CENTRE FOR EUROPEAN REFORM
policy brief

Russia, realism and EU unity

By Katinka Barysch

★ The EU can no longer claim to be building a strategic partnership with Russia that is based on common values. It needs to adjust its strategy to new realities.

★ The EU's first task must be to reconcile internal differences among the various member-states. It will take time for the EU to revise its Russia policy in a way that all 27 member countries feel comfortable with.

★ For now, the Europeans should concentrate on forging common positions on the most pressing questions, such as energy, missiles and Kosovo. And they need to start planning for the post-Putin period.

Relations between Russia and the West have entered a new phase, characterised by co-operation in some areas and open confrontation in others. At home, the Kremlin muzzles the political opposition and tightens its grip over key industries. Abroad, Russia reasserts its place as a great power. The US has been quicker to redefine its relationship with the 'new' Russia than the EU. Less concerned about Russia's internal developments, Washington now mainly cares about getting Moscow's help (or at least avoiding its obstruction) on international issues such as the fight against terrorism.[1] For the EU, working out a new strategy is more difficult, because of history, close trade and energy links, and geographical proximity, as well as internal divisions. But these challenges do not make a rethinking less urgent.

[1] *Council on Foreign Relations, 'Russia's wrong direction: What the US can and should do', March 2006; Trilateral Commission, 'Engaging with Russia: The next phase', 2006.*

The list of disagreements between Russia and the EU is getting longer by the day: Russia's opposition to UN plans for Kosovo's independence; its moves to frustrate Europe's attempts to diversify energy supplies; blocked negotiations on a new EU-Russia treaty; angry mobs outside the Estonian embassy in Moscow; the Kremlin's No to Britain's extradition request in the Litvinenko murder; disagreements over how to resolve the 'frozen conflicts' in the Caucasus; and trade disputes over meat, raw timber and much else.

Russia's political elite has never loved the EU. Now many deem it acceptable to be rude about it. I heard one Russian politician recently describe the EU as "the area people fly over to get to Asia". Another claimed that the EU was worse than the Soviet Union because it is run by the "diktat of bureaucrats". Russian officials have developed an annoying habit of countering every EU criticism by pointing to Europe's own alleged failings, such as mafia activity in Southern Europe, economic protectionism or inadequate rights for minorities in the Baltic countries.

Until recently, the EU's reaction to Russia's growing assertiveness has been a mixture of complacency, befuddlement and wishful thinking. Although the political rhetoric has become fiercer, and day-to-day co-operation more tedious, the Union has been clinging to its objective of building a 'strategic partnership' with Russia, based on 'shared values'.

The EU-Russia summit in Samara on May 18th showed that these days are over. The EU stopped pretending that its relationship with Russia is something that it is evidently not. The fact that the meeting produced few tangible results was in fact no disaster. In the past, EU leaders would not have dared

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to leave one of their six-monthly summits with Russia without having launched (or re-launched) some initiative, programme or dialogue. This time the EU and Russia simply agreed to disagree. By the staid standards of EU-Russia relations, this meeting was refreshing in its openness and realism. It also restored at least a semblance of unity to the Union, which had hitherto looked hopelessly divided. Both Angela Merkel (who held the EU presidency at the time) and Commission President José Manuel Barroso stressed EU solidarity, despite (or perhaps because of) Vladimir Putin's attempts to blame EU-Russia tensions on the "egocentrism" of some East European member-states.

Dare to disagree

The Samara meeting notably failed to unblock the negotiations on a new EU-Russia treaty, to replace the 1997 'partnership and co-operation agreement' (PCA).[2] The treaty talks were supposed to instil a new sense of purpose into a stagnating EU-Russia relationship. The German government had been hoping to get the bulk of the negotiations done during its tenure in the EU chair in the first half of 2007. However, Poland has been blocking the start of the negotiations because Russia bans Polish meat from its market. Even if Warsaw lifted its veto soon (an unlikely scenario, as explained below), the prospects for a post-PCA agreement would remain dim. In July, Portugal took over the EU presidency, and it will be followed by Slovenia in January 2008. Neither country has much interest in Russia, nor the diplomatic clout to push such tricky talks forward. It is only in the second half of 2008 that another big country, France, will lead the EU.

[2] *The PCA expires in November 2007. It is extended automatically, unless either side gives notice.*

EU officials say that even if there were no further upsets, it could take five years to complete the new treaty and ratify it in all EU countries. In public, Russian officials still insist that an ambitious new treaty is urgently needed. But in reality, the Kremlin has lost interest, perhaps realising that drawn-out negotiations offer few opportunities for political point-scoring.

The delay in the post-PCA negotiations may be no bad thing. Such talks would only force the EU and Russia to embark on another round of abstract, angry and presumably futile debates about 'common values'. Before the EU reaches a new and ambitious deal with Russia, it should first have an honest and forward-looking debate about how to adjust its Russia policy to changed circumstances. The EU must start from a realistic assessment of how much influence it really has over its biggest neighbour. And it must define more clearly what the different member-states want and need from their relationship with Russia. Only then can it hope to find a new Russia policy that works and that all 27 EU countries feel comfortable with.

Can the EU stand united?

Russia has long tried to 'divide and rule' the EU countries, often successfully.[3] In the past, European leaders such as Gerhard Schröder, Silvio Berlusconi and Jaques Chirac happily discarded pre-agreed EU positions in their attempts to forge a special relationship with Russia. Such divisions have weakened the position of the EU, and allowed the Kremlin to assert that the EU cannot be taken seriously.

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

Now that the most pro-Putin politicians have left the European stage, there is a better chance of EU unity. Angela Merkel has gained credibility by openly criticising Putin for eroding civil liberties, most recently at the Samara summit, where she admonished the Russian authorities for preventing Gary Kasparov and other opposition politicians from travelling to a protest march. Merkel has also made a much greater effort than Schröder to consult the new member-states in Central and Eastern Europe. At the same time, she has maintained Germany's traditionally close links to the Kremlin: she has met Putin ten times since she took office; she has supported German investment in Russia; and she has backed the construction of the Baltic gas pipeline, which Poland as well as Denmark and Sweden are opposed to. German-Russian relations are characterised by pragmatism and an unusual amount of mutual goodwill. Going forward, the government wants to follow the concept of *Annäherung durch Verflechtung* (loosely translated as 'rapprochement through interdependence'). Rather than set grand objectives, Germany aims to foster change gradually, through multiple interactions and everyday contacts.[4]

[4] *Matthes Buhbe, 'Grundzüge einer deutschen Russland-Strategie', Friedrich Ebert Stiftung, March 2007.*

France's new president, Nicolas Sarkozy, has already distinguished himself from his predecessor by speaking out about Russia's democratic weaknesses. Chirac had hoped that the Paris-Berlin-Moscow alliance forged in opposition to the Iraq war would grow into a durable coalition that could help to counter-balance American hegemony.[5] For Sarkozy, moving France back into the centre of the EU and restoring good relations with the US will take priority over close ties with Russia. If Germany and France co-operated more closely on Russia policy, Italy's instinctively pro-EU premier, Romano Prodi, would surely follow. So far, Prodi's Russia policy has not been noticeably different from that of Berlusconi. During his five recent meetings with Putin, Prodi has refrained from criticising Russia, while Italian-Russian business ties have expanded particularly quickly.

[5] *Thomas Gomart, 'France's Russia policy: Balancing interests and values', The Washington Quarterly, Spring 2007.*

UK-Russia relations, meanwhile, are frosty.[6] The Kremlin has long been angry that the UK granted asylum to Boris Berezovsky, a tycoon who is

[6] *Andrew Monaghan (editor), 'The UK and Russia: A troubled relationship', Defence Academy of the United Kingdom, May 2007.*

one of Putin's most scathing critics, and Akhmed Zakayev, a Chechen separatist leader. London was unhappy when Gazprom wrested control over multi-billion dollar gas projects from joint ventures led by Shell and BP. Tensions grew further over the murder of Alexander Litvinenko, a former Russian spy who was poisoned with radioactive polonium in London in November 2006. Because the Russian authorities failed to help during the subsequent investigation, and refused to extradite the main suspect, Britain expelled four Russian diplomats in July 2007. Moscow then expelled four British diplomats and suspended security co-operation with the UK. Although some EU countries initially regarded the dispute as a bilateral matter, the Union did issue a statement expressing "disappointment at Russia's failure to co-operate constructively with the UK authorities". For Gordon Brown, the new British prime minister, there are clear benefits in 'Europeanising' the Litvinenko affair.

Whereas the chances of the big EU countries developing a common approach to Russia seem to be growing, eastward enlargement has created new challenges for EU unity. Historical grievances between the new member-states and Russia have in some cases been exacerbated by more recent disagreements. Poland, in particular, has called for EU solidarity in its disputes with Russia. The government led by Jaroslaw Kaczyński complained that its partners did not sufficiently back Polish efforts to persuade Russia to lift a ban on Polish meat. To reinforce its point, Poland has been vetoing the start of negotiations on a new EU-Russia treaty since November 2006. Russia had been resisting attempts to resolve the issue until Merkel and Barroso brokered a possible deal at the Samara summit. But then the Polish side stayed away from planned meetings of veterinary inspectors and political advisors. EU officials doubt that the situation will be resolved soon.

The Baltic states have sparred with Russia over border treaties, the rights of Russian-speaking minorities, trade and transit issues. While Latvia's relations with Russia are unusually harmonious at the moment, the same cannot be said about the other Baltic countries. Lithuania is angry that Russia has not shipped oil to its only refinery, in Mazeikiai, since July 2006. The Russians blame technical faults, but the cut-off looks more like a reprisal for Lithuania's decision to sell the refinery to a Polish energy company instead of a Russian one. Estonia's current tensions with Russia concerna Soviet war memorial in the centre of Tallinn. The Estonian government came in for criticism from other EU governments when it insisted on moving the memorial, and one Russian speaker died in the riots that followed in April 2007. But whatever may have happened in Tallinn did not justify Russia's aggressive over-reaction, which included the suspension of rail traffic, threats to Estonian diplomats in Russia and possibly support for cyber attacks that crippled Estonian computer servers.

While most of the new members would probably welcome a tougher EU stance towards Russia, they are by no means united on this. Other than Poland, the Central European countries tend to have relatively trouble-free relations with Moscow. Some, such as Bulgaria, Hungary and Slovakia, have recently been mimicking the bigger EU countries by forging closer bilateral ties with Russia.

Poland and the Baltic countries are right to call for more EU solidarity. But they need to realise that blocking a common EU position may ultimately play into the hands of the Russians. The Kremlin can now smugly claim that Brussels' paralysis forces it to deal directly with the capitals of the big EU countries. The new members need to refrain from using their EU membership to amplify their own particular criticisms of Russia. In return, the bigger European countries must take care that their bilateral dealings with Moscow do not impinge on the new members' vital security or economic interests. Smaller and newer member-states need to be reassured that their concerns are properly taken into account in the EU. The Union already has various forums and mechanisms through which the member-states try to reconcile their differences. But when it comes to Russia, these do not seem to work. So the EU needs to find better ways of encouraging the member-states to define clearly their interests and objectives with regard to Russia, and of helping them find common ground.

Planning for the post-Putin period

In forging a new EU strategy, the member-states would benefit from sharing more of their reporting and analysis of Russia. Such exchanges would enable EU governments to better understand each other's views on Russia; and they would support more solid policy planning in the current climate of uncertainty. Despite fevered debates among Kremlinologists and other assorted insiders, we know remarkably little about the how and who of Russia's presidential succession in 2008. Rather than speculate about personalities, Europe's Russia-watchers should ask what the new president is likely to do and how it will affect the EU. What are the constraints and incentives that are likely to influence the next Russian leader and his entourage?

Most observers predict that Putin will step down in March 2008 as promised, that he will hand over to a chosen successor (who will duly be confirmed in a national election) and that he will somehow remain involved in running Russia from behind the scenes. The key assumption is that the next president will perpetuate Putin's legacy: a 'sovereign' democracy, where hollow democratic institutions will no longer hide a dearth of pluralism; a mixed economy in which the state controls 'strategic' sectors such as energy, but leaves room for private enterprise elsewhere; and a foreign policy that focuses on maintaining influence in Russia's neighbourhood while oscillating between co-operation and confrontation with the West. Although most Europeans do not like Russia's current regime, they find the assumption of continuity reassuring. But can Putinism really continue without Putin?

Putin's public approval ratings have barely dipped below 70 per cent since he took office in 2000. Some 85 per cent of Russians say that life is better under Putin than it was under Boris Yeltsin before him.[7] In large part, Putin has been popular simply because he is not Yeltsin. The new president will be unpopular simply because he is not Putin. Putin has had the good fortune of presiding over cumulative GDP growth of almost 50 per cent in seven years, largely fuelled by rising oil prices. By 2008, Russians will take for granted not only income growth but also political stability and a restored sense of international greatness. Suppose that Russia's next president is weaker, less popular and less ruthless. Would he be able to balance the claims of competing power clans and deflect blame for policy mistakes in the uncanny way Putin has managed to do? If not, would there be another round of asset grabbing or political chaos? Would the new president be tempted to move Russia further towards authoritarianism in order to regain control? How would the EU react?

[7] *Renaissance Capital, 'Russian elections 2007-08: Polling the electorate', July 2007.*

Less ambition, more focus

Despite Russia's gradual slide towards authoritarianism, many Europeans are still struggling to come to terms with the fact that their initial blueprint for EU-Russia relations has not materialised. The EU had hoped that by working closely with Russia, and by offering aid, advice and its own best practice, it could help the country become more open and democratic. During the decade or so that the EU has followed this approach, Russia has moved in the opposite direction. Yet many Europeans have been reluctant to question the underlying assumption of the EU's original Russia policy, namely that Russia wants to be 'like us'. Rather than conducting a cool-headed re-assessment, the EU has sometimes behaved like a sulking lover whose well-meaning advances have been rejected.

For the EU, what happens inside Russia is of great importance. But it needs to stop pretending that it can somehow convert Russia to pluralism and liberalism. Such talk creates unrealistic expectations in Europe and fuels resentment in Russia. As the Kremlin has become more critical of Brussels, public opinion in Russia has also changed. The Russian people traditionally had a positive view of the EU. But in a recent poll by the Levada Center, a Moscow polling organisation, more than 70 per cent of Russians said they did not consider themselves European, almost half regarded the EU as a threat to Russia's economic independence, and only a third thought that Russia should develop a long-term relationship with the EU.[8]

[8] *Opinion poll for the EU-Russia Centre, February 2007.*

Optimistic Westerners and Russia's few remaining liberals pin their hopes on Russia's growing middle class. According to the Russian economics ministry, a fifth of Russians are now in this category, and the share could rise to a third by 2010.[9] Usually, when people get richer they also want better protection of property rights and more political participation. Most Russians, however, appear content with non-political ways of enjoying their new-found freedom, such as travelling and shopping. Less than a fifth of Russians support both democracy and market economics. The share of those who prefer a combination of authoritarianism and a planned economy is higher, at 23 per cent.[10] These preferences may change in the future since younger Russians (and those who are better off) tend to be more favourable to democracy. But for now, widespread political apathy makes it difficult for western governments to support Russian NGOs and the emergence of a more political civil society. Another problem is that the Russian authorities see outside support for civil and political organisations as an unfriendly act. For Russian NGOs, foreign financial help can be "the kiss of death", as one official puts it.

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

[10] *EBRD, 'Life in transition: A survey of people's experiences and attitudes', May 2007.*

The EU and its member-states should of course continue supporting Russia's civil society organisations as much as possible, even if this involves the occasional public row with Moscow. EU politicians should also not be shy to protest if Russia tramples on democratic principles or violates human rights. Concrete criticism appears more effective than vague political statements about values. Russia's last-minute changes to a draconian new NGO law in 2005, or Putin's admission of "mistakes" after the bludgeoning of peaceful demonstrators in April 2007, show that pointed pressure can work. However, given Russia's current political situation, it no longer makes much sense to put 'common values' at the heart of the EU-Russia relationship.

The EU has already gone some way towards refocusing its Russia policy from democracy promotion to practical co-operation in various areas.[11] It is trying to build four 'common spaces' with Russia, which is EU jargon for deeper integration and closer co-operation in economics and trade; internal security; foreign and security policy; and education, science and culture. Although progress so far has been limited, there have been some constructive discussions in newly created expert groups. These discussions are themselves useful since they teach Russian officials how to deal with (and perhaps one day trust) the EU. The common spaces idea is similar to the German strategy of *Verflechtung*, and it is in many ways the opposite of the tough, declaratory approach favoured by some of the new members.

[11] *Katinka Barysch, 'The EU and Russia: From principle to pragmatism?', CER policy brief, November 2006.*

No amount of rhetoric can hide the fact that Britons, Estonians, Finns, Germans, Poles and Slovaks have rather different views of Russia. Trying to find an overall EU-Russia formula that all countries feel comfortable with will take time. In the meantime, the EU should concentrate on reconciling its members' specific interests regarding the most pressing issues, such as trade, security and of course energy.

What does reciprocity mean?

Almost a third of the EU's gas and a quarter of its oil come from Russia. When Russia temporarily cut off gas supplies to Ukraine at the start of 2006, the EU launched a panicky debate about how to wean itself off an over-dependence on Russian energy. Many Russians were genuinely surprised that they should suddenly look so scary to the EU. "The more Europe frets about energy security, the more tempted Russia will be to play this card", remarks one seasoned EU official.

The EU's dependence on Russia is not one-sided. Energy sales to the EU are Russia's biggest source of foreign exchange. It is this money that helps to make Russia more stable, richer and self-confident. However, while the Europeans should not worry too much about Russia's willingness to sell them gas, they do need to worry about its ability to do so. Russia's gas output has been more or less stagnant for years, while domestic demand is growing briskly. Talk of a looming Russian 'gas gap' has become commonplace.[12] The International Energy Agency warns that underinvestment in Russia could mean that by the end of the decade Gazprom may not have enough gas to both fulfil existing export contracts and satisfy domestic demand. The Russian authorities say there is no such risk, perhaps hoping to plug any domestic shortages by buying even more gas from Central Asia.

12 For example, Alan Riley and Frank Umbach, 'Out of gas', German Council on Foreign Relations, International Politics, Spring 2007.

Not surprisingly, the EU is urgently looking for a way to build a more transparent and predictable energy relationship with Russia. The EU-Russia 'energy dialogue', launched in 2000, has produced few significant results, in large part because it was based on the assumption that Russia would progressively liberalise its energy markets. Instead, the Kremlin has consolidated Gazprom's gas monopoly, and tightened its grip on the oil sector, most notably through the effective re-nationalisation of Yukos in 2003. By 2008 more than half of Russia's oil production will be under state control.

Putin's government has also made it clear that it has no intention of ratifying the Energy Charter Treaty, a set of rather liberal international rules for trade and investment in the oil and gas sector. The EU was hoping that Russia would accept some of the principles from this treaty in the post-PCA agreement, in return for a free trade agreement with the EU. However, Moscow has shown little interest in better EU market access: three-quarters of its exports to the EU consist of raw materials, which are hardly affected by trade rules anyway. Instead of the Energy Charter or the energy dialogue, Russia now promotes the concept of reciprocity as the basis for EU-Russia energy relations. Merkel, Barroso and other EU leaders have embraced the concept. Reciprocity sounds good; it has connotations of interdependence and win-win co-operation.

However, the EU and Russia mean different things when they talk about reciprocity, in line with their very different approaches to energy policy: market and rules-based in the EU; state-controlled in Russia. For Europeans, reciprocity means a mutually agreed legal framework that facilitates two-way investment. For Russia, reciprocity means swapping assets of similar market value or utility. Gazprom insists it will only allow European companies to invest in its gas fields if they give it access to lucrative distribution and sales businesses in Europe.[13]

13 The announcement in July 2007 that Gazprom would give Total, a French oil major, a minority stake in a company to develop the giant Shtokman gas field, without gaining any access to European assets, suggests that Russia will not insist on reciprocity in all cases.

These two interpretations of reciprocity are not easily compatible. The EU cannot engage in the kind of top-level deals that Russia favours without compromising its own principles on open markets, transparency and a level-playing field. Russia will not accept these European principles because they would undermine the state's grip on the energy sector. There is also a mismatch between the players on both sides. Gazprom, a government-controlled national monopoly, faces a plethora of big and small European energy companies, some private, some part-state owned, but all bound by EU rules.

Since the EU is not making headway on the Energy Charter Treaty, while Gazprom is acquiring ever more downstream assets in the EU, it looks like the Russian idea of reciprocity is prevailing at present. Gazprom now has investments in at least 16 out of 27 EU countries.[14] In three of the biggest EU gas markets – Italy, Germany and France – it already has some direct access to gas consumers. Not content with controlling pipelines, Gazprom is building power plants and gas storage facilities in various EU countries.

14 Agata Loskot-Strachota, 'The Russian gas for Europe', Centre for Eastern Studies Warsaw, October 2006.

In honour of Microsoft

Gazprom's growing role in EU markets is not necessarily a problem. It does not matter who controls energy pipelines and power plants in Europe, as long as the owner respects EU rules on transparency, competition and so on. Given Gazprom's refusal to allow competition at home, the Europeans are right to ask whether the company will respect market principles abroad. In March 2007, the European Council asked the European Commission's

directorate-general for competition to investigate the possible impact of Gazprom's growing role on the EU energy market. When Putin subsequently complained about this, Merkel is said to have responded that Gazprom should consider it "an honour to be treated like Microsoft". Clearly, Russia is in for a "cultural shock", in the words of one European diplomat, if it has to deal with a regulatory authority that cannot be influenced politically.

Gazprom's position in Europe could also change as a result of new laws on market liberalisation. The European Commission, backed by the UK, Denmark and some other EU governments, wants a new push to build an integrated, EU-wide market for gas and electricity. Such a market, says the Commission, would not only be good for consumers and businesses, but also enhance the EU's energy security. If there was a problem in one EU country, energy could quickly be supplied from elsewhere.[15] To complete the energy market, the Commission is suggesting better regulatory oversight and 'ownership unbundling', which means that a single company could no longer own energy production, transmission and distribution assets.[16] Europe's big vertically integrated energy companies – supported by the governments of their home countries – have so far opposed this idea. They like the control they have over their national markets and their strong position vis-à-vis outside suppliers such as Gazprom. But Commission officials still think that new draft laws, promised for September 2007, will result in some meaningful unbundling of Europe's energy giants.

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

16 Under current EU law, energy companies have to run their supply, transport and sales businesses as separate entities. In practice this works badly since the companies that own the pipelines and grids do not give equal access to potential competitors.

If and when the EU decides to get serious about unbundling, some of the 30-year contracts that Gazprom has recently concluded with the likes of Italy's ENI, Germany's BASF and Gaz de France, and that give it direct access to end users, may have to be re-negotiated. The Russians are likely to cry foul, accusing the EU of not respecting existing contracts.[17] The EU should be tough, however. When concluding these contracts, Gazprom knew in which direction EU energy policy was heading. Perhaps this is why the company has been in such a hurry to increase its control over the EU energy market, before it is too late.

17 The EU has re-opened existing gas supply contracts before, to remove so-called territorial restriction clauses which prohibited one EU country from selling surplus gas to another. The negotiations with Gazprom were arduous but ultimately successful.

Pipelines divide Europe

Russia could be trying to spoil EU energy plans in another area, namely the diversification of supplies. Some energy experts think that EU talk about diversification away from Russia could turn into a self-fulfilling prophecy: not knowing what its market will be in Europe, Russia may reinforce its efforts to sell more to fast-growing China and other countries.[18] For the time being, however, all the big Russian pipelines go west, to the EU. Moscow has been prevaricating about building eastward pipelines, and has yet to complete a single terminal for shipping liquefied natural gas to the US or Japan. China may not in fact want a lot more Russian energy. It already has gas contracts with Australia, Indonesia and other suppliers, and it prefers to get oil from African countries, where it can establish control over resources in the ground. Nor is China willing to pay the high gas prices that the Europeans offer.

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

While it would be wrong for the Europeans to panic, they do need to have a forward-looking debate about their future energy supplies. Northern Europe can still rely on North Sea gas, while southern EU countries get supplies from Algeria and, increasingly, from Qatar and other Gulf states. It is the Central and East European countries, as well as some of the big eurozone ones such as Germany and Italy, that are most reliant on Gazprom. These countries will continue to rely primarily on Russian gas. But if alternative sources were more easily available, they would have a stronger hand in negotiations with Russia.

At present, gas from the Caspian region and Central Asia only reaches the EU via Russian territory, which – given Gazprom's pipeline monopoly – turns it into Russian gas. The transit protocol attached to the Energy Charter Treaty would have made it easier for the Europeans to buy gas directly from the likes of Turkmenistan, which is exactly why Russia will not accept it. This reluctance has made the need for alternative pipeline routes more urgent. The most promising project is the 'Nabucco' pipeline that would bring gas from the Azerbaijan (and possibly Turkmenistan and Iran) through Turkey, Bulgaria, Romania and Hungary into Austria. Construction of this €5 billion project is supposed to start in 2009 and finish in 2012.

Beggar thy neighbour in energy

However, recent developments have fuelled doubts over whether the pipeline will ever be built. The Nabucco consortium, which includes energy companies from all the transit countries, appears to by fraying. In March 2007, Hungary's prime minister, Ferenc Gyurcsány, expressed a sudden interest in an alternative Russia-controlled project, called Blue Stream II. Bulgaria's enthusiasm for Nabucco also seems to be waning, as is Turkey's. In May, President Putin struck a preliminary deal with his Kazakh and Turkmen counterparts to build a new pipeline from Turkmenistan into Russia. Such a pipeline could undermine Nabucco's commercial

viability, because Turkmenistan may not be able to produce enough gas for both projects. In June, Italy's ENI and Gazprom announced plans for a project called South Stream. This €10 billion pipeline would transport Russian gas under the Black Sea into Bulgaria and from there on to either Southern or Central Europe. If South Stream is built, there may not be enough demand for gas in that part of Europe to fill another pipeline, such as Nabucco.

The EU, which has declared Nabucco a priority, has looked on helplessly as Russia has sought to undermine the project. Russia has sweetened its various bilateral deals by promising the respective EU countries that each will become a 'European gas hub'. It has made such promises to Austria, Belgium, Bulgaria, Germany, Greece, Hungary, Slovakia and Turkey. Some politicians in these countries argue that delays in forging a European energy policy justify bilateral deals with the Russians. "We are surrounded by big EU countries that have all done bilateral deals with Russia", says one Hungarian expert, "and now everyone gets upset if we do the same."

What is good for individual EU countries may ultimately be harmful for Europe's long-term energy security. So the Europeans urgently need to have a debate about whether bilateral deals or co-ordinated action is the best way forward. Otherwise the EU risks descending into a kind of 'beggar thy neighbour' spiral, where each country scrambles to secure its own supplies, even if that comes at the expense of its neighbours' energy security. The European Bank for Reconstruction and Development and the European Investment Bank stand ready to help pay for Nabucco – but only if the EU countries get their act together and back it politically.

Missile threats

Russia has also tried to split the EU in the area of security. In June, President Putin threatened to retarget nuclear missiles onto Europe, if Poland and the Czech Republic went ahead with plans to host parts of the US missile defence system. In another response to Washington's missile defence plans, Moscow decided in July to suspend participation in the Conventional Forces in Europe (CFE) treaty. Neither step will have dramatic, immediate consequences for European security, but that does not make them harmless. Russia's missiles had earlier been 'detargeted' for a reason: in case of an accidental launch, a missile without target co-ordinates inflicts less damage than one programmed to hit, say, Paris or Berlin. The limited risk that would come from retargeting would increase further if, as occasionally hinted, Russia also abrogated the Intermediate Range Nuclear Forces (INF) treaty. This treaty eliminates a category of nuclear missiles best suited for an intra-European war. So scrapping it would allow Russia to rebuild a missile arsenal specifically designed for targeting Europe. It cannot be in the interest of Russia to revive a Cold-War style arms race, not least because America's 2007 defence budget is the equivalent of 50 per cent of Russia's GDP. But if Russia did renege on the INF treaty and start building new missiles, its relations with the West would sink to a new low.

The suspension of the CFE treaty could also have wider implications. This treaty limits the number, and sets the location, of conventional forces – such as aircraft and heavy armour – around Europe. It has had a convoluted history. The 1999 version, which updates the text to post-Cold War realities, has never been ratified by NATO members, because Russia has not fulfilled its related promise to withdraw its forces from Moldova and Georgia. But the treaty has served a double purpose: keeping Russian tanks and other weaponry away from the EU's borders; and putting pressure on Russia to pull out of Moldova and Georgia. Russia has not so far withdrawn from the treaty, but merely stopped co-operating on things like inspections. But if Russia withdrew altogether, it would then have no incentives to pull its remaining troops out of Moldova (those from Georgia are almost gone). And it could, in theory, increase its military presence along the EU's eastern borders, a prospect that will make some of the new member-states very nervous.

The prime objectives of both the missile threat and the CFE announcement seem to be to remind the EU and the US that they should take Moscow's views into account; and to sow disunity, not only within the EU but also between Europe and the US. In that, Moscow may well succeed. Many in Europe seem to accept the Kremlin line that Washington's missile defence plans are ultimately to blame for the CFE suspension. And a number of German politicians have criticised Washington rather than Moscow for the escalating row over missile defences. So the most immediate threat from Russia's new stance on missiles and treaties is not to EU security but to its internal cohesion. EU member-states need to have a cool-headed debate about the new security situation that Russia is creating. They should aim to arrive at a common analysis and avoid a blame-game. The Czech Republic, Poland and the US have already begun to talk more to the other EU countries about their missile defence plans. But given the central role of the US in this area, NATO is better suited for these debates than the EU. Similarly, NATO is best-placed to resolve the CFE condundrum, although the EU can help to prepare the ground. There may be room for a step-by-step process under which NATO governments ratify the treaty while Russia pledges concrete steps on reducing its troop numbers in Moldova.

Kosovo comes to a head

The most serious foreign policy division between the EU and Russia in the summer of 2007 concerns Kosovo. The EU supports the plan for Kosovo drawn up by UN envoy Martti Ahtisaari, which would give the territory independence under international supervision. The EU believes that there is no alternative – despite Serbia's opposition to the plan – because most Kosovars will never agree to live

in an entity that is legally part of Serbia. But Russia says it will not support independence for Kosovo unless Belgrade approves the idea – which it will not. Russia also argues that independence for Kosovo would have implications for the 'frozen conflicts' in Moldova and the Caucasus: none of the four statelets of Transdnestria, South Ossetia, Nagorno-Karabakh and Abkhazia has international recognition. The argument of the US and the EU, that there is no link between independence for Kosovo and the future of those territories, is not entirely convincing, at least as far as Abkhazia is concerned (that land is no more likely to return to Georgian rule than Kosovo is to Serbia).

But the main reason why Russia is being difficult over Kosovo is probably – once again – to provoke divisions in the West. The Ahtisaari plan would have the EU take responsibility for the administration and policing of Kosovo, alongside NATO's peacekeepers. But the EU cannot move in without the authority of a UN Security Council resolution. If Russia vetoes a UNSC resolution, the Kosovars will probably declare independence anyway, and the US may well recognise the new state. Most Europeans will then do the same. But some EU countries – including Cyprus, Greece, Spain and Slovakia – will not recognise Kosovo without a UNSC resolution that authorises its independence (some of these countries worry about their own minority regions breaking away). Thus Russia's unyielding stance on Kosovo could push the EU into disarray, which would presumably not cause too much sadness in the Kremlin. As EU governments mull over the difficult situation in Kosovo, it is imperative that – whatever they do – they try to maintain a common front. A united EU stance will, in itself, strengthen the EU's ability to influence Kosovo and Russia.

Towards a more realistic strategy

Russia has become a test case for the enlarged EU's ability to formulate and follow a coherent foreign policy. Intra-EU divisions over Russia risk poisoning the atmosphere at EU meetings and could spill over into other areas. The way EU-Russia relations develop will have big implications for other EU policies too, most notably energy policy, enlargement, neighbourhood policy, and the EU's emerging strategy towards Central Asia and the Black Sea region. Thus formulating a more coherent and realistic policy towards Russia is clearly a priority for the European Union.

The Europeans should not start from a position of pessimism. There is no new Cold War. Today's Russia does not engage in proxy wars around the world. It does bully its neighbours, although these attempts often look more clumsy than imperialistic. Russia, unlike the Soviet Union, is not trying to spread an anti-Western ideology around the world. On the contrary, it still insists that it is a democracy of sorts. If Russian rhetoric sounds angry and intimidating at times, this could be because Russian politicians are still smarting from what they see as their country's humiliating weakness in the 1990s. Moscow cherishes its renewed international influence. More often than not, it uses this influence to obstruct. But over Iran, Russia has shown that it can work constructively with the Europeans and the Americans, if its views are taken into account. Russia, by and large, sees itself as a civilised Western country that wants to be part of international clubs — not only the UN but also the WTO, the G8 and now the OECD. It wants to use its regained strength to renegotiate some of the deals – from disarmament treaties to trade agreements – that were struck when Russia was weak.

Russians should realise that they need good relations with the West, and the EU in particular, to make their country strong and stable. More than half of Russia's trade is with the EU, and most of its rapidly growing foreign investment comes from there. More Western money and expertise will be needed to maintain and expand the output of Russia's energy sector and modernise the rest of the economy. Russia's big companies are listing on the London stock exchange and they are increasingly investing in EU countries. An estimated 300,000 Russians live in London alone. So both the business and the political elites have a big stake in maintaining good relations with the European Union.

While there is much scope for improvements in EU-Russia relations, the EU should nevertheless scale back the ambitions of its Russia policy. The Samara summit marked the end of the EU's old, aspirational Russia strategy. The EU needs to have a more serious internal debate about what comes next. The EU should concentrate on getting Russian co-operation where it is needed most urgently, for example over Kosovo. It should seek to unblock the post-PCA negotiations, not because the new treaty will bring substantial improvements in bilateral relations, but because the current stand-off deflects attention away from more important issues, such as energy. For existing disputes, the EU should use the instruments that are available to it. For example, the EU has rightly asked whether Russia should join the WTO if it continues to impose unilateral export tariffs and import bans that affect EU business. And the EU should reinforce efforts to liberalise its internal energy market and use its well-established competition policy to make sure that Gazprom's growing role in the EU does not become a problem.

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