



CENTRE FOR EUROPEAN REFORM

policy brief

The EU and Russia: From principle to pragmatism?

By Katinka Barysch

★ Disappointment and discord seem to have become the main ingredients of EU-Russia relations. But although bilateral relations may not evolve on the basis of ‘shared values’, as the EU once hoped, the two sides have enough common interests to build a constructive partnership.

★ Based on these interests, the EU and Russia have started to build ‘common spaces’ in economics, security, foreign policy and research. By focusing on day-to-day co-operation, the EU and Russia may be able to foster mutual trust and understanding.

★ The EU and Russia should give this pragmatic approach more time to work. They should go slow on negotiating a comprehensive new treaty to replace the partnership and co-operation agreement that expires in 2007.

The EU and Russia find it difficult to get on. Europeans are disturbed by the Russian government’s scant regard for civil liberties, its tightening grip on the energy sector and its bullying of neighbouring countries. Half of all Britons and more than 60 per cent of French people think badly of Russia.¹ Russians, in turn, grumble that the EU is complicated and condescending. They do not know what to make of the EU’s internal travails and its continued

¹ http://www.globescan.com/news_archives/bbcpoll06-3.html.

expansion. They suspect that the new East European members have turned the EU against Moscow.

This mutual disillusionment was perhaps inevitable: when the EU and Russia first started to build a relationship in the early 1990s, they knew little of each other but expected a lot. Russia – economically distraught and struggling to shake off its communist past – was keen to join a ‘common European house’. Flattered and relieved, the EU offered a warm welcome. Assuming that Russia – just like Central and Eastern Europe – would move towards liberal democracy and market capitalism, the EU gave money, trade and advice. It also proffered its own laws, policies and standards of democracy, not only to

help Russia to become a nicer place but also to enable it to gradually integrate with the Union. The main assumptions underlying the EU’s original strategy was that Russia wanted to be ‘like us’ and that it needed our help. Therefore, the EU insisted (and Russia did not dispute) that bilateral relations should be based on EU norms and ‘shared values’.

My values or yours?

By 2003 it had become abundantly clear that the initial blueprint was not working.² Russia, with its ineffective bureaucracy and often cavalier attitude towards the law, would have found it hard to follow EU rules, even had it wanted to. But an increasingly self-confident Russia started to question the basic assumption that it should align itself with European norms, standards and values. Boasting 7 per cent GDP growth and sitting on a cushion of \$300 billion of reserves, Russia no longer needs help from the West. After years of post-communist chaos and humiliation, Russians crave stability at home and respect abroad. President Vladimir Putin has delivered both, but perhaps not in

² Katinka Barysch, ‘The EU and Russia: Strategic partners or squabbling neighbours?’, CER pamphlet, May 2004.

the way the Europeans had envisaged. The EU looked on helplessly as the Putin administration exiled its critics, took over the big TV stations, harassed NGOs, renationalised the country's biggest oil firm, abolished regional elections and propped up self-serving separatists beyond its borders. The institutions of democracy are still in place. But the press, political parties, parliament, prosecutors and tax inspectors increasingly serve just one purpose: to implement the will of the Kremlin. Today's Russia is about 'sovereign democracy' rather than pluralism, and 'state capitalism' rather than open markets. It is not based on values that many in the EU would share.

³ *Fyodor Lukyanov, 'A new agreement between Russia and the European Union: Terms and opportunities', Discussion paper for the 4th EU-Russia roundtable of Friedrich-Ebert-Stiftung and Foundation 'Unity for Russia', Morosovka, September 2005.*

Russia, likewise, has started to change its mind about the EU.³ In the 1990s, 'Europe' was the main point of reference for Russia's post-communist transformation. Today, Russia is proud to be part of the 'BRICs' – a group of fast-growing, independent, and globally-minded countries that

includes Brazil, Russia, India and China. Moreover, while Russia still likes clubs where it can mingle with other great powers, such as the G8, it is less keen on those that require it to play by international rules, such as the WTO. Sovereignty, equality and the pursuit of national interests take precedent over co-operation and compromise. Many Russians also assume that the accession of the Central and East European countries has made the EU more hostile towards Russia. Moscow therefore prefers to work directly with the governments in Berlin, Paris and other EU capitals that tend to be less openly critical of Russia.

While the EU and Russia have struggled to come to terms with each other, their bilateral relationship has made little headway. Despite a proliferation of co-operation agreements, working groups and dialogues, progress in many areas has remained frustratingly slow. Today, upbeat statements after summits can no longer hide the fact that the two sides do not agree on what their partnership should look like. Disagreements abound, be it over elections in Ukraine and Belarus, disrupted gas supplies or fees that European airlines pay for flying over Siberia.

Why we need each other

But these disagreements have also brought home the stark truth that the EU and Russia have no choice but to work together. Bilateral trade has grown by more than 70 per cent over the last five years, and amounted to €163 billion in 2005. Russia now sends 60 per cent of its exports to the EU, resulting in a trade surplus of €50 billion or more a year. For the EU, Russia is the single biggest oil and gas supplier, accounting for one-fifth of the Union's total energy consumption. Dutch and British oil giants have made multi-billion dollar investments in Siberia, Sakhalin and elsewhere in Russia. And Italian

fashion houses, Austrian banks and Swedish furniture makers are doing brisk business in Russia's booming consumer market.

The EU and Russia also need to work together in politics. After enlargement, five EU countries directly border on Russian territory, and the EU and Russia share a potentially unstable neighbourhood. Both have a legitimate interest in what happens in Ukraine, Moldova and other countries in the region. The EU also needs Russian co-operation in international questions ranging from Iran's nuclear programme to a post-Kyoto climate change treaty.

This mixture of mutual apprehension and growing interdependence has forced both the EU and Russia to start rethinking bilateral relations. There has been a noticeable shift from declaratory diplomacy to pragmatic co-operation. At a time when many observers talk about a crisis in EU-Russia relations, there have been multiple small successes. Over the last three years, the EU and Russia have, among other things, managed to: agree the terms of Russia's WTO accession; make it easier for people and goods to move between Kaliningrad and Russia proper; extend the bilateral partnership and co-operation agreement (PCA) to the new EU members; thrash out plans for building four 'common spaces'; re-launch their security and defence co-operation; set up new co-operation forums, such as the 'permanent partnership councils' for transport, environment or energy, as well as expert dialogues on such issues as removing trade barriers and regulating financial markets; promise to ease visa requirements; open a new European Institute in Moscow to train more Russian EU specialists; and intensify co-operation in counter-terrorism, and between Russian police forces and the EU police office, Europol.

The experience of working together in all these different areas – frustrating as it may be at times – is itself valuable. It familiarises Russian officials with how the EU works and vice versa. It is teaching the EU and Russia a lot about what they like and dislike about each other. Diplomats and officials are now spending less time on debating principles. Instead, they are exploring how common or diverging values and interests impact on everyday co-operation. It seems that progress has become possible exactly because the EU and Russia have the courage to sometimes disagree – and work together nonetheless.

Road maps to nowhere?

The framework for this shift towards pragmatic co-operation is set by the four 'common spaces' – EU a region for closer co-operation in economics and trade; internal security; foreign and security policy; and science, education and culture. The EU and Russia first agreed on the idea of building common spaces at their St Petersburg summit in May 2003. It then took them two years to agree on a plan for filling the spaces. These so-called 'road maps' list hundreds of possible

⁴ Michael Emerson, 'Four common spaces and the proliferation of the fuzzy', CEPS policy brief no. 71, May 2005.

measures and institutions on 52 pages. But they contain few concrete project proposals and no deadlines. One expert therefore describes them as

"another exercise in a reasonably courteous management of ambiguity".⁴ Nevertheless, diplomats on both sides have good things to say about the common spaces and the road maps:

- ★ They can bring new momentum to stalled co-operation processes. For example, the EU-Russia energy dialogue, in place since 2000, has achieved few significant results. Rather than simply re-launching it at yet another summit, the EU now wants to integrate it with the common economic space.
- ★ They can help to de-politicise co-operation. While Russian politicians are publicly disputing the need to adopt EU norms and values, officials have quietly accepted some EU standards in customs, industrial production and various other sectors covered by the road maps.
- ★ By adding a long-term perspective, the road maps can facilitate intermediate steps. This was the case with a deal under which the EU made it easier for Russian students and businesspeople to obtain visas, in return for Russian promises to take back illegal immigrants. The deal was only possible because the EU had given Russia the prospect of visa-free travel "in the long run".
- ★ The road maps list agreed areas of co-operation and thus eliminate the need for lengthy discussions about whether certain items should be on the bilateral agenda or not. For example, the EU and Russia have agreed (at least in principle) that efforts to solve the 'frozen conflicts' in the Caucasus and Moldova should be part of the common space for external security.
- ★ As a permanent work programme, the road maps could provide greater consistency for EU-Russia relations. So far, individual EU presidencies have usually had their own agendas, so that there have been too many initiatives and too little follow up.
- ★ Since the common spaces cover almost all areas of EU-Russia relations, they allow both sides to make linkages between different issues, for example between energy questions and environmental protection.
- ★ The institutional set-up foreseen by the PCA has not worked very well. The road maps leave institutional questions largely open and so allow for all kinds of forums, from small expert groupings to large government gatherings.

After agreeing on the road maps, the EU and Russia started to talk about how to implement the 400-odd

potential projects and dialogues listed in them – which again turned out to be more difficult than expected. "We have been quarrelling about the vehicles to implement the road maps to implement the common spaces to implement the PCA", groans one EU official.

But at least now the EU and Russia have a better idea of what works in terms of institutions and what does not. For example, most of the sub-committees foreseen by the PCA have not met for five years, which has made it hard for the EU and Russia to work together in technical areas. To implement the common economic space, the two sides are now setting up dozens of bilateral expert dialogues.

So far, the road maps have delivered process rather than real progress. But both sides appear willing to move forward with substantive co-operation in numerous areas, ranging from customs clearance to environmental protection. It would certainly be too early to declare the four spaces idea a failure.

Energy tops the agenda

A cursory glance at the current EU-Russia agenda indicates that the two sides should – in theory – have little time to quarrel about institutions and processes. There are real problems to be resolved.

Energy remains the most pressing topic. Russia's decision at the start of 2006 to temporarily cut off gas supplies to Ukraine was a wake-up call for many Europeans. Although Russia has for decades been a reliable supplier of oil and gas, many Europeans fear that this may change. They point to the political uncertainties surrounding Putin's succession, the state's growing control of oil and gas production, and its worrying propensity to use pipelines to serve geopolitical ends. Although President Putin has reassured the Europeans that their existing energy contracts are safe, he has also indicated that Russia wants to increase the share of its oil and gas sold to Asia from 3 per cent to 30 per cent by 2020.

Such statements have worried politicians, especially in countries such as Poland, which rely almost entirely on Russia for their gas supplies. Experts are a little more sanguine though. The fast-growing Asian markets look like the natural destination for gas from new fields in eastern Siberia and the Far East – if and when they are properly developed. But to deliver gas from the existing giant fields in western Siberia to China's booming coastal regions would require 7,000 kilometres of new pipelines. All existing pipelines from there go to Europe – which is, and will remain for the foreseeable future, Russia's largest, most lucrative and most reliable energy market. President Putin seemed to confirm this point in October 2006, when he announced that the output of the giant Shtokman gas field in the Barents Sea would be directed to Europe, rather than shipped to the US in liquid form, as originally planned.

While energy experts are less concerned about Russia's willingness to sell energy to Europe, they worry greatly about its ability to do so. Oil output growth in Russia has dropped off sharply, at a time when record-high oil prices should be spurring companies to sell as much as they can. The effective re-nationalisation of Yukos (once Russia's biggest oil company), confiscatory taxes and uncertainty over licenses and regulations has made Russian oil majors cautious about investing the vast sums needed to secure future supplies. Similarly, Russia's gas output has been flat for years. Monopolist Gazprom sits on one-third of the world's gas reserves and employs some 300,000 people. But it appears more interested in energy assets in Bulgaria, Germany or the UK than in investing in the development of new gas fields at home.

Western energy companies would happily provide cash, know-how and technology to develop complex new oil and gas projects in eastern Siberia and off the fast eastern shoreline. But they have been fidgeting on the sidelines while the Kremlin has sought to define 'strategic' assets that would be off limits to foreign investors. Recent government decisions, for example to slow down production at the Sakhalin-2 project (developed under Shell's auspices) and to keep foreign companies out of the giant Shtokman field, indicate that western companies will be junior partners at best in the big future projects. State-controlled Russian behemoths will be the main players. However, the Russian government's track record in running companies and putting investment money to good use is not impressive. Therefore, the International Energy Agency (IEA, an energy watchdog) warns that if current trends continue, Russia will not be able to supply as much oil and gas as European and other consumers will demand in the future.

Clearly, the six-year old EU-Russia 'energy dialogue' is not working well. Mini-successes, such as pilot projects on energy savings or a joint energy technology centre, can no longer hide the fact that the dialogue has failed to address the big questions, such as where Europe's future gas will come from, if and when Russia will liberalise access to its pipelines, and why it remains so difficult for European oil companies to invest in Russia. Worried EU leaders insisted on a "frank" (in the words of one participant) discussion when they met President Putin in Sochi in May 2006. Putin, however, insisted that West European oil companies would only get better access to Russian oil and gas fields if Russian companies were allowed to buy gas distribution companies and other downstream assets in the big EU countries. Many Russians interpreted the cautious reaction to Gazprom's possible bid for UK gas distributor Centrica as anti-Russian protectionism. However, Gazprom already owns stakes in similar assets in Germany and some of the new member-states. And protectionism is not reserved for Russian bids: the Spanish and French governments have been reluctant to allow energy take-overs by companies from other

EU countries. There is no reason why Gazprom, or other big energy companies, should be prevented from going shopping in Europe – provided they respect the EU's objective of creating an open and transparent internal energy market.

However, it is not always obvious that Russia believes in open markets when it comes to energy. Europeans have long tried to persuade the Russian government to ratify the Energy Charter Treaty, a binding multilateral framework for investment, transport and other energy issues. Russia was one of 51 countries that signed the treaty in 1994. But it has since decided not to ratify it. Similarly, the EU and Russia have failed to agree on an energy transit protocol to the treaty that would force Gazprom to loosen its grip on the pipeline network. Gazprom exploits its transport monopoly by buying cheap gas from Turkmenistan (which has no other outlets for its gas) and selling it on to Europe at a multiple of the price. Marc Franco, the EU's ambassador in Moscow, says that one-third of the gas that Russia sells to the EU comes from Turkmenistan. With the transit protocol in place, the EU (and Ukraine and others) would eventually be able to buy gas directly from Turkmenistan. Moreover, Gazprom would have to give better access to pipelines to smaller Russian gas producers. Many Russian oil companies do not exploit their (considerable) gas reserves because they cannot transport it to western customers. Not surprisingly, Gazprom and the Russian authorities have been reluctant to give up the pipeline monopoly. EU politicians now hope that they can get Russia to agree on the principles of the Energy Charter by inserting them in the post-PCA agreement. However, given Russia's burgeoning self-confidence as an 'energy superpower', their hopes may be disappointed.

Common neighbours

In the early days of his presidency, Putin talked about reforming Gazprom, and perhaps even breaking up the company. He subsequently came to value state control over the monopoly, not least because it provides him with leverage over neighbouring countries at a time when Russia may be losing other sources of power, such as the military bases it maintains in Georgia and Moldova.

Russia has traditionally given dirt cheap gas to its former Soviet neighbours. There is no reason why these subsidies should continue at a time when Russia itself is raising domestic gas prices and Gazprom needs more money to invest. However, the way Gazprom has gone about raising gas tariffs has left the impression that politics, rather than profits, is a key factor. Russia is fully aware that a three or four-fold overnight hike in energy prices would turn swathes of the Ukrainian, Belarusian or Moldovan economies into industrial wastelands. Russia itself had cogently argued during its WTO negotiations with the EU that its domestic industries could only digest a limited and very gradual rise in gas prices.

And although Russia has presented all its neighbours with higher gas bills (including allies such as Armenia and Belarus), it appears to have been particularly brutal with those countries that happen to have pro-western leaderships.

The gas disputes have confirmed the view of those EU leaders who consider Russia's involvement in the other former Soviet countries more of a problem than a solution. Russia, however, has so far been dismissive of EU attempts to play a bigger role in the countries beyond its new eastern borders. The EU's 'European neighbourhood policy' is too unfocused, unattractive and under-resourced to drive economic and political

⁵ Charles Grant, 'Europe's blurred boundaries: Rethinking enlargement and neighbourhood policy', CER pamphlet, October 2006.

change in the countries surrounding the EU.⁵ But neither does Russia have an effective neighbourhood policy. Russia now has few staunch allies among the CIS countries,

apart from maybe Armenia, Belarus and Kazakhstan. Most countries in the region want to determine their own destiny – although most have done a pitiful job in improving their economies and building solid democracies. Russia has at times made their lives even harder. It has helped to prop up separatist regimes on the fringes of Georgia and Moldova. And it has resorted to bullying, most recently in October 2006, when the Kremlin severed trade and transport links with Georgia and started harassing Georgian businesses, workers and students in Russia after a spat over alleged Russian spies in Georgia.

In theory, the EU and Russia both have an interest in helping the countries in their common neighbourhood to become more stable and prosperous. In practice, however, there is discord over a growing number of issues, such as the outcome of the 'orange revolution' in Ukraine, autocracy in Belarus or transit from the Russian exclave of Kaliningrad. And it could get worse. Russian politicians from the president down have been warning that the West's involvement in making Kosovo independent could have a big impact on the 'frozen conflicts' in the former Soviet Union. Why, ask Russian leaders, should Kosovo become independent while Abkhazia and South Ossetia, which are historically close to Russia, stay with Georgia? For now, Russia recognises them as part of Georgia. But the uncertain status of those regions, combined with the dire state of Moscow-Tbilisi relations, means that a shooting war cannot be ruled out. Similarly, it was probably no coincidence that Transnistria held a referendum on independence from Moldova just four months after Montenegro voted for full independence from Serbia in May 2006. Russia has as little interest in re-drawing boundaries in the Caucasus as the EU has in unsettling the Balkans. So the EU and Russia urgently need a more constructive dialogue over their common neighbourhood.

Energy and the common neighbourhood may be the most pressing issues on the bilateral agenda, but they are by no means the only ones. The EU and Russia

have been trying to reinforce their political and security dialogue, to deal with such urgent issues as how to prevent Iran from acquiring nuclear weapons. They still need to work harder to ease visa requirements. They also need to start thinking about how to take economic relations forward once Russia has joined the WTO (which looks likely to happen some time in 2007). The EU has already made a step in that direction by mooted a free trade agreement with Russia, albeit one conditional on Russia making progress towards opening up its energy market.

Don't go back to basics

At a time when there are enough pressing issues on the agenda, and when the more pragmatic approach embodied in the four spaces could finally deliver some benefits, the EU and Russia may slip back into the abstract and angry discussions of the recent past. In December 2007 the partnership and co-operation agreement, which forms the legal basis of the bilateral relationship, will come to the end of its initial ten-year life span. The PCA will be extended automatically unless either side gives notice to cancel it. Nevertheless, the EU and Russia have agreed to try and draft a new treaty. The European Commission was hoping to get a mandate from EU governments to start negotiations after the November 2006 EU-Russia summit.

According to Sergej Yastrzhembsky, Putin's EU advisor, Moscow and Brussels have already agreed on some of the parameters for the new agreement, namely that it should be legally binding (some experts had suggested that a non-binding political declaration may suffice); that it should be valid for at least a decade; and that it should focus on principles and objectives while leaving detailed policy plans to separate agreements, for example on fisheries, visa issues or energy transit.

Beyond that, however, there is no consensus on what the new treaty should entail. Clearly, there is little point in adopting a new treaty that is less ambitious than the current PCA. Some Russian experts want a bold 'treaty of association' to form the basis of Russia's deeper integration with the EU.⁶ Some Russian liberals say that the EU must send the strongest possible signal that it still welcomes closer ties, provided Russia moves back towards democracy. Other Russian experts think that all references to integration and harmonisation should be removed from the new treaty, and that it should mainly serve to establish Russia as an equal partner for the West.⁷ Most Russian officials would agree that the main purpose of the new agreement should be to redress what they

⁶ Nadja Arbatova, Yuri Borko and others, 'Concept of the modernisation of the PCA and conclusion of a cohesion partnership agreement establishing an association', Committee for 'Russia in a United Europe', 2005.

⁷ 'Russia's European strategy: A new start', report by an expert group led by Sergei Karaganov, reprinted in *Russia in Global Affairs*, July-September 2005.

perceive as an imbalance in the PCA, which was forged when Russia was weak and the EU was optimistic about shared values.

⁸ Michael Emerson, Fabrizio Tassinari and Marius Vahl: 'A new agreement between the EU and Russia: Why, what and when?', CEPS policy brief no. 103, May 2006.

The EU has also been mulling over several options.⁸ While many EU politicians hope that a new treaty could help to overcome recent differences with Russia, others – especially from the new

member-states – see the forthcoming negotiations as a way of getting tough on Russia. They say that the new treaty should not only reflect progress in EU-Russia relations, but also setbacks, such as Russia's disregard for civil liberties.

Most Russian officials insist that the PCA is out of date: negotiations on it started during Soviet times and were concluded in 1993, when Russia itself was confused about its destiny, the EU did not have a common foreign and security policy, and eastward enlargement was a distant prospect. Important aspects of EU-Russia relations, such as security co-operation, justice and home affairs or the energy dialogue, are not covered in detail by the PCA. The PCA's institutional infrastructure is largely dysfunctional. And once Russia joins the WTO, its extensive chapters on trade will become obsolete.

However, the shortcomings of the PCA have not held back EU-Russia relations in practice. Both sides have been happy to interpret the treaty flexibly, move into new territory not covered by it, and set up new institutions and dialogues if needed. The four spaces are proof that the PCA is not restricting EU-Russia relations. The current PCA still has some life in it; the decision to start post-PCA negotiations in 2007 is regrettable. Having such talks now could:

- ★ divert attention and scarce resources from promising co-operation projects in say, energy and education, in particular since the Russian government is still woefully short of EU specialists;
- ★ bring back long-standing demands that could damage the relationship. For example, some Russian politicians want a new treaty to include the establishment of an 'EU-Russia council' (modelled on the NATO-Russia Council) in which Russia could meet with all 25 member-states, a demand that the EU has always adamantly opposed; and
- ★ reignite the debate about 'shared values', which has so far not been very constructive. "The new agreement has to acknowledge that there are many different forms of democracy", says Russia's envoy to the EU, Vladimir Chizhov. However, a treaty without strong language on civil liberties may not be acceptable to some EU

parliaments, all of which need to ratify the new agreement before it can enter into force.

The negotiations for a post-PCA agreement look set to be protracted and often antagonistic. The EU should take its time, trying to put off substantive negotiations until EU-Russia relations have improved. In the medium term, a framework treaty looks like a good idea. But for the time being, the EU and Russia should focus on making existing agreements work, in particular the four spaces and the energy dialogue. As one Commission official points out: "If the road maps were fully implemented, the EU would have a relationship with Russia that is almost unprecedented in its breadth and closeness." Progress with pragmatic co-operation would create trust, which – in due course – could form the basis of a new bilateral agreement that is infused with optimism rather than disappointment.

Some Europeans are uneasy with this option, arguing that a multitude of small steps does not necessarily add up to the 'strategic partnership' that both the EU and Russia still claim to want. Some worry that focusing on practical co-operation could force the EU to compromise on its values and tarnish its reputation as a foreign policy actor. However, values transcend almost every area of co-operation listed in the road maps. In its economic dialogue with Russia, for example, the EU insists on secure property rights, transparency and a level playing field for all businesses. In military relations, it wants more accountability through an ombudsman who could follow up claims of mistreatment in the Russian army. In co-operation on internal security, the EU seeks to help Russia to build up an efficient and independent judiciary. Two out of the four common spaces include the objective of strengthening civil society. The EU should put more money and effort into supporting civil society, especially now that the implementation of Russia's new NGO law is making life more difficult for many non-governmental organisations. Perhaps Russia will object to this, but then at least the EU and Russia will have a real bone of contention to argue over, rather than an abstract debate about 'shared values'.

At the political level, the EU can – and should – continue to argue the case for democratic pluralism, economic liberalism and the defence of human rights. But rather than lecturing Russia about their superior forms of governance, EU politicians and officials should point out to their Russian counterparts that respect for such values would help Russia to achieve the objectives it has set itself, namely to become strong and prosperous. Russia will not manage to build a modern, diversified economy as long as property rights are insecure, corruption is rife and entrepreneurial initiative is at times punished rather than rewarded. Political stability will remain brittle if all power remains concentrated around one man in the Kremlin. And Russia will not be able to restore its great power status if it cannot offer an attractive, accountable and open model to the countries in its neighbourhood and beyond.

Once things get better...

Russia's presidential changeover in early 2008 introduces an extra degree of uncertainty into the outlook for EU-Russia relations. In a political system where democratic institutions have come to resemble hollow shells, the decisions of the president and a small handful of Kremlin insiders determine the country's direction. Most Russia watchers predict that Putin will select his own successor – who will then duly be confirmed in a free but not necessarily fair election. Who this person will be and what he will do is the current preoccupation of Russia's chattering classes. Most people seem to assume that the new leadership will not pursue a path that is radically different from Putin's policies since 2000, namely managed (or 'sovereign') democracy and a predominantly western-focused foreign policy. In other words, they assume that Putinism will continue without Putin.

However, there is a risk that Russia's current state may prove unsustainable. If Putin's successor felt threatened or insecure, he might be tempted to move Russia further towards authoritarianism, choke off private enterprise and freeze relations with the West – while strengthening links with China and other non-democratic countries. In such a scenario, the EU's strategy of gradually bringing Russia closer could hardly work.

But as long as Russia keeps searching for some kind of balance between state control and personal liberties, and as long as it values the West's respect and co-operation, the EU should continue to engage with Russia as much as possible. The US appears to be re-assessing its relationship with Russia. Not only hardliners such as Vice President Dick Cheney are calling for a tougher stance vis-à-vis Russia. Cold-war terms such as containment are back in fashion. The influential Council on Foreign Relations predicts that US-Russia relations will oscillate between confrontation over some issues, such as US troops in Central Asia, and grudging co-operation on others, most notably the fight against international terrorism and the spread of weapons of mass destruction.⁹

⁹ *Council on Foreign Relations, 'Russia's wrong direction: What the United States can and should do', March 2006.*

Many Americans now think that their government should trade Russia's co-operation over issues such as Iran for acquiescence over Putin's autocratic tendencies.

Since the US has fewer day-to-day dealings with Russia, such a strategic, arms-length approach may work for it.

For the EU, however, with its multiple links and common interests, more active and constructive engagement is needed. The EU should not be afraid to disagree with Russia, even openly. But it should continue to offer close co-operation in trade, security, education and other areas – provided Russia plays by mutually acceptable rules. Moscow is re-evaluating its attitude towards the EU in light of the recent cooling of US-Russia relations and changes within Europe.

Russians now see an EU that – far from being united and threatening – is beset by internal problems, such as the failure of its constitutional treaty and problems with digesting eastward enlargement. Fears that the EU may seek to dominate its new neighbourhood have subsided. The neighbourhood policy has not so far given the EU much leverage over Ukraine or Georgia, not least because Brussels has made it clear that it does not welcome any new membership applications in the foreseeable future.

Russian leaders like to criticise the EU for being internally divided and difficult to deal with. But at the same time, they dread the day when the EU will start speaking with one voice. The departure of some staunch Putin allies, such as Gerhard Schröder, Silvio Berlusconi and soon Jacques Chirac, creates a new chance for the EU to build a more cohesive Russia policy. Angela Merkel may be able to strike a better balance between Germany's special relationship with Russia – steeped in history and reinforced by economic interests – and the EU's more critical position.

For now, the EU should focus on building a common and credible position on urgent questions such as energy, the common neighbourhood and human rights. The coherence of the EU's policy towards Russia has already improved a lot since 2003, when EU leaders were bending over backwards to build 'special relationships' with Putin. Yet, EU governments from both large and small countries still need to stick more closely to pre-agreed positions. Russia would then have to take the EU more seriously. Mutual respect would be a good starting point for negotiating a post-PCA agreement.

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Milestones in EU-Russia relations

1997 – Partnership and co-operation agreement (PCA): This treaty – signed in 2004 and in force since December 1997 – forms the legal basis for the EU’s relationship with Russia. It reflects the Europeans’ early optimism that Russia would follow a fairly linear path towards pluralism and open markets. The PCA states that Russia should align its laws and trading standards with those of the EU to allow for deeper integration and, eventually, a free-trade area. The PCA establishes a regular political dialogue and sets up the institutional machinery for bilateral co-operation and consultation. Russia agreed to extend the PCA to the ten new member-states shortly before the 2004 eastward enlargement. The PCA comes to the end of its initial ten-year lifespan in 2007, but it is extended automatically unless either side gives notice.

1999 – Unilateral strategies: The EU’s ‘common strategy’, adopted in the framework of the EU’s nascent common foreign and security policy, laid out bold objectives such as the consolidation of Russia’s democracy and its integration into a European economic and social area. It played a limited role in guiding EU policy and was not replaced when it expired in 2003. Upset by having been made the ‘object’ of an EU policy, Russia responded with a ‘medium-term strategy’ in 1999 that is valid for 10 years. It declared as main objectives of EU-Russia relations the need to balance US power and to improve Russian access to EU markets and money.

2000 – The EU-Russia energy dialogue: The French EU presidency launched a regular dialogue to allow the two sides to raise all energy-related questions, including energy savings, exploration, production and transport. The EU-Russia energy dialogue has produced few substantive successes. One of the key objectives has not been achieved, namely to persuade Russia to ratify the Energy Charter Treaty and thus improve access to and transparency of its gas monopoly, Gazprom.

2004 – Communication from the Commission: This stock-taking exercise reflected the EU’s growing disillusionment with EU-Russia relations, referring to “increasing strain” and “insufficient overall progress”. It calls on the EU governments to stick to commonly agreed positions and to be tougher in negotiations with Russia.

2005 – Road maps for the four common spaces: It took the EU and Russia two years to give some substance to their 2003 agreement to build ‘common spaces’ in economics, internal security, foreign policy, and research and education. The road maps list hundreds of possible projects ranging from harmonising auditing rules to working together in the fight against international terrorism. Implementation has made progress in some areas but not in others.

2006 – Negotiating mandate for a post-PCA agreement: The Commission’s draft negotiating mandate, adopted in July 2006, foresees an “updated and more ambitious” agreement that covers the whole range of EU-Russia co-operation, with a particular focus on deepening trade and “fair and open” energy relations. The Commission wants the new treaty to be based on “common values such as democracy, human rights and the rule of law”.

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