantee of an increased stabilising influence [over Europe], complementing that which is achieved through the enlargement of NATO."
- ★ Some of the "bourgeois [*sic*] applicant countries" are not aiming at a common European security but rather "their (falsely understood) security from Russia". If this approach were to gain ground, Ivanov believes, the process of enlargement would not be politically neutral, but would rather work against the interests of Russia. "There is too great a temptation among many circles to see in the eastwards enlargement of the EU a reckoning of the results of the cold war in Europe, to the advantage of the West, and moreover even some form of 'anti-Yalta', i.e. a revision of the results of the Second World War."

Ivanov concludes that the process of enlargement is "acceptable in as much as it is based on the principle of not inflicting economic and political damage on Russia...hence the important necessity of wide-scale and duly prepared consultation between Moscow and Brussels on the process of enlargement".

Where does enlargement leave Russia?

What are the implications of enlargement for trade and the political context of EU-Russian relations?

The loss of trade with the applicant countries has already taken place, as both Russia and the Central and East European countries have enlarged their trade with the EU. In 1988, 50 per cent of Soviet trade was with European socialist states. By 1994 only 11 per cent of total Russian trade was with the same countries. The foreign trade of the Central and East European countries was reoriented towards the EU and other market economies in the late 1980s and early 1990s. Before the collapse of COMECON, the Soviet Union had been their largest trade partner. By 1993 their trade with the EU was six times greater than their trade with Russia (which had insisted on hard currency payment from the beginning of 1991, thus becoming less competitive as a supplier).

Nevertheless, the automatic implementation of a single tariff by new member-states will have a major positive effect on Russian trade. The existing average weighted industrial tariff levels of the acceding countries are in general higher than the 3.6 per cent average EU external tariff. Indeed, the average EU external tariff for imports from Russia is in practice considerably lower (the Commission estimates 0.3 per cent) because of the preponderance of minerals and metals on which tariffs are not imposed. The acceding countries will also have to grant Russia MFN status (an obligation under the PCA), even if Russia has not at that stage joined the WTO. Russia currently complains about the high tariffs in some of the candidate countries, for example Hungarian tariffs on metals and fertilisers.

Enlargement may involve some transitional problems for Russia in the terms of trade. In particular, it will be essential for Russian industrial and agricultural producers trading with Central and Eastern Europe to adopt EU standards and certification procedures. However, many Russian exporters dealing with the EU have already made this switch. The bottom line is that the combination of the single customs tariff and the increased growth and dynamism of Central and Eastern European markets is likely to have a net beneficial effect.

Many Russians have real fears that EU enlargement will lead to political encirclement and exclusion and thus banishment to the fringes of Europe.

This theme strikes a familiar chord in a country that has historically been concerned about its geographical exposure and still sees the outcome of the Second World War (and its experiences during that conflict) as a crucial point of reference. Russians worry that enlargement will create a new economic and political division of Europe and that the acceding countries might be tempted politically and economically to turn their back on Russia—with broader negative implications both for Russia and the EU.

These anxieties must be seen in context, but contain elements that should be taken seriously. Current EU policy, including the Northern Dimension initiative, is in large part about finding means of offsetting the economic fault-line on the new eastern border of the EU. Nevertheless, there is a real danger that after accession, the Central European and Baltic countries could be tempted to pay scant or grudging heed to their relations with Russia. Some of the new member-states may feel that they can afford to turn their back on Russia, politically and economically.

For its part, Russia will have to face up to its post-war history and deal with the new members on the same basis as their contacts with the existing EU countries. There are still traces among some Russians of old hegemonic attitudes towards Central and Eastern Europe. Any suggestion that Russia has or should have a *droit de regard* in respect of the countries which were formerly members of COMECON and the Warsaw Pact conjures up old fears in Central European and Baltic capitals.

It should be a high priority for the EU to break this vicious circle of mistrust and resentment, and to ensure that enlargement leads to an increase in political and economic contact (and hence mutual confidence) between the new members and Russia.

5 Putin's new pragmatism

The EU's objectives, as presented in the PCA and the Common Strategy, are to use closer relations with Russia to encourage structural economic reform in the direction of a functioning market economy; to promote flows of trade and investment; and to help bind Russia into a closer and more productive two-way political relationship with the West. Enormous changes have taken place in Russia, many of them beneficial. But the EU as such cannot claim to have played a significant part in the process, for EU-Russia contacts lack substance. Meanwhile, Russia has become increasingly negative about EU enlargement—belittling the benefits and exaggerating the practical problems and the risk of isolation.

Despite this unpromising backdrop, it is clear that President Putin has stimulated a new policy towards the EU. Since late 1999 there have been real signs in Moscow of a more pragmatic and businesslike approach to the EU. Putin's highest priority is to tackle Russia's economic problems. He has come to realise that greater engagement with the EU could help the process of economic reform. Signs of change that became evident during 2000 include:

- ★ A recognition among Russian officials that the government needs to prepare its arguments over trade and enlargement issues more thoroughly if they are to make progress in Brussels. For example, those working on the papers for the EU-Russia summit in May 2000 acknowledged the need to present issues in more detail and to move away from rhetoric.
- ★ The Russian government machinery for handling EU issues has been strengthened. The foreign and trade ministries are concentrating more staff and resources on EU issues. Both those ministries now acknowledge that EU-related business is not only highly complex, but that it also affects a wide range of other ministries that are used to acting on their own. Officials point out with some anxiety that there are some 30 Russian departments with an interest in EU issues,

and a danger that each may try to develop its own policies independently. In response to this, the Russian government's co-ordination committee (chaired by deputy prime minister Viktor Khristyenko) now meets monthly, whereas until the late 1990s it was said to meet only once every six months. The committee—a sort of embryonic version of the European secretariat in Britain's Cabinet Office—is run by the foreign ministry's EU department.

- ★ Officials dealing with EU policy, overwhelmed by the volume of business, have begun to complain that the existing mechanisms for communicating with the Commission are unsatisfactory. In the view of one senior foreign ministry official, there is so much detail to discuss that a permanent and more substantial consultative apparatus is needed. This is a sure sign that departments are trying to grapple with closer relations with the EU, and that they have begun to understand the scale of the task.
- ★ The trade ministry evidently wants to make progress over Russia's WTO application, which has languished for the past several years. Officials recognise that the process of meeting WTO requirements—a Herculean task—will accelerate the convergence of Russian legislation with EU norms.
- ★ Senior trade ministry officials now recognise that, in order to remain competitive, Russian industry must upgrade to EU standards (the sooner the better, according to one deputy minister). While the conversion will be costly, Russia will benefit from taking part in a single, Europe-wide regime of standards.

European defence

Meanwhile, the Russian Government under Putin has shown some dexterity in its policy towards the emerging Common European Security and Defence Policy (CESDP). The initial Russian response to the Franco-British initiative at St Malo in December 1998, and to the EU's commitment a year later to a rapid reaction force of 50,000 to 60,000 troops, was hesitant. Moscow probably thought that the differing French and British starting points would eventually create strains within NATO. Russia did not want to oppose an initiative that could open up differences between the European members of the Alliance and the United States.

The considered reaction has been more complex. Independent Russian defence experts, such as Dmitry Trenin and Vladimir Baranovksy, have argued that the CESDP does not imply a weakening of the transatlantic relationship. Dmitry Danilov at the Institute of Europe of the Russian Academy of Sciences has developed a considered argument for engaging with the construction of a European defence identity.⁸ His thesis is that the CESDP constitutes a diversification of the EU's approach to security policy and a rebalancing (but not a weakening) of links with America. This fits nicely with Russia's aim to establish a multipolar world in the 21st century. This argument shows considerable perceptiveness.

8 "The potential ally of Moscow: militarisation of the EU is objectively advantageous for Russia", Nezavisimoe Voennoye Obozreniye No 47, 1999

The conclusions of the EU's December 1999 Helsinki summit state explicitly that "Russia, Ukraine and other states engaged in political dialogue with the Union...may be invited to take part in the EU-led operations." The Russian army already has experience of joint peacekeeping operations with European forces, in the NATO-led forces in Bosnia and Kosovo. Depending on the circumstances, Russia might be prepared to offer the use of its assets, such as heavy-lift transport aircraft or satellite intelligence, in support of an EU-led crisis management operation. But Russia would only assist such EU operations if they were authorised by a UN Security Council or OSCE resolution. And Russia would certainly oppose any EU crisis management operations in the CIS.

The subject was discussed further at the EU-Russia summit in Moscow on May 29, 2000. According to the Joint Statement, the EU reaffirmed that "Russia may be invited to participate in future crisis management operations". Putin indicated that Russia is interested in co-operation in the politico-military field and specifically in crisis management, provided that the CESDP is based on the primacy of the UN Charter.

While the differences are clearly defined, the door to further collaboration has been opened more widely. One underlying factor appears to be Russia's wish for inclusion in the mechanisms which deal with conflict resolution in Europe, including those which concern the former Yugoslavia.

One question which is indirectly linked to the CESDP is the capability of the British and other European armed forces to provide their own air

transport, and whether the EU countries should consider purchasing the Russian AN-124 aircraft, which has a capacity of over 100 tonnes. To simplify a complex issue, co-operation is unlikely to stretch this far. There are obvious risks in creating dependency on Russia for the supply of crucial equipment and spares.

The May 2000 summit

President Putin, supported by Prime Minister Mikhail Kasyanov and G8 sherpa Andrei Illarionov, confirmed at the May 2000 summit that Russia wanted a more substantial relationship with the EU. He specified that he wanted EU help in attracting investment. Putin stressed his commitment to economic reform, including an improved environment for investment, reform of the tax code and the banking sector, and efforts to boost small and medium enterprises.

Similarly, the tenor for discussion on EU enlargement was more constructive than at previous meetings, and placed emphasis on a mutual readiness to discuss “the impact of future [...] enlargement in Russia’s trade and economic interests and the special interests existing in the Kaliningrad region”. The text continues: “Our joint aim is to mobilise the potential that EU enlargement will offer for increasing trade both between the enlarging European Union and Russia, and between Russia and the candidate countries”.

The overall message is one of Russian readiness to engage in a more practical and productive relationship with the EU. This fits with what is known about the direction of Putin’s policies and priorities, and is the most significant confirmation to date of the greater realism of the Russian government.

This more pragmatic and positive note was repeated in the summit in Paris between Putin and Chirac, Solana and Prodi on October 30th. The joint declaration includes mention of approximation of legislation and a transparent and stable legal framework, accession to the WTO, regional and cross-border co-operation (with a special reference to Kaliningrad) and Chechnya. One innovation was the announcement that the EU and Russia will set up an “energy dialogue”, but it remains to be seen whether this will amount to a great deal. There was also a separate joint declaration on strengthening dialogue and co-operation on political and

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security matters in Europe. This promises to examine mechanisms for contributions from the Russian Federation to the EU's crisis management operations.

The tone of this latest summit was constructive, but it did not have the ground-breaking characteristics of the May meeting. It also had a slightly institutionalised feel.

6 How has the EU managed its policy?

One of the weaknesses of the EU's policy-making machinery has been the fragmentation of responsibility within the Commission. Co-ordination between directorates-general is often poor, and departments have felt remote from their commissioners.

The new Commission that came into office in September 1999 appears to have reduced these problems and invigorated the development and implementation of policy. Chris Patten, the external affairs commissioner, has given fresh impetus to the EU's relations with Russia. He has beefed up his staff dealing with Russian issues by adding more senior officials. Meanwhile, Javier Solana's team in the EU Council Secretariat includes an energetic Russia/Ukraine task force.

Chechnya

Since the autumn of 1999, concern over the handling of Chechnya has been a crucial element in relations between the EU and Russia. At the Santa Maria de Feira summit in June 2000, EU leaders reiterated their demand that Russia should avoid "the excessive use of force and any spill-over of the conflict". They also called for the "pursuit of a political process including elected Chechen representatives, effective independent investigation into human rights abuses, co-operation with the Council of Europe, support for the OSCE Assistance Group in implementing its full mandate and assuring a safe delivery of humanitarian aid."

The Paris summit of October 30th was softer. The Joint Declaration referred to "the need to seek a political solution as a matter of urgency, with due regard for the sovereignty and territorial integrity of the Russian Federation".

The view in Brussels is that, while the EU should continue to be firm and persistent in conveying concerns about Chechnya to Putin and the Russian leadership, it must also look afresh at relations with Russia across the

board, and respond to Putin's new pragmatism. Chechnya remains of central importance but cannot be the only factor determining policy towards Russia. Thus some largely symbolic restrictions on the Tacis technical assistance programme, introduced at the Helsinki European Council in December 1999, have been dropped.

Other constraints

The EU has other concerns, such as Putin's policies to strengthen central power and to limit the authority of regional governors. And his measures against the "oligarchs" have been interpreted as indirect attempts to muzzle press criticism of the government.

The EU and its governments find it hard to interpret Putin's multi-layered strategy. It is not inherently undemocratic to adjust the powers of the Russian Parliament. Putin attaches importance to "the dictatorship of law" (*diktatura zakona*), which should itself be a welcome step. That said, the phrase has a paradoxical ring, and it is not clear whether or how this differs from the more familiar concept of a "law-based state" (*pravovoye gosudarstvo*).

Russian attitudes and anxieties are inevitably coloured by historical experience. Nevertheless, the whole question of whether the executive under Putin is trying to strengthen or limit civil liberties and the mechanisms of democracy is of central importance to the West. If it became clear, on the basis of objective and comprehensive analysis, that Russia was becoming less democratic, the impact on the EU's policies towards Russia would be significant.

Future policy

Russia will continue to pose dilemmas for the EU. There are no simple rule-of-thumb criteria that would enable individual governments, or the EU speaking through its CFSP, to decide in a vacuum how best to balance the wide range of issues where Europe and Russia have mutual interests. But the following conclusions can be drawn:

- ★ Putin's policy towards Chechnya and his domestic policies will continue to raise questions and will require a carefully co-ordinated response. That is not to imply that Russian policy in these areas will automatically provoke criticism.

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- ★ Russia under Putin is likely to become more proactive and creative in its dealings with the EU, as already demonstrated by its position at the May EU-Russia summit.

This readiness to use the EU politically has also been illustrated by the debate over “National Missile Defence” (NMD). Russia has used this issue to make common cause with individual EU countries, in the hope of influencing the Europeans more widely. Russia is opposed to the possible development by the United States of a new anti-ballistic missile system, on the grounds that it would destabilise the existing strategic balance and be in breach of the Anti-Ballistic Missile Treaty of 1972. Russia maintains that the introduction of NMD would give the United States some protection against ballistic missiles, and would thus undermine the balance that is embodied in the Strategic Arms Reduction Treaties (START 1 and 2). It has indicated that, if the United States decide to go ahead with NMD, this could lead to the abrogation of START, and to the renewal of a new strategic arms race. Although there are some differences of shading, most EU countries share Russian concerns over NMD. President Clinton has now left this issue for his successor to deal with.

In this context, it is significant that Putin used his visit to Berlin on 16th June 2000 to attempt to launch a political initiative against NMD via Germany. This is, interestingly, an example of Russia preferring to deal with a major EU member rather than the Presidency of the day.

- ★ EU members (particularly, the larger countries) should be ambitious and use the mechanisms of CFSP to develop and deliver well-constructed common policies towards Russia, rather than diluted formulas that reflect the lowest common denominator.
- ★ In discussion and decision-taking within the EU, it is important to ensure that issues are judged fairly and dispassionately on their merits, when conflicts of interest arise between different fields of policy. At present the eastward enlargement process is the focus in EU priorities, sometimes distracting attention from other important issues, including relations with Russia.

- ★ Co-ordination between the EU and the United States will continue to be essential. Whenever possible, policies should be agreed and promoted jointly. The EU should take into account the fact that, for its part, Russia will continue to see its relations with Europe (and especially Britain, France and Germany) in the context of its broader relationship with the West.

Building contacts

The British government and the EU as a whole have benefited from Tony Blair's decision to establish personal contact with Putin, first by visiting St Petersburg in March, when Putin was acting president, and then by inviting the newly-elected president to Britain the following month, and most recently by visiting Moscow in November. Other EU leaders have visited Putin in Moscow or hosted him in their own countries.

Meetings at this level can make a useful contribution to the process of formulating EU policy. There need be no contradiction between national initiatives and the creation of a coherent EU policy. A personal relationship between leaders adds a dimension to any government-to-government relationship, but this can only be of value if it is accompanied by plain speaking over points of difference. As Chancellor Schröder has commented, international relations cannot be based solely on personal chemistry at the top. There is a need for effective underpinning through contacts with Russian ministers and officials at the bilateral and EU working group level.

7 How can the EU and Russia come closer together?

Trade and investment

Trade relations between the EU and Russia are still bogged down by disputes. In particular, the EU is concerned about new Russian tariffs that contravene both the letter and spirit of the PCA. Russia has, for instance, imposed export tariffs on exports of ferrous and non-ferrous scrap (thus increasing costs for importers of these products in the EU). This is a market-distorting measure that gives an advantage to Russian users of these products, and puts EU users at a disadvantage.

The EU has complained about a ban on imports of fresh eggs from the EU, the regulation of the market in alcoholic drinks, and the imposition of charges on foreign aircraft flying over Siberia. The EU has also accused Russia of not implementing provisions in the PCA that would improve market access, and those that cover the level of permitted foreign investment in the banking and insurance industries.

In order to tackle these problems, the EU should aim to reach agreement at the highest level—in other words, with President Putin and Prime Minister Kasyanov—in order to establish a more strategic and constructive approach to the discussion of trade policy.

The first priority should be co-operation (possibly through a joint task force) to identify the steps that Russia needs to take in order to qualify for WTO membership. Simultaneously, an intensified dialogue is needed to resolve the outstanding trade disputes. Both of these initiatives would require a change of approach on the part of the European Commission and the Russian government.

The EU should also look into whether the conditions are right to begin negotiations on a free trade area, something that it had originally agreed to do in 1998 under the PCA. The EU believes that for negotiations to

begin, Russia must put in place the basis of a free market economy (including an acceptable tax system, together with banking and bankruptcy laws) and must make significant progress towards WTO membership. In view of these criteria, it was probably unrealistic of the original PCA to suggest that the negotiations could begin in 1998. The economic crisis in August 1998 and new trade restrictions imposed by Russia were further setbacks. Nevertheless, the EU should now take the initiative to reopen the issue of the free trade area.

EU enlargement

As described above, the Russian government has come up with an array of responses to enlargement. These range from complaints about the alleged “damage” that enlargement would cause to Russian interests, through more metaphysical worries about political exclusion, to a more practical appreciation that enlargement could be beneficial. The Russians have drawn on these arguments *à la carte*, with little regard for consistency.

Since the summer of 1999, Russia has asked for “consultations” with the Commission on aspects of enlargement that affect its interests. It has also hinted that Moscow should be party to negotiations between applicant countries and the Commission, although this has never been a formal position.

The Commission accepts the need for an exchange of views on issues of concern to Russia, but not “consultations” on enlargement, for this would imply that Russia had a formal right to be consulted. The Commission has also ruled out any suggestion of Russian participation in the bilateral accession negotiations between the Commission and the applicant countries. The EU position is a reasonable one. But the exchange seems to have been conducted rather like a game of chess by post, and the Russians have grumbled, with some justification, that they have had to wait a long time for what they see as grudging replies.

The Commission needs to become more proactive. It should continue to make clear that the decisions relating to enlargement will be decided only bilaterally between the EU and the applicant countries. Nevertheless, the Commission should show a willingness to examine the various Russian concerns and give the clearest—and speediest—possible answers. And it

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should be frank, even when this means acknowledging that a particular aspect of enlargement could damage Russian interests and thus require further examination.

This approach would also demonstrate to the applicant countries that EU enlargement should be a process that strengthens the relationship between the EU—including its new members—and Russia. While it is axiomatic that the EU should take great care to protect the applicant countries' interests, it must equally ensure that new relations with Central and Eastern Europe are not to the detriment of relations with Russia.

Kaliningrad

Kaliningrad, an enclave with a population of about one million sandwiched between Poland and Lithuania, creates a special challenge for the enlargement of the European Union. Formerly Königsberg, the capital of East Prussia, Russia took it as part of the post-Second World War settlement. Kaliningrad's problems are interlinked:

- ★ The area is cut off from the rest of Russia and is dependent on transit through Lithuania. This has negative economic consequences for the viability of the port and for local industry. The disadvantages have been partially offset by tax concessions that encourage manufactured goods to be assembled in the enclave for export onwards to the rest of Russia. This method has worked well in a handful of showcase investments (in the car and furniture industry), but the overall benefits have been limited.
- ★ A lack of investment has led to severe environmental problems. Kaliningrad is one of the worst sources of pollution in the Baltic, and the lack of investment has disturbing implications for public health. For example, sewage treatment facilities are seriously inadequate in the city of Kaliningrad, yet its drinking water continues to be taken from the rivers.
- ★ The region suffers from high levels of organised crime, including drug trafficking. There is also a serious problem of corruption, linked primarily to the smuggling of a wide range of goods, including the illegal export of amber and the import of stolen cars.

- ★ The population suffers from poor health, high levels of drug abuse and a serious lack of preventative medicine. Kaliningrad has one of the highest rates of HIV infection in Europe, in large part transmitted by used needles, and there is a high incidence of tuberculosis.
- ★ The regional administration is widely regarded as inefficient and obstructive, standing in the way of measures that might attract investment. The previous Governor, Leonard Gorbenko, was defeated in elections on November 19th, 2000, and it is hoped his successor will be more flexible and open.

Kaliningrad is the headquarters of the Baltic fleet, and is home to a sizeable contingent—about 18,000 according to some observers—of Russia's armed forces. The entire region was closed to foreigners during the Soviet period. Kaliningrad's military status, and the possibility of a large increase in the size of the military forces stationed there (for example, if NATO were enlarged to include the Baltic States), further complicate relations with its neighbours.

Poland and Lithuania are already uncomfortable with the knock-on effects of Kaliningrad's problems. These difficulties are likely to increase as the prosperity gap between Kaliningrad and its neighbours widens. EU enlargement will entail a particular problem for Kaliningrad residents who travel to mainland Russia. Poland and Lithuania's eventual accession to Schengen (discussed below) will require the introduction of a visa regime.

Nevertheless, Lithuania, which has significant economic links with Kaliningrad, has been keen to play a constructive role. In February 2000 the then Lithuanian deputy foreign minister, Vygaudas Usackas, and the Russian deputy foreign minister, Ivan Ivanov, signed a joint memorandum ("the Nida declaration"). This listed projects that would involve co-operation between Lithuania and Kaliningrad in areas such as transport, energy, environmental protection and education. Although these subjects are not particularly controversial, this is the first example of practical co-operation between an applicant country and the Russian government over issues associated with EU enlargement.

The Russian government is anxious to stress that Kaliningrad should remain an integral part of the Russian Federation. Nevertheless, the

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Russians proposed in April 2000 that the region should be discussed within the framework of the PCA. Meanwhile, the Kaliningrad regional administration has established middle-level links both with Chris Patten's office and with the enlargement directorate-general under Günter Verheugen.

Hitherto, the EU (through Tacis) and Denmark have taken the lead in a series of projects focussed on water supply and waste, other environmental issues, transport, energy, health, social administration, business, education, agriculture, cross-border co-operation and good governance. Both the EU's Tacis programme and Denmark are establishing aid offices in Kaliningrad. Other donors include Finland, Germany, Lithuania and Sweden, UN agencies, the European Bank for Reconstruction and Development (EBRD), the Nordic Investment Bank, and the Soros Foundation. The overall value of recent and current projects is estimated at over €25m.

However, the quality of these programmes is varied and often unsatisfactory. In many cases, projects have merely produced an analysis of problems, rather than concrete remedies. There is often a lack of political commitment or resources for effective implementation. This is a familiar problem affecting technical assistance throughout Russia.

The key to making progress lies with Moscow. EU assistance will work only if the Russian government gives its active backing to programmes, and ensures that the governor and the regional administration are supportive.

If Moscow and the region do give their backing, the EU and other donors should draw up a well co-ordinated series of technical assistance programmes, especially in the fields of regional development and infrastructure improvements, the environment, health and crime prevention. It is particularly important to help the police, border guards and customs services, as a means of attacking crime and corruption and making the region a safe and reliable centre for trade and foreign investment. Attention should also be paid to using technical assistance as a means of facilitating capital investment, from sources such as the EBRD. The larger transport projects planned for the Baltic region will also be of value.

Some commentators have proposed preferential tariff arrangements between the EU and Kaliningrad, as a means of stimulating the enclave's development. But this unlikely to come about, for it would mean erecting tariff barriers between Kaliningrad and the rest of Russia, and that would be unacceptable to Moscow.

Schengen and border policies

When the applicant countries adopt the EU's Schengen agreement on borders and immigration, both Kaliningrad and the border areas of the Leningrad and Pskov regions will be greatly affected.

At present, residents of Kaliningrad are allowed to travel without visas to or through Poland, but the Poles are planning to introduce a visa regime in 2001 and already, in effect, impose an entry tax. Residents of Kaliningrad may now travel to or through Lithuania for up to 30 days without a visa on an internal Russian passport, and Lithuanian citizens have reciprocal rights in Kaliningrad. However, Russians travelling from mainland Russia to or through Lithuania do need visas. There were 8.6 million crossings of Kaliningrad's borders in 1999—a 70 per cent increase over the 1995 figure—divided evenly between the Polish and Lithuanian frontiers. Fifty-one per cent of the crossings were made by non-Russians.

Russians who live close to the Estonian border in the Leningrad and Pskov regions were until 2000 allowed to make local visa-free journeys into adjoining parts of Estonia. This "minor border traffic" is important for personal reasons, for instance between the adjoining towns of Ivangorod (Leningrad Region) and Narva (Estonia), where a large Russian-speaking minority lives. The Estonian government is replacing this concession with a visa regime for all Russians. Those who live in a border area will be able to receive multi-entry visas free of charge.

The new member-states will be required to adopt all the Schengen *acquis* at the moment of accession. Nevertheless, it is certain that the lifting of border controls and the implementation of some other Schengen rules will be phased, as has happened in the case of existing EU members. Finland, the only EU country to border Russia, will not issue Schengen visas until 2002, for example.

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It is likely that, for an initial period, internal borders will be retained between the new member-states and the rest of the Schengen area. The new members will at first issue national visas relating to their own territory only, and could in theory allow visa-free travel for “minor border traffic”. In practice, the existing Schengen members are expected to insist that the new members impose a visa requirement on all Russian visitors, including people making short visits across a border for family or business reasons.

One complicating factor is that many of the those who cross borders between Russia and the applicant countries are relatively poor, and may either make their living from minor cross-border trade (the “suitcase traders”), or may have personal or family reasons for travelling. Many would not be able to afford a typical EU visa fee of €25, which would amount to roughly half the average monthly income of a Russian living in Kaliningrad.

Finland, which has taken a lead on this issue, argues that its own high standards of issuing visas and of border management should serve as the model for the new member countries. There is a high level of co-operation between the Finnish border guards and customs officials and their Russian counterparts. The Finns insist on a 100 per cent visa regime for all Russian visitors, but they also operate a fast and efficient visa-issuing system. Their border crossing points are outstandingly efficient, enabling bona fide travellers to cross very quickly. And by using advanced technology (and liaising with the Russian authorities) the Finns are able to check for false documents or smuggled goods.

Finland has already given a great deal of practical assistance to the Estonian border guards, and is encouraging the EU and individual members to give similar help to other applicant countries. Meanwhile, the Russian government hopes that the existing visa-free regime with Lithuania can be left in place, and that the introduction of a visa requirement by Poland (for Kaliningrad residents) can be delayed at least until the moment of accession.

A possible response from the EU

It is crucial for the EU to establish an efficient system which protects its external borders without hindering legitimate travel. If a fair solution is not found, the EU will be criticised for creating new bureaucratic and

economic barriers to family, personal and business travel, in a region where previous arrangements worked well. It would be particularly harmful to the EU if its rules were seen to be imposing a tax (in the form of visa charges) on travel between two parts of Russia.

One option for the EU would be to treat transit through Lithuania as a special case, and to allow the present (or a modified) system to continue. It might, for instance, be possible to issue national transit visas free of charge at the border, without any requirement for advance application. The objection is that this would make it very difficult to conduct checks on applicants, would require the continuation of some form of lasting internal border control at Lithuania's ports and airports, and would imply that Lithuania would never be able to become a full member of Schengen. This option is unlikely to be acceptable to Finland and other members of Schengen, or for that matter to Lithuania itself. Nevertheless, there may be scope for retaining a system of this sort for an interim period.

The second option would be for Lithuania to set up a centre in Kaliningrad for issuing visas expeditiously and free of charge to Kaliningrad residents. This would enable the Lithuanian authorities to exercise proper control (using the Schengen Information System, the EU's immigration data base). Transit visas could be national, but in this case the Schengen countries would have to accept the risk of abuse of such visas for travel outside Lithuania, when internal borders are eventually removed. In practice, the checks conducted by airlines would make this sort of evasion difficult. In any case, there is already one precedent for a hybrid arrangement: Russians visiting Finland on a Finnish visa should limit their travel to Finland only, but can in practice travel by road or sea to other Nordic countries without a routine document check. There is no reason to believe that this technical inconsistency creates serious difficulties.

The provisions for personal travel by Russian nationals from Russia into Estonia, Latvia, Lithuania (and from Kaliningrad to Poland) will also require some flexibility. The practice being adopted by Estonia for local "minor border traffic"—multi-entry visas issued free of charge—is one that should also be adopted by Latvia and Lithuania to cater for similar movement.

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Tacis in Russia

The EU's Tacis technical assistance programme has operated in Russia since 1991. It has provided some €200m per year to a wide range of projects in support of the economic and democratic reform process.

However, Tacis's organisational structure is cumbersome and absorbs too many resources. The cycle for agreeing and implementing programmes (by sector and by region) is too long. It usually takes well over one year, and sometimes longer, for work to begin on individual projects. And the management process—with decisions passing from the Commission to the EU's office in Moscow to a Russian co-ordinating office, and from there to the recipient regions and partners—is inefficient. The result is that the justification for a programme may no longer be valid by the time it is finally implemented.

Tacis rarely succeeds in striking while the iron is hot. The process of putting projects out to tender in Brussels may guard against favouritism or other abuses, but adds to the delay. There is also a risk that projects may not sufficiently reflect the wishes and perceived needs of the Russian beneficiaries.

The UK's Know How Fund (KHF)—renamed the “Britain-Russia Development Partnership” in June 2000—provides a useful comparison. The aim of the KHF has been to keep the administrative superstructure as light and flexible as possible, and to deal directly with the beneficiaries of individual projects. The KHF has been able to deliver projects quickly and responsively, while keeping under review the regions and sectors that deserve priority assistance.

Tacis is in need of major overhaul. One option that the Commission is considering is to divide responsibility for the operation of Tacis. The Council of Ministers and Commission would retain responsibility for the strategic decisions, but a separate and streamlined agency could be established to run programmes. The aim of a change of this sort should be to minimise the number of links in the management chain and to prepare projects thoroughly but quickly. Simplification of the tendering process would be an essential part of the reform. It would be important to look at best practice both in the KHF and in other national programmes.

The EU should consider expanding the Tacis programme which brings Russian managers to the EU for professional attachments. This management training programme has been running since 1999. Roughly 500 attachments have been organised for managers from Russia, Ukraine, Azerbaijan, Uzbekistan and Mongolia.

The UK has also run bilateral programmes of this sort, including the current "Russian President's Management Training Initiative", which will bring a total of 540 Russian managers (from the state and private sectors) to Britain. The aim is to attach the visitors to a suitable organisation or company where they can benefit from hands-on experience. In some earlier British programmes, the attachment has been preceded by a tailor-made university course, providing a focused introduction to the relevant professional and financial background. This sort of attachment is highly effective, and could be developed further by the EU to cover additional areas, such as central and local government, law, accountancy and social services.

Publicity

The EU has failed to project a clear image of itself among members of the Duma and other opinion-formers in Moscow. The situation is much worse in the other regions of Russia. The EU's representative office in Moscow publicises the work of the Union, but the impact is limited, even among élites. This is understandable: to most Russians the EU seems remote and unrelated to their day-to-day political and economic interests.

This ignorance is harmful. Greater Russian awareness of the EU's functions and relevance could do a great deal to encourage support for a fuller engagement with the Union. As individual countries have found, "public diplomacy" can play a major role in promoting awareness and shaping attitudes.

The EU should develop a more proactive information strategy. There should be an information and media plan for every visit by EU representatives. Visitors from member governments should be asked to talk about the work of the EU in their public statements. Every effort should be made to create and use openings for publicity on television, radio and in the press. There is also a need to review the general presentation of material by the EU (and its Moscow office) on the internet.

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At present, the Commission's "Europa" web site does not always project information and policies in an eye-catching or clearly ordered way; important statements and useful data are often surprisingly difficult to find.

The EU should not be shy of tackling sensitive issues. It should keep up a flow of television interviews, press articles and web site information about current policies and issues affecting Russia. This should include material on political contacts, trade and investment—to stress the commercial importance of the EU to Russia—and on the implications of EU enlargement.

8 Conclusion: long-term aims

This pamphlet has argued that there is a real and unprecedented opening in Russian, and more specifically, Vladimir Putin's policy towards the EU. This will, no doubt, be complicated by the contentious issues discussed above: Chechnya is likely to remain a long-term problem; EU enlargement will pose difficulties; some old-style trade policies (reflecting sectoral interests) are likely to continue; and the practical problems for Russia of convergence with EU legislation, technical norms and standards will be formidable.

The question that EU governments and the Commission must now address is how they wish to use this opportunity. The strategic question is what sort of long-term objective should be set for Russia and the EU? The more technical, but vitally important, issue is how to manage the relationship. Should the EU continue with the existing co-operation structures or try to create a new and tailor-made framework?

Should the EU offer Russia the goal of membership?

Although the Russian government maintains that membership of the EU is not an objective, this may be because Russia does not want to be rebuffed in the pursuit of an unattainable goal. During the Yeltsin presidency, it is likely that the Russians meant what they said. However, under Putin the Russian attitude has become more nuanced. The EU-Russia summit in May 2000 referred to the Russian people's "European vocation". The Russian commentator Vladimir Baranovsky has described Putin as "an unambiguous Europeanist".

So what are the options for the EU? Many Europeans say that Russia is so far from meeting the conditions of membership that it would be irresponsible of the EU to suggest that membership were even a distant prospect. Even if the political, institutional and cultural gap were not so wide, Russia's size and geography would mean that it could not be absorbed into the EU. The danger of acknowledging a Russian aspiration for membership would be twofold: it would either create false expectations

on the part of Russia, and thus store up the risk of resentment, or it would create such an irresistible political pressure towards membership that Russia's failure to meet the conditions might be disregarded. So why open such a Pandora's box?

Others contend that such arguments were used *mutatis mutandis* in the early 1990s, against the accession of some of the Central and Eastern European countries that are now close to joining. If the possibility of membership were not held out as a desirable incentive (however distant),

⁹ *Text in the Helsinki Council Presidency Conclusions of December 11th 1999.* Russia could scarcely be expected to make crucial but painful short-term adjustments. The EU's response to Ukraine was to say that it "acknowledges Ukraine's European aspirations and welcomes Ukraine's pro-European choice"⁹, but that it had no plans in the foreseeable future to start accession negotiations. Although the differences in circumstances between Russia and Ukraine are greater than the similarities, this sets a useful precedent. Furthermore, Turkey—also a large, partly European, partly Asian country with a controversial human rights record—has been recognised as a candidate for EU membership.

The short to medium term

In reality there is no chance that Russia will meet the requirements of full EU membership within the next 15 or 20 years. Nevertheless, if Putin is truly determined to bring Russia closer to EU norms, this may bring other more attainable targets into focus. If Russia succeeds in implementing the reforms envisaged in the PCA, it will have come much closer to EU rules and standards, thereby opening the door to a massive increase of investment and trade. Both a successful application for WTO membership and the establishment of a free trade area with the EU would be significant milestones along the path.

The EU could build on such measures by indicating a readiness to consider a new form of relationship with Russia, once it had demonstrated sufficient convergence. This could entail a tailor-made association agreement with the EU, including provisions that would enable Russia to participate in some EU meetings, or even an arrangement akin to membership of the European Economic Area, which amounts to access to the single market without membership of the EU.

Conclusion: Long-term aims

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In the meantime, the EU should continue to work as closely as possible with Russia in searching for common political positions, and intensified co-operation in areas such as justice and home affairs and foreign policy. The EU also should be ready to discuss the many issues raised by enlargement, while taking care not to prejudice bilateral negotiations with the applicant countries.

With all this, the EU would be sending an implicit message that it was willing to invest in a structural transformation in Russia, with the aim of achieving a high degree of convergence with EU legislation and norms. This would benefit both Russia and the EU, and (if successful) would, in the medium term, make it feasible for Russia to enjoy a much closer association with the EU.

Nevertheless, the EU must stress that Russia's own progress towards political and economic reform will be critical to the establishment of any new association. A closer relationship in the long run depends on Russia meeting many of the democracy and market economy criteria that applicant countries are now having to meet.

A new EU-Russia partnership

The present hierarchical structure of Russia-EU meetings is inflexible and encourages a declaratory and confrontational approach to business. Issues travel up and down the ladder of committees, and there is often more posturing than meaningful discussion.

The EU-Russia summit in May 2000 was noteworthy for the very reason that it broke this particular mould and confirmed earlier signs of a genuine desire on the part of Russian officials for a more effective consultative apparatus. If a new framework and tone can be established, the dialogue should provide a vehicle for rational and constructive discussion of enlargement and the other specific policy options discussed earlier in this paper.

The EU and Russia should agree on a set of new medium-term targets and launch them as a political initiative. This should give prominence to the key shorter term issues where the EU is looking for change and offer Russia incentives including support for WTO membership and the prospect of a free trade area. The initiative should emphasise that these

targets will open up new and longer-term perspectives—such as a tailor-made association agreement.

Any initiative of this sort would require careful and far-sighted negotiation from both the EU and Russia, but it would also be a logical extension of the present set of contacts. The aim of the declaration would be to set the relationship in the framework of a longer-term vision and on a qualitatively different and more collaborative basis. This would create a sense of purpose and connection that should sustain reform in Russia.

This is not to suggest that Utopia is around the corner. A political launch, a revitalised agenda and new structure to meetings would require a lot of work on issues that will remain thorny for both sides. EU-Russian relations cannot be isolated from other aspects of western and Russian foreign policy, such as the future shape of NATO. Even with a major political commitment from both sides, there would be plenty of scope for EU-Russian relations to falter.

However, the EU and Russia will find it easier to prevent or overcome problems, if they are ambitious in recognising the scope for closer interaction. It would be damaging if the EU's current focus on short- and medium-term problems—and its eagerness to avoid complicating the current round of enlargement—were to obscure this longer-term vision. For as the process of enlargement brings about a geographical rapprochement between the Union and Russia, so, too, the political and economic ties must thicken. The EU's connections to Russia are destined to become so significant that, in themselves, they will strongly influence the kind of Union that emerges in the coming decades.



Appendix: The Partnership and Co-operation agreement

The Partnership and Co-operation Agreement, which came into force in December 1999, consists of 112 articles, ten annexes, two protocols and a number of joint declarations, unilateral declarations and correspondence. The key provisions are:

- ★ Recognition that “Russia is no longer a state trading country” but a “country with an economy in transition”. This important concession significantly reduces the scope for anti-dumping actions. This was followed by an EU decision in April 1998 to drop its definition of Russia as a “non-market economy”.
- ★ Mutual granting of most favoured nation (MFN) status in respect of tariffs, which should be significantly reduced; and the removal of quantitative restrictions (but not in trade in textiles, coal and steel products and nuclear materials).
- ★ Provisions to improve conditions for Russian companies and subsidiaries working in the EU, and vice versa, and to guarantee terms that are no less favourable than those accorded to domestic companies or subsidiaries of any third-country company. These include measures that deal with the conditions affecting the establishment and operation of companies; free movement of payments and capital, and equal treatment of banks; removal of restrictions on competition; and enforcement of intellectual, industrial and commercial property rights.
- ★ Agreement that Russia should bring commercial and other regulatory legislation closer in line with that of the EU (the “approximation” of legislation).
- ★ A commitment to create the necessary conditions for the establishment of a free trade area, and to examine whether circumstances allow for the beginning of negotiations for one.

- ★ Support for Russia's application to join the WTO, and early application of certain provisions of relevant WTO instruments (mainly affecting tariffs) to Russia's trade relations with the EU.
- ★ Extensive, but broad-brush provisions on economic co-operation and on the prevention of illegal activities.
- ★ Formalised arrangements for political dialogue, including a ministerial Co-operation Council and an official-level Co-operation Committee.