



**RUSSIAN INTERNATIONAL
AFFAIRS COUNCIL**

**RUSSIA-
EUROPEAN UNION:
POTENTIAL
FOR PARTNERSHIP**



Russian International Affairs Council

Moscow 2013

Russian International Affairs Council

Editor-in-Chief:

I.S. Ivanov, Corresponding Member, RAS, Dr. of History

Authors:

I.M. Busygina (Chairperson), Dr. of Political Science; **Al. A. Gromyko**, Dr. of Political Science; **N. K. Arbatova**, Dr. of Political Science; **M.V. Strezhneva**, Dr. of Political Science; **L.V. Ignatova**, Ph.D. in Political Science; **N. Yu. Kaveshkinov**, Ph.D. in Political Science; **T. A. Romanova**, Ph.D. in Political Science

Drafting and copy editing:

I.N. Timofeev, Ph.D. in Political Science; **T.A. Makhmutov**, Ph.D. in Political Science; **N.S. Evtikhevich**, Ph.D. in Political Science

The report analyses the development of Russia–European Union Relations. In the authors' opinion the high level of economic interdependence between Russia and the European Union, their geographic proximity and the nature of international relations in a globalized world make it imperative that the parties continue to build and develop their relations. The key issue is to give this cooperation a new impetus and increase the level of trust. The report outlines recommended steps to make relations as good as possible.

The views and opinions of authors expressed herein do not necessarily state or reflect those of RIAC.

Russia–European Union: Potential for Partnership / [I.M. Busygina *et al.*]; [I.S. Ivanov, Editor-in-Chief]; RIAC. – M.: Spetskniga, 2013. – 80 pages. – ISBN 978-5-91891-228-7.
Cover: collage made by RIAC.

© Authors, 2013

© Drafting, translation and design. NPMP RIAC, 2013

TABLE OF CONTENTS

Alexey Gromyko RUSSIA AND THE EUROPEAN UNION: THE DYNAMICS OF THE RELATIONSHIP	4
Alexey Gromyko EUROPE 2020: WHAT'S IN STORE FOR INTEGRATION?	15
Nadezhda Arbatova RUSSIA AND THE EU: OPPORTUNITIES FOR PARTNERSHIP	23
Marina Strezhneva EURASIAN INTEGRATION IN THE CONTEXT OF THE RUSSIA—EU PARTNERSHIP.....	32
Irina Busygina RUSSIA—EUROPEAN UNION RELATIONS: CURRENT STATUS AND DEVELOPMENT PROSPECTS Analytical report.	40
Introduction	40
Russia—European Union Cooperation: Facts and Constraints	42
Institutional Context of Relations	49
Progress in Four “Common Spaces”	57
“Non-Politicization” in the Russia—EU “Northern Dimension”	65
Russia—EU Relations: Development Scenarios and Parties’ Interests	68
Conclusions and Recommendations	72

Alexey Gromyko

**RUSSIA AND THE EUROPEAN UNION:
THE DYNAMICS OF THE RELATIONSHIP***

Russia and the European Union enter the 21st century's second decade as influential regional and global players in a broad range of economic, political and other spheres. Prior to the global economic crisis, they had been through a lengthy period of bolstering their international stance. For the EU, this has been a logical extension of the advance that started in the 1950s, whereas for Russia it has been a period of growth and muscle building following the destructive 1990s.

Today, Moscow and Brussels view each other as critically important partners in practically all fields. During the past two decades, their relationship has made a great deal of progress but the potential for deeper cooperation still seems immense. Russia and the EU clearly present a tightly knit organism in the economy, science, culture and human communications. There are quite a number of political problems, but all appear soluble. And there are intrinsic drivers to the switch from mutually beneficial cooperation combined with competition to strategic partnership. The uphill road will basically hinge on the sides' readiness to display appropriate political will, as well as on the time needed for the European Union to become an autonomous economic and political decision-making center. The crisis engulfing practically all facets of life of European countries, including Russia, since 2008, has not only increased their development risks but also provided new opportunities for the modernization of socio-economic models and political party systems. The crisis unveiled vulnerabilities of the frontrunner states, primarily in the economic growth, highlighting their innate weaknesses and shortages. In a situation like this, there seems to be a greater need to step up the centrifugal processes in

* Alexey Gromyko, Doctor of Political Science, Deputy Director of the Institute of Europe of the Russian Academy of Sciences (IE RAS), Head of the Center for British Studies.

Alexey Gromyko. *Russia and the European Union: The Dynamics of the Relationship*. Russia's Foreign Policy: 2000–2020. Moscow: Aspect Press, 2012. Vol. 1. P. 112–130.

the “from Lisbon to Vladivostok” processes, and transform these numerous integration projects into a harmonious mechanism to solve the Old World’s common external and internal problems. Russia and the European Union, which incorporates all the continent’s leading western states, are the two key Eurasian actors bound to shape Europe’s transition to a genuinely powerful and stable globally important political entity of the new century.

* * *

The Russia–EU relationship is just over 20 years old. It was formally launched by the Agreement on Trade, Commercial and Economic Cooperation signed by the Soviet Union in December 1989. Soon after the collapse of the USSR, in June 1994, Russia and the EU entered into a legally binding Partnership and Cooperation Agreement (PCA). However, from the very beginning, interaction between the sides was bumpy, as the agreement became effective only three years later. In recent years, the partnership’s material content has been shaped by numerous internal and external factors.

After 1991, Russia plunged into a thorny period of formation, ultimately acquiring a new identity, whereas the EU was deep in the midst of permanent transformation. The 1990s were devoted to implementing the Economic and Monetary Union set out in the 1992 Maastricht Treaty, first, by creating the euro, a single European currency. At the same time, the EU was expanding the appropriate institutional adaptation mechanisms, as expressed in the 1997 Treaty of Amsterdam and the 2000 Treaty of Nice.

As a result of three rounds of expansion (in 1995, 2004 and 2007) the EU acquired a total of 27 members, including not only the USSR’s ex-allies but also three former Soviet republics, i.e. Estonia, Latvia and Lithuania. Many of these new *Young Europeans* have brought with them a cautious and even hostile approach to Russia. Domestic challenges are a permanent distraction from foreign policy issues when it comes to the attention and political energy of both Russia and the EU.

One of the external factors affecting the rapprochement has been the participation of most EU countries in the North Atlantic Treaty Organization. As a result, the ups and downs along the Russia–NATO track had an effect on the dynamics of the Russia–EU relationship. In most cases, the dialog received a negative impulse, especially in view of the snowballing Russia–NATO differences on the alliance’s eastward expansion and the use of force without the UN Security Council’s consent.

Early in the 21st century, cooperation between Russia and the European Union received a fresh breath of life. In 2001, the sides managed to overcome the friction

caused by the *Second Chechen War* (the two previous crises broke out in 1995 due to the *First Chechen War* and in 1998 due to Russia's default),¹ first, because both sides enjoyed a stable upward economic curve and became quite successful in solving their domestic problems. Both Russia and the EU were explicitly optimistic about their medium- and even long-term future, while their foreign policy ambitions and resources were also on the rise. Economic interdependence was growing year-on-year as ever more economic entities became involved in reciprocal integration. By the start of the new century, there was a relatively strong institutional basis for cooperation: summits held every six months (28 by late 2011); meetings between the Russian prime minister and the European Commission; ministerial-level sessions of the Cooperation Council (which became the Permanent Partnership Council in 2003); contact at foreign minister level within the Political Dialog framework, in addition to further contact between Russia's Permanent Representative to the EU and the Political and Security Committee, and within the Parliamentary Cooperation Committee.

Launched in 2011, the Russia–EU Civil Society Forum gathered twice — in March 2011 in the Prague and in December 2011 in Warsaw — to discuss the implementation of ECHR decisions, government accountability, and the liberalization of the bilateral visa regime. Moscow is concerned that, unlike Russia and the EU's 27 member states, the EU itself still has not acceded to the Convention for the Protection of Human Rights and Fundamental Freedoms,² the key legal instrument of the Council of Europe.

On the eve of the 2004 mega-expansion, the EU widely expected to see itself rapidly converted into a leading global hub, giving rise to the then-popular concepts such as the *European Dream* and *Eurosphere*³. In addition to the economic might of the common market, Europeans increasingly aspired to build up independent political muscles and transform the European Security and Defense Policy into an effective global lever. Due to the consolidation of the domestic political space and rapid GDP-growth (largely resource-based), Russia also stepped up its foreign policy efforts to assert its position as an independent international player. Moscow's attitude to the limits of European integration was outlined in Russia's Medium-term Strategy for Relations with the European Union (2000–2010), which said that Moscow would not aim to join the EU or receive associate status. In that period, clarification of the sides' positions aided productive interaction

¹ Russia and the European Union in the Early 21st Century // Papers of RAS Institute for European Studies, 2009. No. 244. P. 72–73.

² See: URL: <http://www.russianmission.eu/ru/intervyu/vystuplenie-vachizhova-na-slushaniyakh-v-gosudarstvennoi-dume-federalnogo-sobraniya-rossiis>

³ See Rifkin J. *The European Dream: How Europe's Vision of the Future is Quietly Eclipsing the American Dream*. N.Y.: Jeremy Tarcher/Penguin, 2004.

between them, and also improved the broader foreign policy climate in Moscow's relations with many leading European capitals and Washington.

As a result of this mutual willingness to raise the level of these relations and develop enhanced cooperation mechanisms, in May 2003, the two sides adopted the joint Concept of Four Common Spaces (economy; freedom, security and justice; external security; culture, science and education). Two years later, Roadmaps, i.e. specific steps to improve relations, were approved. Importantly, both actors referred to each other as strategic partners, which obliged them to augment these declarations with actions.

By that time, the Russia–EU relationship had drastically changed. Whereas in the 1990s, it proceeded along “master-slave” lines, with Russia expected to adapt its domestic and foreign policies to the norms, values and interests of the EU and entire Euro-Atlantic community, in the first decade of the 21st century the sides tended to regard each other as unsubordinated partners. Moscow responded to this change by refusing to participate in the New Neighborhood program developed in 2003 on the basis of EU document “Wider Europe — Neighborhood: A New Framework for Relationship with Our Eastern and Southern Neighbors.” Moscow believed the proposed concept and mechanisms were, in fact, channels of the EU *soft power* based on the principle of “support in exchange for reforms” and aiming to project influence on zones of Russia's vital interests.

With time, this relationship became more pragmatic, realistic and free of excessive expectations. The EU toned down its complaints about differences in values, especially as in 2002, Russia was recognized as a market economy, while it became clear Moscow and Brussels enjoyed more commonalities than differences in foreign policy, including regarding the supremacy of international law, coalition-building in decision-making, and an increased emphasis on *soft power* over *hard power*. Western political elites and masses were gradually losing (albeit with great difficulty) their negative stereotypes of Russia that had developed during the Cold War and even under Romanov rule. However, various EU institutions, primarily the European Parliament, has continued to criticize Russia, sometimes in a subdued manner and sometimes loudly, for poor progress in such areas as human rights, supremacy of law and independence of the judicial system.

Convergence on certain international issues was supported by shared discontent over the foreign policy pursued by George Bush Jr., who was heavily influenced by the U.S. neoconservatives (Neocons). Some EU countries sided with the U.S. against Iraq, but the pro-war logic was gradually undermined, and the public came to know about crimes committed by the armed forces of the United States, Great Britain and other European countries, about the illegitimate treatment of suspects in the war against terrorism, about the use of torture against them by some Western secret services, and about the connivance of third

countries. This context made any reproaches directed towards Moscow over its apparent rejection of European values highly inappropriate.

At the same time, Russia was coming to understand that, despite its drive to autonomy in foreign relations, the EU will continue to regard itself as an intrinsic part of the Euro-Atlantic space, that its principles of solidarity and *sovereignty pool* are growing from declarations into reality, and that successful negotiations with supranational structures requires a common language to be found, not only with the Brussels bureaucracy and European major powers, but also with *inconvenient* partners, chiefly East European states. At the same time, Moscow had to take into consideration that, by nature, the European Union would long remain a double-edged interstate and supranational organization, where the national concerns of separate countries are by no means less important than consensus-based interests. In the early 21st century, it seems anachronistic to regard the EU as an economic giant but a political dwarf. However, the interests of its leaders continue to dominate over *average statistical* interests in foreign and security policy, and in certain economic areas that are still free from communitarization, i.e. the partial transfer of national powers to supranational structures. For this reason, in dealing with the EU countries, Russia and other global, regional and European states either use a *bilateral track* or face the entire European Union depending on the situation and the issue.

Russian diplomacy could not ignore the fact that EU members greatly differ in weight and influence. *Vis-à-vis* the European Union, many solutions hinge on the approaches of the *Big Four* — Germany, France, Great Britain and Italy. The EU is split into many institutionalized and informal associations and clusters. Due to historical, economic and other reasons, there are groups such as the *Friends of Russia* (Germany, Greece, Italy, Cyprus and France), neutral states, and those traditionally tough on Moscow (the Baltic countries, Romania, and until recently Poland). Permanent pro-Moscow drivers include Berlin, Rome and Paris. From time to time, these groups change in composition. For example, although a member of the *Group of Friends* in the 2000–2002, Great Britain later became a harsh opponent. The opposite transition is also possible, as seen from the normalization of relations between Moscow and Warsaw.

In the first half of the 2000s, the main bone of contention between Russia and the EU was the expansion issue. It was only in early 2002 that the European Commission agreed to discuss the list of Moscow's concerns (rights of the Russian-language populations in Estonia and Latvia, Kaliningrad transit, *etc.*) that had been presented to Brussels in 1999. As a result, the approval process, including that of Russia to extend the Partnership and Cooperation Agreements (PCAs) on new members, was completed only on May 1, 2004, a few days before the official expansion date. But the bilateral climate was largely propitious, mostly

due to the Concept of Four Spaces and the Roadmaps. In March 2005, the sides launched consultations on human rights, in a new negotiation format.

Vigorous foreign policies of Russia and the EU gave rise both to rapprochement on mutually advantageous matters and growing frictions where their interests diverged. The sides disagreed on the outcome of the presidential elections in Ukraine in 2004 and on the other “color revolutions” in the post-Soviet space. Moscow believed that the EU’s *new neighborhood* policy was increasingly damaging to Russian national interests. The Eastern Partnership project launched in March 2009 at the EU summit in Prague and involving three republics in the South Caucasus, Ukraine, Moldova and Belarus was no less controversial. These tensions were aggravated by the recognition of Kosovo. The EU expansions in 2004 and 2007 moved the *visa barrier* very close to Russia’s borders. Although the energy dialog began back in 2000, the supply of Russian energy resources had been growing into a major irritant, especially after the interruption of Russian natural gas deliveries via Ukraine in January 2009 and Moscow’s refusal to ratify the Energy Charter and sign its additional protocol.

Besides, numerous events took place to further reduce the EU’s capacity to draw up and implement a consistent foreign policy, drawing political resources away to solve other problems, such as the 2005 failure to ratify the Constitutional Treaty due to negative referendum results in two “founding fathers” of the EU — France and the Netherlands; difficulties in the development, signing and ratification of a new treaty; rising Euro-skeptic sentiments; growing numbers of racial and national conflicts as seen from riots around Paris; and painful mutual adaptation of old and new members. All this forced Brussels and member states to concentrate on domestic policy in the hope of solving these, more local, problems. Events were actually holding back the Russia–EU relationship. Moreover, the European mechanisms for external negotiations remained cumbersome and clumsy, involving several, frequently conflicting, decision-making centers. After the Treaty of Lisbon came into force in December 2009, no drastic changes occurred.

On December 1, 2007, the PCA expired. Although major updates were required, talks on the new *basic treaty* began only in July 2008 after the Russia–EU summit in Khanty-Mansiysk, chiefly as a result of *national egotism* displayed by certain member states. Back in 2006, Poland blocked the European Commission mandate on negotiations with Russia because of differences on bilateral issues. Lithuania also had some grievances regarding Russia. At their very outset, these talks were interrupted by the August 2008 events in Transcaucasia. Following the Georgian attack on Tskhinval and Russian peacemakers, Russia had to bring troops into South Ossetia and Abkhazia. However, the European Union chose to qualify Moscow’s actions as illegitimate and this use of force as disproportionate,

while also opposing Russia's recognition of independence for the two former Georgian territories. At the same time, the mediation of the EU under the French presidency was unquestionably helpful in bringing the conflict into the realm of diplomacy. In November 2008, talks on a new *basic treaty* were resumed⁴ in groups on four main sections of the draft document — political dialog and external security; freedoms, security and justice; industrial cooperation; and science, technology, culture, education, media, sports and youth policy.

Negative trends alternated with positive episodes in implementing the Roadmaps. In 2007, the Russia–EU Visa Facilitation and Readmission Agreements came into force. The removal of the visa regime has become a key point in further talks between the sides, which agreed the list of Common Steps to attain this goal at the December 2011 Brussels summit. Moscow wants to see visas requirements for short-term travel by Russian and EU citizens dropped, and suggests the 2014 Sochi Winter Olympics as the landmark occasion to unveil these new arrangements. In 2007, the sides also signed the Steel Trade Agreement, and in 2010, the Agreement on the Protection of Classified Information. In 2008–2009, Russia took part in UN-mandated EU peacemaking missions in Chad and the Central African Republic, and later cooperated in anti-pirate operations in the Gulf of Aden. Notably, the Russia–EU Joint Declaration on Strengthening Dialogue and Cooperation on Political and Security matters in Europe was adopted in 2000, and since 2001, Russian officials have been holding monthly consultations with their European partners in the EU Political and Security Committee. There have been numerous successful joint projects in culture, education and science. In 2006, the European Studies Institute at MGIMO-University under the Russian Foreign Ministry was opened in Moscow to improve the skills of Russian government officials in matters of European integration and Russia–EU relations. Nevertheless, it should be conceded that, despite many positive shifts, in recent years relations have largely been stagnating.

During the entire period prior to the global economic and financial crisis, economic cooperation between the sides had been on the rise. In 2008, the EU accounted for 52 percent of Russia's foreign trade turnover and supplied 75 percent of its FDI (92 billion euro in 2008). Russia, whose economy in 2000–2007 quadrupled to reach USD 1.2 trillion, by 2009 became the EU's third largest trading partner after the United States and China, with Russia accounting for 6 percent of the EU's exports and providing 9.6 percent of its imports. In 2009, Russian deliveries to the EU amounted to over 115 billion euro and FDI topped 28 billion euro, i.e. four times more than Indian investment in the EU and double the volume of Chinese investment in the EU.

⁴ Twelve rounds held by late 2010.

Russia leads in oil supplies to the EU, as in 2000–2009 shipments grew by 56 percent to reach 208 million tons annually, and it also leads in coal deliveries (53 million tons). As for natural gas, Russia is the EU's third largest supplier (134 billion cu. m in 2008 or 40 percent of overall gas imports). The European Commission forecasts that by 2030 this figure will grow to 60 percent. For many European states, Russia's share in their gas imports is even higher — 100 percent in the Baltic countries, 90 percent in Slovakia and Bulgaria, and 75 percent in the Czech Republic and Greece. At the same time, the EU receives 85 percent of Russian gas exports. Russia also supplies the EU with uranium, and is the leader in this field.

The two sides are also tightly bound by migration flows, chiefly by refugees. In 2006, Russia was the seventh largest emigration source for the EU (4.6 percent), whereas the number of Russian immigrants in the EU was 22 percent less than in 2000, reflecting the growing affluence the population within Russia. The emergence of the 10-million-strong Russian community in the EU, primarily in Germany and Great Britain (respectively four million and 400,000), was important for a country whose state language is Russian. Percentage-wise, the largest groups of Russian speakers, mostly Russians, are found in Latvia and Estonia. The situation regarding Russian refugees is somewhat different, as in 2000–2008 the EU accepted about 460,000, mainly as a result of extreme instability in the North Caucasus⁵.

Progress made in Russia–EU economic cooperation greatly depended on Moscow's accession to the World Trade Organization (WTO).⁶ For a variety of reasons, this step had been subject to frequent delay, with the end of 2011 set as another deadline. Russia's accession should pave the way for the implementation of the common European space concept, i.e. establishing a Russia–EU free-trade zone, as proposed by Chairman of the European Commission Romano Prodi in 2001. Actually, in 2009, another factor emerged — the Customs Union of Russia, Belarus and Kazakhstan — complicating the implementation of this plan.

The global economic and financial crisis has significantly changed the Russia–EU relationship. In 2008–2009, their economic cooperation declined and only began to recover in 2010⁷. Due to these aggravated socio-economic problems (plus political troubles within the EU, primarily in the Eurozone) the sides focused on internal development. In spite of the favorable environment for

⁵ Hamilton D.S. *Europe 2020. Competitive or Complacent?* Center for Transatlantic Relations, 2011. P. 225–227.

⁶ Russia–EU talks on Russian WTO membership were completed in December 2010 at the Brussels summit, after which the process moved to the multilateral format at the Geneva consultations. In October 2011, the parties finalized the bilateral issues concerning Russia's admittance.

⁷ In 2009, the turnover reduced by 38.3 percent against 2008.

a concerted and systemic foreign policy, including establishing the post of the EU High Representative for Foreign Affairs and Security Policy, created by the Treaty of Lisbon, there was no breakthrough in talks with Russia.

After the Russian elections, Moscow once again confirmed the importance of the EU, as May 2012 saw the presidential decree “On Measures for the Implementation of the Foreign Policy of the Russian Federation” which attached significant attention to relations with the European Union. Russian diplomacy was tasked with attaining the strategic goal of creating a common economic space from the Atlantic to the Pacific; seeking an agreement with the EU on the cancellation of visa requirements for short-term mutual trips; asserting the principles of equality and mutual benefit in the projected new basic agreement on strategic partnership; promoting the effective implementation of program “Partnership for Modernization”; and advancing mutually beneficial cooperation on energy toward the establishment of a single European energy complex, with strict observation of existing bilateral and multilateral obligations.

It is also important to note that the Russian electoral cycle clouded the dialog with additional discord, in addition to differences on settling the conflict in Syria. In February 2012, High Representative for Foreign Affairs and Security Policy Catherine Ashton used the platform of the European Parliament to castigate the allegedly insufficient democratic level of the Russian State Duma elections and the election results. In the same month, the European Parliament adopted a resolution condemning Russia and China for vetoing the draft resolution on Syria and calling Russia to amend its election law.

In June 2012, a regular Russia–EU summit took place, the first one after Russia had de facto joined the WTO, which allowed a substantive discussion of approaches to economic and trade relations within the WTO Plus scheme to be launched, one of which envisaged setting up a non-preferential free trade zone. Russia’s WTO accession will not have any impact on certain, vital, areas of interaction, such as the investment regime, dual-purpose items, and fissile materials, *etc.*, leaving a vast area open for cooperation beyond the WTO framework.

Russia’s WTO accession should inject new dynamism to the talks on the new basic treaty that still contains many areas of divergence in both form and content. Russia wants a relatively compact PCA follow-up to provide a basis for various sectoral agreements, whereas Brussels insists on a comprehensive document. It is widely believed that the talks will result in the legalization of the Common Spaces that remain declarative and amorphous. The problem of the Third Energy Package adopted by the EU in May 2011, which discredits such vertically integrated companies as Gazprom also remains to be addressed. At the same time, there have been positive developments, i.e. the adoption of the Roadmap on Energy Cooperation to 2050.

In the coming years, the sides will face another contentious problem — adjustments to integration associations in the continent's west and east. Moscow is aiming to set up the Eurasian Economic Union by 2015. In 2011, the Customs Union of Belarus, Russia and Kazakhstan was launched to operate in full accordance with WTO rules. The Eurasian Economic Commission was established. Notably, Russia announced its readiness to supply the economic union with supranational elements, employing EU practices. The intention was voiced for the first time in the late 1960s, when the USSR's Foreign Ministry suggested integrating supranational principles within COMECON in order to transform it into confederation of Europe's socialist states, as well as the harmonization of national laws.

Whatever ups and downs accompany the Russia–EU relationship; there seems no alternative to the need for material content in the strategic partnership debate (in contrast to *mature* and *pragmatic partnership*, or *selective integration*), and this is due to several fundamental reasons.

First, bilateral economic interdependence can only be expected to increase, primarily in strategic sectors such as energy.

Second, in the foreseeable future, technical modernization of the Russian economy and the creation of modern, competitive enterprises in Russia seem impossible without West European business and expertise. West European stock exchanges are the key channel for Russia's access to the global credit market. The Partnership for Modernization initiative launched by the sides in May–June 2010 at the Russia–EU summit in Rostov-on-Don should help the implementation of the modernization goal set forth by President Dmitry Medvedev in 2009. Additionally, by late 2011, Russia signed bilateral Declarations on Partnership for Modernization with 23 EU member states and plans for implementation of the declarations with six EU states.

Third, the European Union space is the nearest and most attractive in civilization and culture terms, acting as a powerful draw for Russian entrepreneurs, tourists, students and scientists.

Fourth, Russia and the European Union, as well as its key members, are irreplaceable partners in the settlement of many regional and global problems. Acting individually, they would never be able to respond adequately to internal security challenges like *frozen conflicts* or migration flows in the post-Soviet space, or to external problems, i.e. WMD proliferation, international terrorism, regional conflicts (primarily in the Greater Middle East), transnational crime, drug trafficking, *etc.* Russia should bear in mind that the EU will continue to grow as an influential global actor. This trend is visible in the increasing number of EU summits with separate countries, regions and even continents, i.e. the United States, China, India, South Korea, South Africa, Asia, Africa, Ukraine,

Latin America and the Caribbean. However, Russia is the only entity to have EU summits twice a year. The European Union participates in the G8 and G20, cooperates with the UN, and is part of the Middle East Quartet.⁸

Fifth, in the foreseeable future, both Eastern and Western Europe (from Lisbon to Vladivostok) for objective reasons, are likely to lose their global positions in demography, global GDP share and competitiveness to the new regional and global centers of influence. In the medium- and long-term perspective, this trend only seems surmountable through the extended integration and removal of barriers preventing the European states from taking a common stand. For Russia, the Old World is sure to remain the basis, even in view of its growing focus on the Asia Pacific region.

⁸ European Council Conclusions, EUCO 21/10, CO EUR 16, CONCL 3, Brussels. 2010. September 16.

Alexey Gromyko

EUROPE 2020: WHAT'S IN STORE FOR INTEGRATION?*

Predictions do not often come true, a phenomenon that is more due to information excess — rather than its shortage. Causal relationships and the laws of history do help us peep into the future, but the “onward march of history” is affected not only by palpable events, but also by volatilities, *black swan events* that can obliterate the determinist approach to this kind of academic forecast. Event-based situations, chance and the role of personality (a subjective factor) converge to defy the logic of development. People often mistake chance events (if these are not natural and manmade disasters) with those that are formed beneath the surface of day-to-day events, hidden from the eyes of a distracted observer, shaped by history. In many, although not all cases, occasional and regular events become interconnected and can be represented like two sides of the same coin.

In the modern history of Europe, on the subjective side we have internal factors such as Mikhail Gorbachev (in the breakup of the USSR), Jacque Delors (in deeper European integration), Margaret Thatcher (Britain's neoliberal reforms), Nicolas Sarkozy (in unleashing the Libyan war), *etc.*, or external factors, for example George Bush Jr. and his neoconservative (neocon) policies that have expedited the autonomization of EU foreign policy. The objective factors include the disintegration of the Soviet Union, the 9/11 terrorist attacks, collapse of constitutional referendums in France and the Netherlands in 2005, and the global economic crisis that started in the United States. As for man-made environmental natural disasters that can be counted as chance events of historic magnitude, we have the 1986 Chernobyl

* Alexey Gromyko, Doctor of Political Science, Deputy Director of the Institute of Europe of the Russian Academy of Sciences (IE RAS), Head of the Center for British Studies.

Alexey Gromyko. Europe 2020: What's in Store for Integration? Russia's Foreign Policy: 2000-2020. Moscow: Aspect Press, 2012. Vol. 2. P. 150–163.

disaster or the consequences of the 2011 tsunami, in which had a particular impact on the development of the European nuclear power sector.

The further the time horizon is from the scholar, the higher the risk of an inaccurate forecast. Foreseeing events one year ahead is quite different from developing a 10-year outlook, let alone envisaging a more distant future. Local, regional and global processes, as well as decision-making become faster, while overt and covert mechanisms multiply to cause the superimposition of various factors that have an effect on history. As a result, time becomes compressed, complicating the extent to which our analysis can probe into the future to the extent that what started as academic forecasting ends up as primitive guesswork. However, science still retains an important function in forecasting, which, with certain assumptions and caution, retains its significance, especially in an environment where the price of an error in governance is growing inexorably — in parallel with our hunger to see into the future.

Some forecasts aim to change the future and are rendered useless if the powers that be fail to heed them. A negative prediction would push people to take account of the concerns it raises, alter their course of action, and push events along a healthier path. In this case, the forecast risks become a *self-fulfilling prophecy* that changes the course of history. In other outlooks, the outcomes seem inevitable, and the only room for maneuver involves optimizing benefits or minimizing losses within a relatively narrow corridor of possibilities. Predictions make little sense if the decision-makers fail to use them in practice.

The fundamental problem in harmonizing this forecast and decision-making at a political level lies in politicians' short-term thinking. Their vision is limited to short electoral cycles, and they view the world in small packages of a few years each, whereas many problems require strategic planning for several decades. This contradiction is vividly exemplified by the global coordination of efforts to prevent the greenhouse effect or protect the environment.

In the European Union, the situation is complicated by a problem that arises from the *sovereignty pool*, i.e. the partial delegation of national sovereignty to supranational governing bodies. On the one side, the formation of a common European policy zone (within the EU) suggests a certain permanence, and the ability *to speak with one voice*. The natural consequence of this would seem to be greater predictability once universal rules of the game encompass more fields of life. But on the other, decision-making becomes vague and responsibility is eroded, because national politicians find themselves between the *hammer* of the electorate that will decide their fate at the next elections and the *anvil* of policy recommendations from the supranational that will almost inevitably clash with the voters' demands. As a result, it is becoming increasingly difficult to predict how any such construction may develop, or how the leaders, caught between a rock and a hard place, should act.

The most striking recent example seems to be the situation with the Eurozone as a whole, and in particular with its most troubled members Greece, Spain, Portugal and Italy. The electorate would like to see a softening of the austerity policy, while these supranational structures insist on further belt-tightening, making it difficult to predict how national politicians will act, even in the short term. The emergence of *technical governments* that run their countries in absence of a democratic mandate before the new elections has become a noticeable trend. This was the case with Greece until May 2012 and Italy until 2013. As a result, Eurozone forecasts have been repeatedly revised, with even short-term scenarios becoming a mechanical compilation of various different scenarios all fraught with a host of variables.

Bearing in mind the organization's complexity and, to a great extent, ineptitude, which multiplies with every wave of expansion, the EU can only develop if it has a strategic vision, and in line with a long-term plan. It cannot afford to approach this "blind." An incremental approach to handling problems — the small-steps policy — will only work if all team members share a clear-cut vision of the development targets. But if these tactics are formed into a strategy, sooner or later the integration project either stagnates or dissipates.

Several decades ago, the project was geared at solving long-term problems such as the "pacification" of Germany, creating a common market and common currency, and engagement with East European nations. Appropriately, predictions regarding EU development were built on broadly understandable criteria. Today, the EU lacks a distinct vision of how it will develop, making forecasting an increasingly acute task. However, the accuracy of any forecast weakens with more *unknowns* coming to the surface.

In terms of expansion, the coming decade is likely to see the EU admit all the West Balkan states except Bosnia and Herzegovina, Albania and Kosovo. Iceland will join, while Norway and Switzerland are likely to preserve the status quo, since they de facto enjoy the benefits of membership. This will draw a line under that. Other states which had been promised entry (i.e. Ukraine, Moldavia, and the Caucasus), should make do with achieving "associated status" that binds them securely to the EU while leaving them outside it. A great deal should depend on integration processes in the post-Soviet space. If, over the coming years, the Eurasian Union becomes a reality and forms its own field of gravity, growing into a successful, attractive organization, the EU's eastward expansion will come to a halt.

Under this scenario, we can cautiously expect Ukraine to fall apart into its eastern and western parts. Turkey makes a special case. There is no precedent in EEC/EU history of a candidate country (Turkey obtained the status in 2005) remaining unaccepted. However, this does not mean that it is impossible, with Turkey an obvious frontrunner for the unenviable position. It still has a chance of joining, although after 2020. Its admission would be unique for two basic

and several *quantitative* reasons. First for geographical and cultural-civilizational reasons: Turkey is the first candidate country almost fully located in Asia, and the first country with a predominantly Muslim population, with all the appropriate mental, cultural and behavioral features.

Second, there are issues such as its population, lower material wealth compared with the European average and ambitious politicians, which together presages a major *perestroika* within the EU — virtually changing its nature. If Turkey comes on board, some scholars predict collapse, whereas others envision a fresh breath that would save the EU from failing in its attempt to become a leading center of influence in the 21st century. In fact, both may turn out to be right, but that would hinge on when the decision to admit Ankara is made.

The 2020s seem the best time for this, as the European Union should by then have stabilized after this current wave of political, socio-economic and financial crisis, and will have gone through a period of consolidation on the basis of the Treaty of Lisbon and the Treaty on Stability, Coordination and Governance within the Economic and Monetary Union. Turkey should retain sufficient political will to join against the backdrop of domestic Euro-skepticism.

Should Turkey's entry fail to take place, the global and regional balance of power will develop against Europe's interests and Turkey will grow to become a full-fledged regional leader. Therefore, Ankara should choose to retain a free hand and withhold its sovereignty from Brussels. Thus, we have two scenarios, both equally likely and both hinging on the time factor. But even if the first comes to pass, which is a train of events most in the EU's interests, (at least as proponents of Turkey's admission see it) this massive task will not create a new EU mission. Whereas until now the Union's medium- and long-term goals, including expansion, have been shared by all member-states, the Turkey issue does more to fuel divisions than to foster unity among EU countries.

Predictions rarely presuppose inevitability, and history is full of surprises. In this case, the scenario method is viable as it offers different alternatives for the future which can be assessed against their relative probability. Without being ranked by probability, scenarios are meaningless and lose their prognostic role. Besides, scenario-based forecasts should be regularly adjusted to the changing reality. Scenarios are also pointless if they reflect a speculative approach to the research. They should not turn into a collection of custom-arranged facts and loose interpretation, rather they should offer a potential version of events that is likely to come to pass.

For example, there is practically no sense in considering the widely-discussed scenario of the EU's collapse, nor is there any point spending much time on the opposite scenario: its emergence out of the crisis as a super-state. These two options are highly unlikely and do not deserve serious attention. The corridor of reliable variability for EU development seems much narrower, and includes

principles such as *two-speed Europe*, *variable geometry* and *permanent structured cooperation*, i.e. the mechanisms that allow Europe to integrate in a more flexible, adaptive, stable and ergonomic manner.

Forecasts and scenarios cannot be used as a projection of one's own (or collective) viewpoint on history, since they inevitably lose value. As in any well-grounded research, forecasters should strive to maximum impartiality and not express either their own desires or those of their clients.

In the absence of any substantial forecast, a development program for a country or international organization would be reduced to rhetoric. This was of the reason behind the failure of the EU's economic development program for the period to 2010 (the Lisbon Strategy), which hinged on a linear vision of history. Its conceptual mistake must have been in the mechanical projection of a lengthy upswing in EU development, rather than questioning the continued period of unprecedented growth.

One can forecast with a relatively high level of certainty that the EU will concentrate on solving its internal problems in an environment of high economic, social and political risks until late this decade. The Union is in for a painful readjustment of its social market model, as in the absence of a rise in competitiveness, the EU will not become a 21st century leader. Forecasts based on World Bank calculations indicate that the 27-member EU's share of the global GDP PPP is to fall from 20.8 percent in 2007 to 18.6 percent by 2020, and to 15.5 percent by 2030. The same figures for the United States are 19.4, 18.3 and 16.6 percent, for Russia — 2.9, 3.1 and 2.7 percent, whereas for China — 10.1, 17.7 and 22.7 percent, and for India — 4.3, 6.9 and 8.7 percent.⁹

Demography and migration trends also seem to be running against the EU. However, disintegration under the burden of current problems is essentially out of question, with the probability of the Eurozone's collapse also quite low. The euro is sure to remain the second reserve currency, while the recent rules governing its operation will undergo drastic changes, which is already underway in view of stricter membership criteria. A change in configuration, that is a division into front and rear groups, also seems likely. As of today, there seems little to substantiate a highly probable scenario in which a particular state leaves the Eurozone and reinstates its national currency. First, there are no withdrawal mechanisms, and, second, the negative effects and imperceptible consequences outweigh the positive expectations both for the responsible states and the entire group. References to the fact that the Greek economy accounts for just two percent of the EU's GDP are inconsistent, as they omit both the multiplier and domino effects: if Greece, not to mention larger states, should leave the Eurozone, the

⁹ Europe 2030 / Ed. by Daniel Benjamin. Brookings Institution Press, Washington, D.C., 2010. P. 65.

damage will be much heavier. Another example of negative consequences due to this neglect of the multiplier effect is the mega-expansion of the EU, with 10 states joining in 2004, Bulgaria and Romania in 2007, and Croatia in 2013.

Proceeding from quantitative parameters, the EU was supposed to easily absorb new members, while the adoption of the European Constitution seemed a "fait accompli." Brussels was "*dizzy from success*" until the mid-2000s to cause a softening of the Copenhagen admission criteria, sugar-coated forecasts and excessive optimism. But now it has become clear that the EU will take at least till the end of this decade to adjust to these conditions, including the dramatically expanded membership.

The crisis phenomena have sparked snowballing euro-skeptic sentiment inside the EU, polarization of the political party systems, and increasingly potent centrifugal trends. We are witnessing the rewriting of the social contract that underpinned the development of the West and Central European countries after the Second World War. The West European social market and the *welfare state* are going through a difficult time but are not likely to cede ground to the Anglo-Saxon development model as in the U.S. version. The systems will become less generous but will remain, at least in the Scandinavian and the Rhine-Alpine sub-models. However, the socio-economic imbalance within the EU will grow, as will social inequality in most member countries. By mid-2012, governments in about a dozen countries changed as a direct or indirect result of growing social tensions and massive discontent about social spending cuts. The process should continue, making electoral defeat of the ruling parties in Germany in 2014 and Great Britain in 2015 real possibilities. The victories of Françoise Hollande in France and the left in Greece seem to have launched another *leftist wave* in European politics.

We may forecast further shifts toward the democratization of the EU, which from the very start had been a project of political elites. Today, the *democracy deficit* problem is so grave that in the absence of its solution, action to stabilize the situation seems impossible. The role played by the European Parliament will continue to grow, with the establishment of the first pan-European political parties likely to take place by 2020. As a side-effect, this process will enhance friction between the European Parliament, European Commission and European Council.

In the years to come, the EU should keep moving toward integrating financial, budgetary and fiscal policies, a tendency already underway — and visible in the European Semester, Euro Plus Pact, European Stability Mechanism, and the Treaty on Stability, Coordination and Governance. Eurobonds, until now stubbornly rejected by Berlin, or *project bonds*, their milder version targeted at financing large infrastructure projects in the EU, are likely to appear.

Thus, the relatively lengthy expansion period should be followed by a deepening of the integration process, i.e. EU consolidation. The European Union

is at or even past the threshold of its second *reset* after adoption of the Single European Act in 1986 and the Maastricht Treaty in 1992. The EU is returning to the *federation of national states* motto and the *communitarian* approach. Evidently, these policy areas are inseparable from the political component. In other words, financial and economic integration should catalyze the political process. As result, it seems almost inevitable that a two-speed Europe will be created, with the various countries divided into two groups: those focused on the EU's interstate nature and those ready to reinforce its supranational character. Hence, consolidation will go hand in hand with the organization's internal differentiation that might even have an impact on the configuration of its borders.

In the coming decade, one cannot exclude the possibility that two states will emerge in the territory that has hitherto been Belgium, or that we will see an independent Scotland and a united Northern Ireland and Republic of Ireland somewhat further down the road. Spain will continue pursuing federalization, while Catalonia is to remain part of it in the foreseeable future. Changing borders would not only create division but also the emergence of new territories. After 2020, the prospects of Moldova (less Transdniestria) attaching to Romania (and the EU) and Kosovo to Albania seem quite likely.

The Common Foreign and Security Policy and Common Security and Defense Policy (CSDP) can be expected to lag seriously behind the financial and economic trends, and the CSDP to an even greater degree. Nevertheless, the further autonomization of the EU as a global political force is an objective and hence irreversible process, which brings Russia both pluses and minuses. The EU's transformation into a more consolidated international actor will help Moscow in areas where the sides' interests coincide, for example on the UN's central role in global relations, polycentricism, coalition-based decision-making taking BRICS interests into account, and conflict resolution in regions adjacent to Europe (North Africa, the Middle and Near East).

At the same time, Moscow will find it harder to employ privileged relations with certain European capitals on matters where interests diverge, such as the EU Eastern Partnership, conflicts in the post-Soviet space, and influence in Central Asia. The issue of *frozen conflicts* remains highly politicized and thus complex for prediction. For example, activities to settle the Transdniestria issue risks aggravating relations between Russia and the European Union but could also offer a new chance of forcing progress in their interaction.

Remember that the CSDP's development runs in parallel with the reinforcement of the EU's *hard force* tools, which puts Russia in a conflicted position. Any kind of military buildup along borders of Russia and the CSTO states is rife with additional risks. At the same time, the transformation of the EU into an effective military and political actor might stimulate cooperation between Brussels and

Moscow in this sphere and create new joint peacemaking missions, at least in regions where the sides do not have rival claims to “zones of influence.”

Moscow will, most likely, see a narrower space for maneuver in relations with Brussels, including regarding oil and gas deliveries, especially after the likely emergence of the common EU energy policy in years ahead. To this end, further efforts are needed to establish permanent coordination and harmonization mechanisms, including the implementation of the Meseberg initiative of Dmitry Medvedev and Angela Merkel (the Russia–EU Committee on External Policy and Security) and the Energy Union. The latter no longer seems improbable against the backdrop of current tensions, since by 2020 the sides’ interdependence in energy supply should only strengthen.

There is virtually no alternative to the continued development of the Russia–EU strategic partnership concept. By 2020, a visa-free regime should have been established, with the new *basic agreement* to be concluded by the middle of the next decade. Normal relations between the EU and the Customs Union on the WTO foundation seem quite likely. After Russia joins the organization, talks on a new basic agreement may advance to the WTO-Plus concept, which provides for the creation of an unprivileged free trade zone by the two sides.

Hence, the 2020 forecast for the EU is almost free from any real disaster scenarios. There seems very low probability for the collapse of the integration project as a whole and only a slim probability that this will happen to the Eurozone, its subsystem. We predict the likely stabilization of the domestic political and socio-economic situation by the end of the decade, and further autonomization of the EU as an economic and political actor beyond that. This is not to indicate that new crises will not surface, both at the state and supranational levels. One may also reasonably suppose that, in the foreseeable future, the EU could become even further submerged in solving its internal problems and settling domestic squabbles, which show scant sign of dissipating.

We do not exclude a stagnation or inertia scenario that would hinder the EU’s return to growth. The emergence of potential for boosting Europe’s global influence once the period of stabilization has been completed will depend on the EU’s and Turkey’s ability to reach consensus on Istanbul’s admission by the early 2020s. The European Union’s capabilities as a global center should expand (especially if Turkey remains outside) provided partnership with Russia continues to boast substantive content. This scenario would be equally beneficial for Moscow.

Nadezhda Arbatova
RUSSIA AND THE EU:
OPPORTUNITIES FOR PARTNERSHIP*

During the past two decades, relations between Russia and the EU have seen many ups and downs, not to mention acute crises. The partnership has been permeated with a host of problems that emerged following the disintegration of the USSR. Both sides have failed to live up to each other's expectations. The European Union expected the building of democracy in Russia to happen rapidly, while Moscow hoped for an economic miracle and a respected niche in Greater Europe.

Brussels has repeatedly criticized Moscow's domestic and foreign policies, and also its alleged outward retreat from the values and principles underpinning their cooperation and partnership. There are major contradictions on fundamental issues, especially on development and institutional forms of democracy, human rights, and counterterrorism. Europeans still distrust Russia's political elite and have doubts about the country's dedication to the European trajectory.

The Russian establishment has, in turn, incessantly expressed concern about the EU's structural crisis, low growth rates, poor demography, unbalanced migration policies, rising nationalism and radicalism, and anti-Russian sentiments in some *new European countries*. The two sides have also been unhappy with each other's approaches to the CIS. Brussels has been anxious about the possible buildup of a new *Russian Empire*, while Moscow has regarded EU and NATO expansion toward the CIS as an attempt to oust it from an area that is vital to its interests. The list of mutual grievances can be expanded ad infinitum, but despite this seemingly mutual discontent, during the worst international crises, i.e. Yugoslavia in 1999 and the Caucasus in 2008, it was the EU that built bridges between Russia and the United States/ NATO.

* Nadezhda Arbatova, Doctor of Political Science, Head of Department for European Political Studies, RAS, Institute of World Economy and International Relations.

During the past decade, there have been at least two reference points raising hopes for a qualitative shift in relations. First, the St. Petersburg Initiative for four common spaces in the economy; internal security; external security; and science, education and culture, proposed at the May 2003 Russia–EU Summit. This is an essential breakthrough capable of adding a strategic perspective to this dialog (bypassing the Russian membership issue, which is fraught with difficulty for both sides), forming the basis for new Treaty negotiations. The second point is the Partnership for Modernization, launched at the May 31 — June 1 Summit in Rostov-on-Don. However, both initiatives remain idle.

The Russia–EU talks on the new basic treaty have stalled. The Partnership for Modernization view of broader political, social and economic democratization has narrowed to technical projects (pinpoint modernization) or mega-projects like Skolkovo, the economic outcomes of which are likely to be barely palpable “so long as competition is restricted and successful ventures fear being cut down by kleptocratic officials.”¹⁰ The global economic and financial crisis has lent the relationship some new elements, giving rise to a number of questions: Is there an imperative for future interaction in an atmosphere of deep mutual frustration, fatigue and apathy? What are the key barriers to qualitative change in the Russia–EU relationship? What should be done to overcome the creeping stagnation in the dialog?

THE RUSSIA–EU RELATIONSHIP IN THE CRISIS CONTEXT

Under the influence of a number of factors, primarily related to the global economic and financial crisis, both sides are currently experiencing profound political, economic and social transformation that could dramatically affect this relationship. The crisis has noticeably damaged the EU’s reputation as a regional integration model and a new center of soft power devoted to multilateral cooperation.

The crisis also brings changes to EU relations with global powers. According to experts at the Council on Foreign Relations in Brussels, economy-wise, the EU is moving from “subject” to “object.” Whereas in 2010, the European Union was working to bolster its influence in the adjacent regions, in 2011 it had to seek help from other countries. As for the United States, the EU has lost its partner status in the solution of global problems, and even became a problem itself. It became an IMF client and sought assistance from Russia and China to save the

¹⁰ Barysch K. The EU–Russia Modernization for Partnership // *The EU–Russia Modernization for Partnership*. EU–Russia Center Review, 2010. P. 30. URL: http://www.eu-russiacentre.org/wp-content/uploads/2008/10/EURC_review_XV_ENG.pdf

Eurozone. In 2010, the European Union had to vacate its board seat for emerging economies, which had previously treated it as a mentor.¹¹ Of course, this criticism is somewhat exaggerated, but do not forget the roots of the global crisis, i.e. the mortgage disaster in the United States. There are no figures that can be used to assess the decline in EU soft power and loss in international standing. By 2012 the European Union had lost much of its attraction as a model for third countries, including Russia.

Currently, most Russian politicians, and President Putin, believe that Russia should remain a sovereign power center based on the Eurasian Union. After the national election cycle at the June 2012 Russia–EU Summit, the Russian president made it clear that Europeans will have to deal not only with Moscow but also with the Eurasian Commission. The Eurasian angle is likely to grow into a new dimension of Moscow’s foreign policy that cannot but have an impact on the EU partnership.

Russia’s Eurasian focus either coincides with or is a result of the uncertain future of its modernization process. Russian leaders do not seem to expect a lot from the emasculated EU. The modernization concept is gradually giving way to new re-industrialization driven by the defense sector with the use of positive USSR practices and the latest technologies. However, the new concept has numerous lacunae. The focus on the defense industry and Soviet technology failed to prevent the breakup of the USSR. There is no clarity about the origin of the new technology, or how the new project correlates to the modernization program that has not yet been officially cancelled. Despite the fresh foreign policy priority, the EU remains Russia’s second largest partner after the Eurasian Union.

Brussels is not too anxious about the Eurasian Union because there is a great difference between cooperation and integration. Cooperation is intended for the willing, whatever their political and economic differences, while integration can only be possible if the countries are similar in political structure and economic level. Some in the European External Action Service believe that «the EU in principle supports the Eurasian Union as a regional integration process and had experience and expertise to share on that process. However, there were two caveats to this support: the approach should be voluntary and the development should not be detrimental to existing links with some of the countries concerned.»¹² Many in Brussels admit that the project is Moscow’s response to the European Partnership initiative that would bypass Russia.

¹¹ European Foreign Policy Scorecard 2012 / European Council on Foreign Relations. P. 9–10. URL: <http://www.ecfr.eu/scorecard/2012/extras/pdf>

¹² Putin’s Dream — The Eurasia Union / EU–Russia Center. URL: <http://www.eu-russiacentre.org/eu-russiacentre-news/putins-dream-eurasia-union.html>

HURDLES FOR THE NEW RUSSIA–EU TREATY

Although security and democracy support are still the backbone of the EU Common Foreign and Security Policy (CFSP), the crisis has managed to somewhat shift Brussels' foreign policy priorities. According to political scientist Richard Youngs, director of a major European think tank in Madrid, diplomacy is commercializing. The focus is on economically motivated initiatives, estimated potential risks and geo-economic options for the EU, as well as the influence of geo-economic imperatives on global management and security dilemmas.¹³

This commercialization and bilateralization of EU foreign policy is also visible in the approach taken to Russia. Although consistent backing for Russia's WTO membership and the development of a common stance toward Moscow are seen as an EU joint success, the economic priorities of individual EU states often prevail over any common interests. Essentially, this trend is in Russia's interests. It has traditionally concentrated on the partnership's economic components and bilateral relations with EU countries. Depoliticization and de-ideologization inherently facilitate economic interaction, but at the same time deprive relations of both strategic vision and fundamental goals. Besides, as can be seen from the differences that emerged at the talks on the new basic agreement (NBA) between Russia and the EU, the subordination of relations to economic interests would not guarantee problem-free cooperation. "On the whole, at this stage, Moscow finds it sufficient to conclude a compact and comparatively short treaty that will later be augmented by sectoral agreements. But Brussels is insisting on a comprehensive treaty."¹⁴

Russian leaders believe that their European partners are trying to use the new basic agreement to stipulate obligations that lie beyond Russia's WTO commitments. «For some reason, our European Commission partners are trying to obtain from Russia more than had been agreed within the WTO framework and do not seem ready, at least now, to reproduce the conditions agreed upon at the WTO talks in the new basic agreement's trade section,» said Russian Foreign Minister Sergey Lavrov, who at the same time did not exclude that there may and «probably should be additional Russia–EU agreements to extend beyond regimes agreed upon within the WTO.»¹⁵

¹³ Challenges for European Foreign Policy in 2012, What kind of geo-economic Europe? / Eds. Ana Martiningui and Richard Youngs. FRIDE, 2011. P. 14–15. URL: <http://www.fride.org/publication/971/challenges-for-european-foreign-policy-in-2012.-what-kind-of-geo-economic-europe>

¹⁴ Russia–EU Partnership in Uncertainty. URL: <http://www.alleuropa.ru/partnerstvo-rf-es-v-usloviyach-neopredelennosti>

¹⁵ An Agreement on Infinite Trade // Kommersant Newspaper. 04/02/2012. No. 57/II (4842).

According to Brussels, differences with Moscow on WTO Plus are as follows: the EU would like to have the economic section of the new agreement as inclusive as possible, while Russia believes reasonable to refrain from specifying the details of trade and economic relations and stipulate just the basic principles of cooperation, resolving particular issues within separate agreements. Moscow wants the agreement's economic provisions to echo conditions for its accession to the WTO. However, Brussels does not deem that sufficient, and instead insists on the introduction of items that go beyond the Russia–WTO accords.

Primarily, this concerns trade and investments law, competition, and government purchases. The European Commission has already announced its willingness to close European government contracts to companies from countries where national suppliers of goods and services for government bodies are given preference. When Russia was in the process of acceding to the WTO, Russian companies expected practically unlimited access to 500-billion-euro European government contracts. Should the European Parliament approve the European Commission's proposal, this prospect will remain illusory, foreshadowing new antidumping measures Russia that would not be able to dispute without opening its own government procurement market.¹⁶

Another stumbling block in the NBA negotiations arises from differences on the Third Energy Package. Gazprom would not fit into Brussels' policies on the liberalization of the electricity and gas markets. Approved by the EU in 2009, the Third Energy Package includes six pieces of legislation that envision limits on vertically integrated companies regarding the possession and management of energy transportation networks. It also obliges EU members to unite their national energy systems before the end of 2014. Although Gazprom had applied to obtain 100-percent capacity of the Nord Stream branch pipelines, and received the requisite permission from the German regulator, the European Commission rejected its application.¹⁷ The EU ramped up the formation of the common energy market as soon as the European Commission began its investigation of Gazprom (government-owned by more than 50 percent) over monopoly activities, hampering free competition in Europe.¹⁸

A solution could be found in setting up a new monopoly, separate from Gazprom and similar to Transneft, which would not produce oil and, consequently, would not have a conflict of interests. The restructuring of Gazprom has long been in the wind, starting in the late 1990s on the IMF's initiative. The Russian

¹⁶ Ibid.

¹⁷ Russia is to Give the EU a New Draft Agreement on Transborder Pipelines. <http://www.newsazerbaijan.ru/economic/20121214/298244549.html>

¹⁸ The European Union En Route to the Common Gas Market. URL: <http://www.inosmi.ru/world/20120918/199389669.html>

Ministry for Economic Development also spent several futile years attempting to break up the gas monopoly. But experts are certain that, sooner or later, the government will return to this idea. Most likely, production will be separated from transportation, establishing a state company like Transneft. Experts believe this would help both the domestic gas market and Gazprom.¹⁹

Finally, prospects for a Russia–EU visa-free regime remain vague, although it opens a real opportunity to strengthen partnership in the near future. Of course, the EU should alter its *tomorrow-not-today* stance, but Brussels does not seem to understand how critical this issue is to Russia. For centuries, contact between Russia and the West has been limited to the Russian aristocracy and later to the Soviet elite. After the USSR breakup in 1991 that removed the frontier in the East, Brussels erected a new visa barrier, to cut off most of Russia's population from Europe. The visa-free regime would not be a concession to the Russian establishment, but rather it would be a key factor in strengthening contacts between EU and Russian citizens, in the hope of building grass-roots foundations for a new partnership and enhancing Russia's self-identification as the largest European power.

The above NBA barriers do not appear insurmountable, but solutions can only be found within a strategically orientated relationship. Although Brussels prefers to downplay political differences with Moscow, primarily where it comes to human rights and basic liberties, it seems to be experiencing a kind of *Russia fatigue* that could channel any future bilateral cooperation into the *à la carte* framework.

SECURITY: COOPERATION IMPERATIVES AND DIFFERENCES

The sides' common security interests primarily lie in counteracting international terrorism, the proliferation of the WMD, narcotics, illegal migration, transborder crime and arms trafficking. Of special interest is stability in Greater Europe, which raises the possibility of joint prevention and settlement of ethnic and religious conflicts.²⁰

Fundamental documents in both Russia and Europe recognize regional conflicts as a key challenge to European and international security, which spawn extremism, terrorism, organized crime and the proliferation of WMD.

Both Russia and the EU are most concerned about conflicts on the European continent and in adjacent countries, i.e. in the FSU, West Balkans, Middle and

¹⁹ Yulia Shishkova. Will Gazprom Take the Path of RAO UES.
URL: <http://www.rbcdaily.ru/tek/562949979523628>

²⁰ See: URL: http://www.yabloko.ru/books/aratov_equation.pdf

Near East, with the focus on delayed conflicts in the Balkans (Kosovo) and the Caucasus (South Ossetia and Abkhazia, since neither Serbia nor Georgia would not put up with the loss of their territories; as well as in Bosnia and Herzegovina, so far a non-viable entity. There are also frozen CIS conflicts — Transdniestria and Nagorny Karabakh, plus the Cyprus and Afghan problems, both of which can be viewed as remnants of the Cold War. As far as EU–Russian relations are concerned, the CIS conflicts are definitely the most significant, as can be seen from the August 2008 Caucasus crisis. This caused unprecedented tensions between Russia and the West,²¹ which more than any other event in the last 30 years, shed light on the gravity of their differences regarding the post-Soviet space.

Although both Russia and the EU recognize the need to cooperate in settling regional conflicts, and have been working together in various international formats,²² this cooperation has yet to become effective,²³ as there is no foundation for a joint crisis management mechanism and no common understanding of its aims and principles.

As vividly demonstrated by the Arab Spring, supporting democracy cannot and should not be made an objective of peacemaking operations. Further, the EU-NATO military campaign against Libya, allegedly intended to prevent a humanitarian disaster, and carried out with Moscow's de facto consent, has compromised the very notion of humanitarian intervention and Russia's cooperation with the EU and NATO. In the Syria crisis, Moscow and Brussels found themselves on different sides for the first time since the Cold War. «We cannot support the project advanced by the Western countries, which is also connected to the Libyan experience,» said Sergey Lavrov, adding that «we have already learned a lesson».²⁴

In view of the U.S. pivot to Asia-Pacific and the radical reduction of its military presence in Europe, the EU is coming to realize its growing responsibility for security in Greater Europe, which can hardly be achieved without Russia. Whether some like it or not, Russia is a key partner in the resolution of issues such as Transdniestria, Nagorny Karabakh, Iran's nuclear program, Syria, *etc.* Russia–EU international security cooperation would definitely fortify the global governance mechanism, including its military component.

²¹ A. Arbatov. International Security after the Caucasus Crisis.
URL: http://www.imemo.ru/ru/publ/2009/09003_1.pdf

²² Contact Group on Former Yugoslavia, Middle East Quartet, 5+2 talks on Transnistria, EU mediation in the 2008 Caucasus crisis, *etc.*

²³ To date joint Russia–EU peacemaking experience has been limited and mostly symbolic, essentially amounting to the engagement of a Russian helicopter group for operations in Chad and the Central African Republic (CAR).

²⁴ See: URL: <http://www.top.rbc.ru/politics/27/09/2011/617576.shtml>

THE CIS — BONE OF CONTENTION OR REGION FOR MUTUAL BENEFITS

Both Russia and the European Union seem to have been grossly misguided in their policies toward the post-Soviet space, since neither had a clear strategy. Russia's euphoria from independence and the breakup of the USSR gave way to feelings of loss and defeat, which took place not overseas but much more nearby. *Gathering lands* under its auspices and solving concrete problems has prompted Russia to establish *special relationships* with CIS countries, which, in the long run, boiled down to financing these post-Soviet countries. Instead of differentiating relations within the CIS and identifying priority partners, Russia opted for the donor-dependent model regarding its closest neighbors, who have, in turn, placed the entire responsibility for the arbitrariness of the former Soviet authorities on Moscow, arguing that the USSR and Russian Federation governments were integrated.

As for the Eurasian Union, in solving the problem of the Soviet nuclear legacy, Brussels and the entire West regarded the centrifugal trends in the CIS as a key precondition for the democratization of its member-states and as a guarantee against the reincarnation of the USSR in any form. Hence, the very fact that the CIS emerged was greeted in Europe with concern.

The farfetched and utterly false “the West or Russia” dilemma for the CIS has long poisoned the development of a Russia–EU partnership. No real cooperation, especially in the settlement of CIS conflicts, can be expected until Russia and the European Union stop regarding this new independent states as a vacuum to be filled by any means possible along *zero sum* lines.

Currently, the CIS states participate in various regional projects within the framework of European neighborhood policies, the Eastern Partnership being the centerpiece. Its members — Ukraine, Belarus, Moldova, Armenia and Azerbaijan — have been promised association and free trade agreements. They also stand to benefit from financial assistance, diversified cooperation (security, farming, transport, environmental protection) and the gradual liberalization of the visa regime. The EU's 2010–2013 allocations for bilateral Eastern Partnership programs amount to 1.9 billion euro, with the total subsidies through various channels set to reach 16 billion euro. Ukraine, Moldova, Armenia, Georgia and the EU plan to sign association agreements in fall 2013, during the Eastern Partnership summit in Vilnius²⁵.

Russia remains outside the European Neighborhood Policy, having no agreement and talks slipping as explained above. At the same time, Russia's integration into the Four Common Spaces would remove the “Russia or EU”

²⁵ See: URL: <http://www.rbc.ru/rbcfreenews/20130123233941.shtml>

dilemma for the CIS European countries, and also the very notion of the *bone of contention*. In other words, a better international treaty framework seems to be the primary condition for Russia–EU cooperation in the post-Soviet space.

Another significant step to prevent Russia–EU conflicts in the FSU would be a joint initiative for a functional approach to cooperation in the CIS on key areas such as the economy, internal and external security, and science. The functional approach within the *Expanded Eastern Partnership* or *Eastern Partnership Plus* would help overcome these new regional division lines. This by no means contradicts the existence of other regional unions such as the Russia–NATO Council (whose outlook seems subdued), the Eurasian Economic Community, CSTO, and the SCO, presenting a new cooperation format for all interested states and offering the benefit of blurring divisions between regions and multilateral organizations.

This approach differs from other attitudes regarding the cooperation of Russia, other CIS states and Euro-Atlantic institutions, and means the agenda will become more concrete, resources will be more focused on key issues and engagement in intensive negotiations with clear-cut targets and timelines. The projects' participants should be determined by *flexible geometry*, excluding the obligatory automatic participation of all states involved.

In order to attain this goal, the two partners must find a way out of the vicious circle and radically change their stances. Russia should stop treating CIS states as the post-Soviet space, buying their loyalty in the hope of restoring some kind of coalition of satellite countries for prestige and self-assertion. It should outline its CIS priorities and use them in policy development. As for the EU and the West, they must recognize the CIS as a zone of Russia's vital interests (which does not mean special rights, neo-imperial aspirations or policies), as well as the need to pay more heed to its security concerns.

CONCLUSION

Both the European Union and Russia are responsible for the security and wellbeing of Greater Europe, whose future is largely built on current trends. The EU's long-term international role will hinge on the restoration of its economic might, soft power, and the overall attractiveness of the European model. As for Russia, the only promising development path lies through its departure from a commodity export economy on the European democratic footing, high technologies and orientation to modernization alliances. A favorable scenario for Russia–EU cooperation will not just make Europe the most stable and prosperous continent, but will also significantly strengthen the global governance mechanism.

Marina Strezhneva
EURASIAN INTEGRATION
IN THE CONTEXT
OF THE RUSSIA–EU PARTNERSHIP*

INTEGRATION TRAJECTORIES

It can be deduced from reviewing Russia's amended Foreign Policy Concept (see Section IV "Regional Partnerships) that Moscow ranks its bilateral and multilateral relations with CIS countries as the priority foreign policy objective.²⁶ With this in mind, one could argue, it would hardly be logical to enter into any serious discussion of integration across the post-Soviet space, which for Russia has its inherent worth, in the context of Russia's partnership with the European Union. However, since this conference will focus on the potential of Russia–EU partnership, we will try to argue that Eurasian integration could reasonably be treated as one of the factors affecting the relationship between these two parties.

At the same time, there is the widely held view in the expert community that post-Soviet integration might get additional opportunities to succeed in the medium-term, because the United States and EU, which traditionally had opposed it, have been busy elsewhere. They mean, of course, the worries about the world economic crisis; attempts by Western countries to hold onto their positions in the world against the rise of the emerging economies; and also the negotiations, due to start in summer 2013, on the trans-Atlantic free economic zone.

Many observers maintain that the economic crisis, at least for the next few years, has made the European Union less attractive for the European CIS countries.²⁷ Whereas in the "good old days," pre-crisis, they looked up to Europe

* Marina Strezhneva, Doctor of Political Science, Department Head at the Institute of World Economy and International Relations; Professor, Moscow State Institute of International Relations (University) of the Ministry of Foreign Affairs of Russia.

²⁶ Concept of the Foreign Policy of the Russian Federation. Approved by President Putin on February 12, 2013. 303-18-02-2013 // Ministry for Foreign Affairs of the Russian Federation. URL: <http://www.mid.ru>

²⁷ The expected rate of growth in the EU-27 in 2013 is 0.4 percent of their aggregate GDP; in 2014, it was 1.6 percent of GDP. Eurostat data. URL: <http://www.epp.eurostat.ec.europa.eu>

and eagerly eyed development opportunities there, today more of them are turning to Moscow, expecting it to deliver the resources they need to survive and at moderate prices.

In the context of this event's overarching theme, different hypotheses could be put forward as to how any success in post-Soviet integration could impact the Russia–EU relationship.

a) It could have a positive effect and help push the relationship out of lengthy stagnation (from almost 2005 to 2012). These expectations could be due to hopes that the European Union would treat Russia and its interests more seriously, should the Eurasian Economic Community (EAEC) take shape (as and when it does).

b) It could have a negative effect, because the European Union is prone to regard the EAEC as an attempt to resurrect the “Soviet empire” in a new form and as evidence of Russia's revived “imperial ambitions,” which the EU could never accept and which it will always try to resist.

c) The effect could be broadly insignificant, as long as both EU and EAEC members focus their future efforts on new centers of growth in the world economy, losing the undoubtedly high mutual interest they used to enjoy before in Russia and the EU (roughly prior to the enlargement of the European Union in the 2000s).

But since post-Soviet integration is still in its infancy, for lack of key factors, none of the above hypotheses can be proved. At present, the only factors that are actually in place are the Customs Union of Russia, Kazakhstan and Belarus and the Eurasian Economic Commission (EEC).

However, we are no surer at present about the future shape of the European Union which, due to the economic crisis, is going through a serious transformation in the paradigm of its Economic and Monetary Union (EMU). One could only assume that higher differentiation in the EU (through the gradual marginalization of countries outside the single currency area²⁸) would be more conducive to enhanced competition between Moscow and Brussels for influence in the European CIS countries, as it would leave unsolved the issue of the outer borders of the European integration. From the European point of view, it would be more logical, in this case, to regard these countries as belonging to the outer rim of the Brussels-led Europeanizing influence.

The federalization of the EU-28 (together with Croatia due to join the EU in 2013) would only be possible if they set a more definite outer rim for their integration union, conclusively putting a stop to any further enlargement. In addition, this would bring the EU into fuller compliance with the (quasi-) state format of participation in international affairs, in which Brussels' current

²⁸ Starting with the UK.

emphasis on its “regulatory powers” would cease to be as organic and necessary as it is today. This, admittedly, would make the EU more accepting of the post-Soviet integration union as a potential partner in international affairs.

ON THE COMPATIBILITY OF INTEGRATION FORMATS

Russia’s key interest in post-Soviet economic integration is understood as being linked to bigger accessible markets and higher competitiveness. In an article published in 2004, Viktor Khristenko, the current head of the EEC, said: “For Russia, for instance, in economic terms this means creating a uniform space for Russian companies’ activities outside the political borders of the Russian Federation. The same approach could be used for our neighbors — Kazakhstan, Belarus and Ukraine.”²⁹

Also, as it follows from statements and publications by the Russian president who is promoting this project, Moscow sees no inconsistency between Eurasian integration processes and better relations with the European Union, so long as the EAEC and EU base their dealings on the principles of free trade and compatible regulatory systems.³⁰

It is unfortunate that neither post-Soviet integration, nor the EU has “matured” in practical terms to be fully in line with such aspirations. Nor is there any guarantee that this will happen in future. At the same time, growing infrastructure networks and emerging collaboration in the electricity sector, based on the principles of open regionalism (with the post-Soviet nations, geographically, positioned between Europe and Asia), could lead to a better external environment that is more conducive to this project, including transcontinental corridors to China and other APR countries.

Whatever the case, many in the EU consider plans to get the EAEC up and running by 2015 as realistic and deserving serious attention, particularly since

²⁹ Khristenko Vr. Making Headway to Integration // Russia in Global Affairs. 2004. No. 1. URL: http://www.globalaffairs.ru/number/n_2474

³⁰ The key features of and prospects for the Eurasian Community were described by Vladimir Putin in his article “A New Integration Project for Eurasia.” See Vladimir Putin. “A new integration project for Eurasia. The future in the making” // *Izvestia*. 2011. October 3. URL: <http://www.izvestia.ru/news/502761>. Earlier, in an article published by the German *SudDeutcherZeitung* in November 2010, Putin (then Prime Minister) offered a long-term plan for the creation of a free trade area with Russia and the EU, which was met with a somewhat wary reaction in German political circles. Chancellor Angela Merkel in particular said at that point that Germany welcomed the idea; however, Russian customs policies and its customs union with Belarus and Kazakhstan meant the project can not be implemented. Following her negotiations with the Russian Prime Minister, Chancellor Merkel reiterated her position. The new Russian initiative opens ways to remove that obstacle due to the supra-national elements in the Customs Union. For details see: *International Review: When will a free trade zone be created between Russia and the EU?* // [Chinese] *People’s Daily*. 2010. November 29. URL: <http://www.russian1.peopledaily.com.cn/95181/7213606.html>

the establishment of the Single Economic Space in 2012, and the EEC coming on stream. This is a supranational body with broad powers, which, in line with the founders' intentions, at its lower level (the Board), clearly demonstrates a similarity with the European Commission and its structure: each board member in the EEC is responsible for a certain area of integration within the community. This is not, in itself, a flawed institutional setup for the future interaction between the EAEC and EU. In contrast, the EU–North American Free Trade zone (NAFTA) relations are inherently difficult to structure, since NAFTA does not have any such body.

European observers note important distinctions between post-Soviet integration and the early, post-war, West European integration processes.³¹ Frequent statements about the relatively poorly balanced structure of the Eurasian Community (Russia is “too big” compared to its partners), limited trade between Russia, on the one hand, and Belarus and Kazakhstan, on the other, and the extremely low level of trade between Belarus and Kazakhstan sometimes prompt more general pronouncements that economic integration within the EAEC has little future.

However, it remains true for many CIS countries, including Russia, that the EU is a more important trade partner than their immediate neighbors. This, objectively, enhances the effect of European regulations and standards in the post-Soviet territories.³² China's role as a source of investment and loans for Central Asian countries, Belarus and Ukraine has been increasing. There are also other factors that could impede the long-term progress of the post-Soviet integration. They include, for example, the continued dominance of the mineral resources sector in the Russian and Kazakh economies, with a focus on third-countries' markets. Indeed, the history of European integration suggests that a strong export-oriented mineral resources industry usually impacts the motivation of relevant countries to engage in deeper regional integration. Deeper integration invariably requires a more diversified economy and reduced dependence on commodity exports. In the absence of any such diversification, there will be no direct or strong signals from the business community demanding deeper regional integration from the government.

However, it should also be remembered that, in contrast to the EU, in the post-Soviet territories the inflow in capital (between Customs Union countries) and labor (between CIS countries and the Customs Union) is outstripping trade growth. It would therefore seem reasonable to expect a faster transition to a more

³¹ Blockmans S., Kostanyan H., Vorobiov I. *Towards a Eurasian Economic Union: The challenge of integration and unity* // EU Foreign Policy, CEPS Special Reports. 2012. December 14. URL: <http://www.ceps.be/book/towards-eurasian-economic-union-challenge-integration-and-unity>

³² In contrast to the Customs Union, over 60 percent of EU countries' foreign trade is inside the European Union.

advanced position in the integration process (the Customs Union itself has little to do with those areas where “bottom-up integration” is more dynamic in the post-Soviet territories).

ON RELATIONSHIPS WITH POST-SOVIET EUROPEAN COUNTRIES

Most international actors and foreign analysts seem to agree that these different vectors of post-Soviet and European integration are inherently incompatible, and, as a result, countries such as Ukraine, Belarus and Moldova will, in the long run, have to choose one trajectory or the other. The European Union’s position is that Customs Union obligations make it impossible for its members to benefit from a free trade zone with the EU, in contrast to the CIS Multilateral Free Trade Zone (based on the October 2011 Treaty signed by Kazakhstan, Russia, Belarus, Kirgiz Republic, Tajikistan, Armenia, Moldova and Ukraine) that makes no provision for supranational bodies.³³

Moscow’s point of view is that these obstacles could be removed if there were a free trade zone between the EU and EAEC. A better scenario for Moscow would be to have Ukraine within the Customs Union, followed subsequently by the signing of an open free trade agreement between the post-Soviet bloc and the European Union. The caveat here is that this option does not help Ukraine get full EU membership, a goal that Kiev has no intention to compromise. The fact that outside observers have little confidence that this scenario will materialize is another issue. The EU, in the midst of internal reforms, is not ready for it, but neither is Ukraine, with its economy largely non-compliant with European standards. Additionally, many Ukrainian producers are very concerned about possible negative outcomes for Ukraine’s automotive, aviation, ship-building and instrument engineering plants should it join the EU free trade.³⁴ The feeling

³³ On the negotiations that the EU is conducting with some of the post-Soviet states, the Association Agreement with Ukraine was initialed in Brussels on March 30, 2012, and has practically been finalized. The signing, which as of today is expected in November 2013, has been delayed by EU concerns over Kiev’s propensity for “selective justice” and delays in reforming national election laws that would help minimize possible election rigging. In December 2011, the EU launched trade negotiations with Georgia and Moldova, and in February 2012, with Armenia. They touch upon key aspects of a modern, transparent and predictable climate in trade and investment. In all of the four above cases, the plan is to establish an advanced and comprehensive free trade zone, which is expected to become part of a broader association agreement, within the framework of Eastern Partnership and the European Neighbourhood policies. As follows from statements made by these four post-Soviet countries, they exclude any possibility of full membership in the Customs Union. However, this level of convergence with the EU is, in fact, the maximum possible for these countries, and this could remain the case for a long time, as they are not ready for further convergence with an integrated Europe.

³⁴ Ukrainian metals and chemicals industries could benefit from the EU free trade area. Kiev hopes it could facilitate procedures for its exporters, increase European investment, and promote the country’s economic security.

within the EU is that Ukraine could benefit from free trade with it and with the Customs Union without joining the latter.

The European ruling elites are struggling to accept that post-Soviet integration really is happening. However, as early as 2005, the Russia–EU Road Map for the Common Space of External Security stated: “The EU and Russia recognize that processes of regional cooperation and integration in which they participate and which are based on the sovereign decisions of States, play an important role in strengthening security and stability. They agree to actively promote them in a mutually beneficial manner, through close result-oriented EU–Russia collaboration and dialogue, thereby contributing effectively to creating a greater Europe without dividing lines and based on common values.”³⁵ Bearing in mind both this and the general support offered by the European Union, the most advanced integration union in the world, to integration progress across various regions (such as ASEAN or Mercosur), it is even more difficult for the EU to refuse the post-Soviet integration the right to exist based on concerns related to geopolitical competition. During her November 2012 visit to Kazakhstan, the EU’s High Representative for Foreign Affairs and Security Policy Catherine Ashton reiterated the Union’s positive stance toward Eurasian integration, at the same time pointing out two conditions: as Chizhov put it, “that all this be voluntary and all participants are WTO members.”³⁶

According to the Head of the EU Delegation to Moldova, Dirk Schuebel, the EU will maintain friendly relations with the Republic of Moldova if it chooses to pursue a course of integration into the Russian-built Eurasian economic community.

ON INVOLVING THE EEC IN RUSSIA–EU NEGOTIATIONS

Nevertheless, the very first steps taken by the Customs Union of Russia, Kazakhstan and Belarus turned out to be quite noticeable for integrated Europe. From January 1, 2010 the Customs Union introduced a common external tariff. This resulted in worse conditions for the Europeans, additional costs for European exporters and caused the European Commission to forward a formal request to

³⁵ The Road Map for the Common Space of External Security. Approved on May 10, 2005 in Moscow by Russian President Vladimir Putin, Prime Minister of Luxembourg Jean-Claude Juncker, the President of the European Commission, Jose Manuel Barroso, and the Secretary-General/High Representative, Dr. Javier Solana. URL: http://www.russianmission.eu/userfiles/file/road_map_on_the_common_space_of_external_security_2005_russian.pdf

³⁶ Quoted from: “EU would want more from its relations with Russia than the set of terms and conditions upon which Russia joined the WTO” // Finmarket.ru. URL: <http://www.finmarket.ru/z/nws/news.asp?id=3174248>

avoid any such surprises in future.³⁷ Later the EU and the Customs Union reached an agreement on a transitional period after the Customs Code came into effect in July 2010.

In their economic relations, both the European Union, which supports liberal trends in the world economy, and Russia would want more than the set of terms and conditions upon which Russia joined the WTO, by agreeing on something like WTO+. This position, while being reasonable in the longer term, fails to account for the ongoing adjustment in Russia's economy in response to its WTO accession that means Moscow is less motivated to reinforce its efforts to liberalize its foreign trade any further.

Indulging the obsolete perceptions that post-Soviet integration was an instrument of Russia's influence, reflecting its desire to impose its dominance on weaker countries, the European Union, in turn, is in no hurry to recognize the Customs Union, not all members of which have acceded to the WTO. However, it could be 5–10 years before the Customs Union emerges as an integration structure recognized under WTO rules, effectively bringing negotiations on a new comprehensive agreement between the EU and Russia to a deadlock. With the EEC, a considerable part of national functions in trade regulation, competition, government procurement and technical requirements was or will be transferred to the supranational jurisdiction. However, in the new agreement negotiations with Russia, the EU's mandate does not presuppose EEC participation.

According to Vladimir Chizhov, Russia's permanent representative to the EU, not all EU countries agree to the European Commission having direct contact with the EEC, although these disagreements seem to be gradually disappearing. The very first contact between the EEC leaders and the European Commission took place in summer 2012.³⁸

DOES RUSSIA NEED A FREE TRADE AREA WITH THE EU?

Today we see a variety of interconnected and overlapping agreements on regional integration and international unions emerging in the world. Given this context, the prospect of European integration resting on two pillars (European

³⁷ According to the European side, this change took place without any prior notification of the EU, without consultations or relevant administrative preparations.

³⁸ As Chizhov put it, "in the end, we are reaching with the EU a certain understanding to include the Eurasian Economic Commission in the negotiations process. Not as a party to, but in a different format, however, there are still things to work at here." See: EU would want more from its relations with Russia than the set of terms and conditions upon which Russia joined the WTO // Finmarket.ru. URL: <http://www.finmarket.ru/z/nws/news.asp?id=3174248>. Russia's position is that there can be no separate economic space between the Russian Federation and the European Union, but that one is possible between the EU and the EAEC.

Union and the future Eurasian Economic Union) seems to make sense. However, currently the EU and the Customs Union are discussing free trade areas with various and sometimes remote countries, but notably not with each other. The Customs Union of Russia, Kazakhstan and Belarus, for instance, is negotiating a free trade regime with New Zealand, Vietnam and the European Free Trade Association. The EU is set to hold free trade negotiations with the United States. Those may take a long time (some believe up to 10 years), but after their completion, Russia may see yet another barrier (in addition to NATO and visas) in its relationship with “another” Europe, although neither party would welcome a cooling in mutual relations.

With this in mind, based on the current state of affairs, a preliminary conclusion can be drawn that, of the three scenarios detailed above, the second is the least likely. In other words, stronger integration across the post-Soviet space is unlikely to harm the relationship between Russia and the EU.

Irina Busygina

**RUSSIA–EUROPEAN UNION RELATIONS:
CURRENT STATUS AND
DEVELOPMENT PROSPECTS.**

*Analytical Report**

INTRODUCTION

In recent years, one of Russia's clear foreign policy priorities was reasserting itself as a global and regional power: its economic and political strengthening was accompanied by setting geopolitical goals. Russia was, and is still, attempting to demonstrate to the world it has the growing strength of a truly great power. By virtue of this, the key issue is to generate an efficient foreign policy strategy, including in its relations with the West. An important question arises in the context of this broader problem: why is cooperation between Russia and the European Union still rather constrained in numerous areas of mutual interest? The importance of this question is chiefly due to the high level of economic interdependence that characterizes these relations.

In fact, in recent years, relations between Russia and the European Union have been developing paradoxically: while dependence on trade has been growing steadily, cooperation in the political sphere has been contracting, not developing. The most significant line of tension between the EU and Russia is in energy security.

Both Moscow and Brussels view difficult relations as a constant. Today appears that the EU is more concerned about Russia, a country that is geographically quite close to it, than it is about any other country in the world. Its criticism focuses on Russia's unpredictable policies (including foreign policy) that could adversely affect investors, but it also highlights all-pervasive corruption as a systemic phenomenon,

* Irina Busygina, Doctor of Political Science, Professor of Moscow State Institute of International Relations (University) of the Ministry of Foreign Affairs of the Russian Federation.

The author of this Report used expert commentaries by Larissa Ignatova, PhD in Political Science, Advisor to the Department of International Financial Relations at the Russian Federation Ministry of Finance; Nikolay Kaveshkinov, PhD in Political Science, Head of the European Integration Studies Department at the Institute of Europe under the Russian Academy of Sciences; Tatiana Romanova, PhD in Political Science, Assistant professor, the European Studies Chair of the International Relations Department at St. Petersburg State University.

excessive centralization, and the top-down chain of command. Russia has taken a position that is at least as critical as the European stance; however, the key reproaches are based on the European Union's desire to extend not only market mechanisms, but also legal standards and values, to its partners, even though these standards do not necessarily guarantee the most efficient solutions. Extrapolating from its own laws is in the European Union's interests as it eases cooperation with third countries and benefits the operation of European companies. As a result, the EU adopts a leadership position while its partners become followers irrespective of their particular circumstances. All this runs contrary to the principle of equality between partners: the key principle underlying Russian foreign policy.

The parties' joint platforms (in particular, biannual summits) become routine and do not generate any meaningful decisions. Any matter that may potentially spark a conflict, even those that are purely practical, immediately becomes a political issue. Relations thus become increasingly "virtual." All this may indicate that Russia and the European Union have completely different trajectories and approaches to development, that they inhabit different systems and are becoming increasingly estranged. The global financial crisis made relations even more uncertain. Thus, it is clear that both parties are tired of these excessive expectations and feel disappointed.

Rather than intending to dispute these pessimistic statements, we seek to stress how counterproductive they are. The high level of economic interdependence between Russia and the European Union, their geographic proximity and the nature of international relations in a globalized world make it imperative that the parties continue to build and develop their relations. This is beyond any doubt.

Russian diplomacy has accomplished a great deal. However, the key issue now is giving this cooperation a new impetus and achieving a breakthrough in relations.

This report does not aim to describe the "ideal" relations between Russia and the European Union that would be *desirable* for each of the parties, but instead aims to focus on what is *possible*, given today's reality and the constraints under which both sides are operating, and to outline recommended steps to make relations as good as possible.

The structure of this report is as follows. The first section contains an overview of the key facts regarding constraints on developing cooperation. The second section is devoted to the institutional context of relations and the evolution of institutional connections that exist between Russia and the European Union. The third section analyses progress in four "common spaces." The fourth section deals with cooperation between Russia and the EU as part of the "Northern Dimension." The fifth section focuses on development scenarios for relations, taking both parties' interests into account. The conclusion contains key findings and recommendations.

RUSSIA–EUROPEAN UNION COOPERATION: FACTS AND CONSTRAINTS

In further developing its relations with the European Union, Russia must proceed from a number of key facts that can both limit the development of cooperation and determine its nature.

Heavy, Asymmetrical Mutual Dependence

Statistics indicate that 36% of gas, 31% of oil and 30% of coal imports into EU countries originate from Russia.³⁹ These figures are quite impressive, given the EU's growing dependence on hydrocarbon imports. As for Russia, 80% of its oil exports, 70% of gas exports and 50% of coal exports go to the EU. Thus, cooperation with the EU accounts for a major portion of Russia's public revenues. This indicates that there is a *high level of interdependence between the partners*. The role energy plays in their relations can be demonstrated by the following: oil accounts for 63% of trade between Russia and the EU, gas — 9%, coal — 2%.⁴⁰

Trade relations appear robust, especially against the backdrop of a deteriorating political context. Historically, European countries have been important partners for Russia. The EU accounts for slightly over half Russia's foreign trade and about 70% of total foreign investments. Mutual trade is steadily growing. Over the past decade, Russia has become the EU's third largest trade partner, second only to the United States and China; it accounts for 7% of the EU's exports and 11% of its imports.

However, as well as being *heavily* mutually dependent, these relations are clearly also *asymmetrical*. The trade pattern continues to be strongly imbalanced. Energy resources make up three quarters of Russian exports. Primary commodities dominate exports: machines and equipment account for less than 1%. EU exports to Russia consist of chemicals (18%), food (10%) and equipment (about 45%), while industrial equipment accounts for just 8%, indicating the slow progress that Russian industry has made in technical development. A similar imbalance exists in particular industries: for example, Russia exports chemicals and mineral fertilizers to the EU, i.e. products with low added value, while it chiefly imports pharmaceuticals and perfumery products. The trade in services is unfavorably structured and modest in scope.

The scope for mutual investment is quite large and is growing steadily, however, this investment is dominated by loans and a substantial portion of portfolio investments can be called speculative. Direct investment in Russia

³⁹ URL: http://www.ec.europa.eu/energy/international/russia/russia_en.htm

⁴⁰ URL: http://www.epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=Russia-EU_-_basic_statistical_indicators&printable=yes

accounts for only 20% of the total and mainly targets imports substitution (the food and automotive industries), retail and access to mineral resources (crude oil production and the power industry). Not many EU companies investing in Russia focus on export production.

The effect of high energy prices and the growing importance of the energy trade (natural gas, in the first place) make these trade relations special. The high share of revenues generated by exporting natural resources creates *special incentives* for our country's economic development, for the formation of the political system and for foreign policy. Indeed, in the 2000s, as energy prices grew, the economic and political spheres of Russia–EU relations diverged. As the EU countries' dependence on Russian supplies grew, political relations deteriorated. In the meantime, our country's reputation in Europe as a reliable energy supplier was not actually won in the 2000s, but resulted from cooperation between European countries and the Soviet Union (later Russia) in the 1990s. This reputation was jeopardized by the “energy wars” that have broken out between Russia and some of the post-Soviet states.

The European countries' dependence on Russian energy supplies is often presented as one-sided: Europe has no option but deal with Russia, as two thirds of Russian energy exports go to the European Union. However, relations between Russia and the European Union involve bilateral, not unilateral, dependence: Russia simply has no alternative market for its natural gas and has to rely on European demand. Moreover, the market rates for gas that European consumers pay Russia are much higher than those it could expect to receive from any other potential markets.

How EU Foreign Policy is Formed

It must be understood that, when it comes to the European Union, Russia is not dealing with a state per se, but with a particular type of political system, and most of the resulting “peculiarities” lie in the foreign policy sphere. The European Union is not a superpower in the traditional geopolitical sense, nor is it striving to become one. The responses and reactions to the geopolitical challenges that the EU demonstrates today are fundamentally different from those of the traditional “great powers.” The European Union cannot be said to have a “national interest,” however it may move further in the direction of deeper integration, encouraged by the national interests of its member states balanced by a complicated system of institutional mechanisms.

Mechanisms for developing and implementing the EU's foreign policy strategy are a direct function of the peculiarities of its integration principles and institutional design. The most important driver in this respect is the EU's integration success in combination with the absence of a political centre or strong central government. European integration developed without a central government for more than 50 years and, most probably, will continue to develop along these lines for many years to come: without a central government, without

a constitution and with the minimum possible budget. The main agreements and, thus, integration successes were achieved in areas directly related to the economy. Here, national governments agreed to a gradual transfer of much of their sovereignty to a supranational level, and did not obstruct the activity of either the Commission's "Eurobureaucrats" or the Court. In the economic sphere, the advantages of "strong" supranational institutions in the common market outweighed the costs of national political leaders' ceding their powers. In other areas (common foreign and defense policy, immigration) the goal of creating strong central institutions was declared, but never achieved.

The European Union's common foreign policy and security policy have generally received harsh criticism. Experts (not only external, but in Europe itself) say that despite all efforts to date, the EU has implemented only the "arithmetic mean" of the policy of its individual member states, camouflaging it as common policy. It follows that overcoming this contradiction between being "an economic giant and a political dwarf" is an acute issue. However, this is not the case: the fact that the EU does not have a foreign policy with the mechanisms and instruments that are customary for a "normal" state is a conscious *choice made by the leaders of the member states and a precondition for the economic integration project's success.*

So far, EU member states' leaders have maintained broad control over the integration process in areas other than the economy, chiefly in foreign policy. Moreover, the EU institutionalized the opportunity for member states to enjoy "flexible participation" in common foreign policy initiatives. Thus, foreign policy incentives and commitments are set differently from those in the economic sphere. National leaders have guarantees that economic progress will not result in the automatic development of integration processes in foreign policy.

After the failure to ratify the EU Constitutional Treaty, many of the developments it proposed were incorporated into the Lisbon Treaty, which came into effect in December 2009. The Treaty abolished the division into three "pillars," consolidating the Community (i.e. the economic "pillar") into the Union. Formally, all integration areas are now equal within the European Union. However, abolishing the three "pillar" approach does not abolish differences in decision-making methods in various areas. In particular, national states have retained their veto right on foreign and security policy, social and tax policy, approaches to countering financial violations, cooperation in criminal matters and key aspects of environmental policy. Moreover, the Lisbon Treaty confirmed, and may have even increased, the role played by national leaders and national institutions in all matters that lie beyond the clearly established limits of the European Union's exclusive and joint competencies.

When the number of EU member states rose to 27, reaching consensus on any issue became much more complicated. It is likely that the European Union's most successful foreign policy projects will be implemented, on its behalf, by

groups comprising the most interested member states. It is more than likely that the interested EU countries will pursue foreign policies that are at a variance from the preferences of less involved countries and, consequently from the “preferences” of the EU as a whole. As a result, viewed as a single geopolitical player, the EU’s foreign policy will seem *inconsistent* and *uncoordinated*. The EU will play an increasingly important role in foreign policy, but its role and influence will remain less than those of its constituent parts.

EU member states’ individual positions on Russia differ substantially. Discussions within the EU focus on subjects such as NATO expansion, a possible energy alliance with Moscow, and assessing Moscow’s actions in the 2008 conflict with Georgia. Many countries in Central and Eastern Europe, supported by the United Kingdom and Sweden, urge the EU to toughen its policy regarding “neo imperialist” Russia. At the same time, other EU countries (such as France, Italy and Germany) do not want EU policy to become overtly anti-Russian, and do not join in with unilateral accusations against Russia over the “five-day war.” The resilience of such stark differences between EU member states may result in the EU’s political fragmentation, with the “Russian issue” being the key factor. This is why representatives of supranational institutions (chiefly the EU Commission) view building a *consistent political line on Russia* as the EU’s most important task. However, enacting it is seriously complicated by the nature of how the EU forms its foreign policy.

The absence of mechanisms for developing common foreign policy interests within the EU and member states’ national leaders’ inconsistency on common foreign policy issues often lead Russian experts and policy actors to conclude that one can (and should) *play on the contradicting interests within the European Union*. However, in adopting this strategy, one should take into account that for many “Eurobureaucrats,” members of the European Parliament, and some leaders of European countries, the key interest in foreign policy strategy may be finding ways to promote integration in EU foreign policy. Some European politicians, despite differences in their preferences on particular matters, are united by their desire to develop a strategy that would determine the future development of the EU’s foreign policy and, thus, integration more broadly. And those hoping to play on policy tensions within the EU will, perhaps unwittingly, help strengthen the arguments for further European integration.

The EU as an Open System in Continuous Evolution

The EU’s most important feature as a foreign policy player is that, as a union, it is still in the process of formation. Economic cooperation within the EU has, in many respects, reached federal union levels, and the Union acts as a full-fledged representative of its member states’ common economic interests. In other spheres, chiefly in foreign policy, the union is quite limited: all decisions require

member states to reach consensus. This means that the foreign policy sphere lacks a mechanism to develop the common “interest,” and instead relies on the “common denominator” between individual countries’ individual interests.

The basis for Russia–EU relations was formed during a period of serious transformation within the EU: its structure was modified, integration areas expanded and in addition there was unprecedented geographic expansion. A new environment appeared in the European Union, with institutions that are fundamentally different from those that exist in the international relations system.

After the Treaty on the European Union was executed, both the first and the second pillars of the EU were involved in the process of forming the EU’s Russian policy. These agreements were developed with extreme difficulty. New kinds of documents and relations were created. This refers to both the Partnership and Cooperation Agreement and the Union’s internal documents — general strategy toward Russia and neighborhood policy. Many of the documents that appeared as a result of extensive negotiations and new institutional mechanisms soon proved inadequate, since during the last 15 years both Russia and the European Union have undergone serious systemic and procedural political transformations. Since 2005, the EU has been experiencing a development crisis: the latest round of expansion has made the union rather loose and unwieldy. It is possible that the Union has already exceeded the maximum depth in terms of integration processes at this stage, and it is possible to conclude that the ideas and recipes for economic integration are hardly applicable to the foreign policy sphere. The EU’s development model, although commonly recognized as a pressing issue, remains unresolved.

It is important to stress that the institutional structure for interaction with Russia took shape in parallel with deepening integration and the EU’s geographic expansion. This deepening integration peaked in the early 1990s, and found reflection in the December 1991 execution of the Treaty on European Union (Maastricht Treaty). The Treaty of Lisbon made a serious contribution to these changes within the EU. It is worth noting that the Partnership and Cooperation Agreement with Russia was ratified by 15 European states, and today there are already 27 of them.

It appears that, in the coming years, the fact that the integration process is incomplete will, in many ways determine the actions of those European politicians who back further integration. Their foreign policy strategies will be motivated not only by the EU’s foreign policy interests (most are not yet final) but rather by attempts to find reasons for the further expansion of the European Union’s powers, including those needed to make it a real global policy player. This will require member states to waive a substantial part of their sovereignty (most decisive in the context of European integration) which will only happen if there are compelling reasons. To a certain extent, those who advocate deeper integration

want to find a global foreign policy issue or threat that can consolidate the EU — be it in the *global environment* or *Russia “threatening” European energy security*.

Impact of the Crisis on the Development of Russia–EU Relations

The current global financial and economic crisis is considered the deepest and the most dramatic crisis of the last few decades. It has affected almost all members of the European community. Sovereign debt levels, economic downturn and instability are all close to the point at which resolving Eurozone issues by financial redistribution within the existing division of powers and responsibilities will be impossible.

Despite optimistic statements by European politicians, the statistics are deplorable. The EU economy contracted by 0.5% (0.6% in the Eurozone) and the unemployment forecast stands at 12.2%. The EU currently faces serious issues related to the economic situation in Cyprus, which experts believe to be due to a miscalculation by European politicians.⁴¹ Generally, it is too early to talk about the end of the crisis, although the situation has more or less stabilized.

In the meantime, the EU countries that form the Eurozone and supranational institutions have diverging positions on the Eurozone’s future and on the future of financial and economic integration more broadly. Some players have an interest in seeing the Eurozone collapse or split into leaders and followers. Others see advantages in centralized governance and tighter control over the Eurozone countries by supranational financial institutions. Ten EU countries, that are not part of the Eurozone, are concerned that they have been sidelined in decision-making on financial issues that determine the Union’s policy. The alternative to letting the Eurozone collapse is strengthening and deepening integration. This will convert individual countries’ debts into Eurozone debts. Thus, Frankfurt and Brussels will decide how much tax Greece needs to collect and how much it needs to spend. In our view this is the most likely scenario, although implementing it will require long-term efforts.

It is important to note that the weakening of the EU’s financial positions does not mean an overall weakening of the union. One of the arguments supporting this is the EU’s policy towards non-democratic regimes. Thus, the embargo on exporting arms to Syria remains in place.

Currently, it is the economic crisis that, in many ways, sets the tone for the EU’s relations with the wider world, including Russia. On the one hand, this means that the EU’s key priority is resolving internal issues. On the other, it means that today, against the backdrop of economic recovery, it is becoming possible to expand Russian initiatives and start implementing bilateral projects (such

⁴¹ URL: <http://www.euronews.com/2013/02/22/eu-economies-set-for-stormy-2013>

as facilitating the visa regime at a regional level). Demonstrating a benevolent attitude toward the EU and supporting (as far as possible) recovery projects may serve as a favorable background for the development of “common spaces” and energy policy programs.

Geographic Proximity and Competition Over the Post-Soviet Space

Russia and the European Union are immediate geographic neighbors with a common border: post-Soviet states lie between them. Both Russia and the EU have interests in this area and view implementation differently. It is important for the Russian side to understand that the approach the EU takes to *formatting* spaces beyond its territory reflects the particular features of the union. The formatting process involves developing a system of institutions (rules of the game) in the political, economic, social and cultural spheres. Multiple EU initiatives are directed less at national governments and more at the regional and local authorities, civil society and business.

The Eastern Partnership initiative (2009) that involved six post-Soviet states (excluding Russia) was an exception. Russia perceived this initiative as the EU challenging it in a region that it considers a particular area of interest. The Russian side’s complaints are as follows: this initiative virtually forces the states involved to make a strategic choice between the EU and Russia and is a sign of the double standards which are becoming increasingly common in EU policymaking. Declaring its commitment to abolishing these dividing lines in Europe, the EU in reality, in Russia’s view, is working to build and strengthen them, with a view to strategically isolating our country. Objectively, this may well be the case. However, taking into account the decentralization of foreign policy decision-making processes within the EU, it should be noted that this initiative was proposed under EU auspices by a handful of interested neighboring member states led by Poland.

When selecting its response, Russia should take into account what drives EU strategy in this area. However, experts’ comments are generally reduced to complaints about the European Union, and its central institutions in particular. However, according to the rules of the European “game,” they are unable to either reconsider members’ regional foreign policy or prevent similar initiatives in the future.

Since the “post-Soviet space factor” will undoubtedly continue to be one of the determinants for Russia–EU relations in the future, the Russian side should establish its agenda regarding such territories in relation to the agenda proposed by the European Union and its member states. European initiatives should be assessed based on an accurate understanding of the nature of the Union.

Currently in the “common neighborhood space” it shares with Russia, the EU is moving to build a system of crisis regulation or monitoring. Thus, crisis

regulation matters move to a strategic level of Russia–EU relations; issues of interaction in the “common neighborhood” region are one of the areas in Russia–EU relations subject to the greatest tension. Feeling the impact of the global financial and economic crisis and certain political factors, competition in the region has receded, however, this is temporary, and this area will undoubtedly remain crucial to both Russian and EU policy.

INSTITUTIONAL CONTEXT OF RELATIONS

In order to assess the current status of Russia–EU relations, it is important to track the development dynamics of the institutions linking them.

The 1989 Agreement

Official relations between the USSR and the EEC were established in August 1988. In February 1989 the USSR set up its permanent mission to the EEC in Brussels, and the EEC set up its diplomatic mission in Moscow two years later. Almost immediately, in 1988, work started on the development of agreements governing the relations between the USSR and the EEC. The EEC’s basic problem was that none of the existing types of international agreement it had entered into were suitable for the USSR, given its geopolitical weight, social system and the depth of transformations that were taking place. Eventually, on the EEC’s initiative, a Trade and Cooperation Agreement was concluded in Brussels on December 11, 1989. It covered both spheres of the EC’s exclusive competence (general trade policy), as well as areas of common competence of the EC and its member states (economic cooperation).

During negotiations, the differences between the Soviet and the European positions became apparent. The Soviet Union’s leadership expected that convergence with the EEC would, in itself, be a very strong driver of domestic reform. So the Soviet negotiators attempted to make the future agreement as broad as possible and remove the “state trade country” label from the USSR. The EEC representatives, however, wanted to make the agreement as narrow as possible, and as they viewed the USSR as a “state trade country,” they wanted the Soviet side to commit to guarantee a “non-discriminatory regime” for EEA imports: in terms of both prices and quantities. This proposal was clearly impracticable: even at its command economy peak, the Soviet state was unable to undertake such a commitment.

However, the 1989 Agreement was undoubtedly a breakthrough in relations between the Soviet Union and Western Europe. However, by its nature, it was a provisional document, based on the fact that the USSR and Western Europe had different social and economic systems, and to a certain extent, reflected the EEA’s (admittedly reasonable) lack of confidence in the changes taking place in the Soviet Union. Two years later, the Soviet Union collapsed and the EEA underwent serious

transformations. As a result, it became clear that a different legal framework for the development of relations with Russia needed to be established.

1994 Partnership and Cooperation Agreement

Partnership and Cooperation Agreements are the main form of agreement governing EU relations with former Soviet states. The European Union signed similar agreements with all newly independent states (NIS) bar Tajikistan and the Baltic states (the latter were initially associated and later became full EU members). These agreements represented a new approach to relations for the EU, developed as part of the European Union Treaty and based on two procedural models: the first and second “pillars” (with common foreign and defense policy being the second pillar). Thus, NIS–EU relations (in particular, Russia–EU relations) were to a great extent determined by the new political and legal context, i.e. the transformations that took place in Europe in the early 1990s.

The idea of signing a new agreement with Russia was first proposed by Commission of the European Communities (CEC) Chairman Jacques Delors during his official visit to Moscow in May 1992. The new Partnership and Cooperation Agreement (PCA) was signed on June 24, 1994 in Corfu (Greece) by Russian President Boris Yeltsin, EU member states’ heads of state, and government and the CEC chairman. The Agreement came into force on December 1, 1997, and the delay in its ratification by the European side was due to the fourth EU expansion: the document was to be additionally signed and ratified by three new members — Austria, Sweden and Finland.

The Maastricht Treaty did not provide for a special legal framework for agreements similar to the PCA. Like the 1989 Agreement, the 1994 PCA was a mixed agreement, as it affected both the EU’s sphere of exclusive competence and that of common competence. Thus, the EU’s exclusive competence “covers” parts of the Agreement relating to the trade in goods and provision of services, other matters fall under the common competence of the EU and its member states. It is important to note that EU member states play a decisive role not only in the development and execution of the PCA but also in the subsequent development of partner relations. In particular, member states are closely engaged in the process of forming the EU’s position on the Cooperation Council and Cooperation Committee existing as part of the PCA, since the EU’s position is determined by the Council (this is the member states’ collective view) as proposed by the CEC.

The PCA played an important role in the development of Russia–EU relations. It reflected a transfer from Russia’s exclusively bilateral relations with member states to relations with the European Union as a whole, created the political and legal framework for these relations and established the institutions for political dialogue. Under article 106 of the Agreement, it is automatically extended annually.

“Common Strategies” as a New EU Common Foreign and Security Policy (CFSP) Instrument. Common Strategy Toward Russia

The Treaty of Amsterdam, 1997, introduced a new tool to the European Union’s Common Foreign and Security Policy (CFSP): common strategies. The first common strategy (CS) regarding Russia was developed and adopted by the EU in June 1999, at the end of Germany’s presidency. Until then, EU policy toward Russia was based solely on the Partnership and Cooperation Agreement of 1994 and the TACIS program launched in 1991.

As distinct from the PCA, the Common Strategies concept a special legal basis under the Maastricht Treaty which presents it as an instrument of EU foreign policy (under article 13 “The European Council shall decide on common strategies to be implemented by the Union in areas where the Member States have important interests in common”). The Council recommends Common Strategies to the European Union in accordance with the principles and key areas the EU has formulated in advance.

By the mid 1990s it became clear to the EU that the Agreement is not an exhaustive instrument to build relations with Russia. So the EU proposed an idea of how to develop a new strategy based on the EU Commission report presented at the member state foreign ministers’ meeting in Carcassonne in March 1995. The report underlined that the EU member states need to coordinate their efforts to build relations with Russia.

In November 1995, the General Affairs Council presented the strategy paper on Russia–EU relations. This was the European Union’s first official strategy document regarding Russia. However, it clearly lacked specific proposals and a real action plan. Thus, it was proposed that the objective of “continued support for the further development of democracy, the rule of law and pluralism in Russia” could be achieved by “regular consultation and technical assistance,” and “active promotion of people-to-people contacts.”

In May 1996, the General Affairs Council adopted an “action plan for Russia,” based on the strategy paper. Subsequent EU efforts in this area (the adoption of a common strategy on Russia) were related to the CFSP reforms that were launched at an inter-governmental conference.

Preparation for the development of the first strategy on Russia started immediately after the economic crisis hit in August 1998. In autumn 1998, the EU Council of Ministers instructed the Committee of Permanent Representatives of the Member States (COREPER) to prepare a report on the development of “a comprehensive policy towards Russia.” The report was basically an overview of the challenges facing the EU within Russia, placing most emphasis on the effects of the recent economic crisis. The report’s general conclusion was: problems in

Russia are multifaceted in nature and, therefore an effective EU response also requires a multidimensional policy.

The report was presented to the Vienna European Council, which decided on the preparation of common strategies on Russia, Ukraine, the Balkans and the Mediterranean region, on the understanding that the first common strategy would be on Russia. The drafting of the Common Strategy on Russia was to be left to the German Presidency in the first half of 1999. In reality, the drafting had already begun under the Austrian Presidency when Germany, with the help of Finland, France and the United Kingdom had started negotiating their positions informally. The EU was not required to discuss the draft strategy with its “addressee,” however, the draft was presented to Russian officials during the Russia–EU summit in February 1999.

From the beginning of the German Presidency, the drafting of the strategy on Russia was carried out by a small group of those countries that are most interested: Germany (chief among them), France, United Kingdom and Finland. This process was additionally complicated by the fact that this was the Union’s first strategy on Russia. The Amsterdam Treaty did not clearly define the term “common strategy.”

On May 17, 1999, COREPER’s conclusions were presented to the General Affairs Council, which endorsed the draft to be presented at the Cologne European Council. It is there that the heads of state and government adopted the Common Strategy on Russia almost without discussion.

Under the document, the EU had two strategic goals: (1) stable, open and pluralistic democracy in Russia and (2) maintaining European stability, promoting global security and responding to the common challenges facing the continent through intensified cooperation with Russia. Moreover, the document urges the Council, the Commission, and EU member states to review and assess the efficacy of extant actions, programs, instruments, and policies, and of course, to make the necessary adjustments. This seemed a rather strongly worded obligation for EU institutions, but in reality the document lacked clear-cut mechanisms that would make it possible to implement either this provision or sanctions for failure to comply.

The transformation of the Common Strategy on Russia into a real instrument of EU foreign policy ran into serious difficulties. As a result, by mid-2004, the strategy adopted for the initial period of four years and extended in June 2003 was cancelled. This happened for several reasons. First, the strategy’s adoption and implementation took place during the final months of Boris Yeltsin’s presidency, when the shape of the new political regime was not yet clear. Second, the common strategy was not actually strategic. The EU had come to a consensus regarding the particular importance of relations with Russia, but its member states were unable to agree on the EU’s *real priorities* in these relations. Therefore, the document

represented a result of competing national interests and intergovernmental bargaining. It ended up recording a very low “common denominator” of very general items (support to democracy, pluralism, market economy) on which there was no difference of opinion.

Wider Europe — Neighborhood Policy

On March 11, 2003 the CEC drafted a report entitled *Wider Europe — neighborhood: A New Framework for Relations with Our Eastern and Southern Neighbors*, and presented it to the General Affairs Council and European Parliament. The document reflected the CEC’s position on future relations with Russia, the Western NIS (Belorussia, Ukraine, and Moldova) and Southern Mediterranean countries (Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestinian Authority, Syria, Tunisia). All these are defined as countries that do not currently have any prospect of gaining EU membership. The CEC proposals became the EU’s official policy towards neighboring countries once adopted by the European Council in June 2003.

The need for the document, as stated in the Commission’s report, was the upcoming EU expansion, which inevitably increased the EU’s interest in development of neighborhood relations. The EU’s stated goal was that it should aim to develop an area of prosperity and a friendly neighborhood — a “circle of friends” — with whom the EU enjoys close and co-operative relations. It was suggested that Russia, the Western NIS and Southern Mediterranean countries should be offered the prospect of a stake in the EU’s internal market, further integration, and liberalization to promote the free movement of persons, goods, services and capital (“four freedoms”). If any of these countries reached this level, it would bring them as close as possible to the Union without being an actual member. According to Romano Prodi, the EU’s strategic goal vis-à-vis its neighbors was “*sharing everything with the Union but institutions.*”⁴²

Cross-border and intra-regional cooperation became a key component of this neighborhood policy. In July 2003, the Commission prepared another report on the subject entitled *New Neighborhood Instrument*, which defined the financial mechanisms supporting this area of cooperation. “New Neighborhood” programs were aimed at promoting sustainable economic and social development and addressing common problems (environment, healthcare, fighting organized crime *etc.*). The implementation of programs like this developed at regional and

⁴² From Romano Prodi’s speech at the Sixth European Community Studies Association-World (ECSA-World), Brussels, December 5–6, 2002. See: Prodi R. *A Wider Europe — A Proximity Policy as the Key to Stability, Peace, Security and Stability International Dialogue and the Role of the EU*. Sixth ECSA-World Conference. Jean Monnet Project. Brussels, December 5–6, 2002. URL: http://www.europa.eu/rapid/press-release_SPEECH-02-619_en.htm

local levels started in 2004. In the period 2004–2006 they were financed through INTERREG III and TACIS, and from 2007 the CEC proposed creating a single financial instrument for cross-border regions of EU countries and the neighboring states.

Strategic Partnership — Four “Common Spaces”

The new concept of “common spaces” was conceived during a period when both the EU and Russia were becoming increasingly disappointed in the architecture of existing relations. Russia complained about the concept of “wider Europe” which put Russia on a par with other EU neighbors⁴³. The European Union, in turn, was less than content with Russia’s deviation from the course based on the “common values” declared in the Partnership and Cooperation Agreement.

At the St. Petersburg summit in May 2003, the EU and Russia confirmed their intention to strengthen their strategic partnership and develop cooperation with a long-term view to creating four “common spaces” under the PCA currently in force. The “common spaces” included the following spheres: economy⁴⁴, external security, freedom, internal security and justice, science and education. This essentially meant a move from cooperation based on “common values” to a more pragmatic project, namely — deeper selective cooperation.

After the May summit, developing and reaching agreements on “road maps” — specific agendas on each space — took another two years and three Russia–EU summits, respectively. In April 2005, the “road maps” were discussed at the External Relations Council meeting. EU member states’ foreign ministers disagreed over the second space (freedom, security and justice), in particular when it came to linking the readmission agreement between the European Union and Russia and visa regime facilitation. The mandatory execution of the agreement as a key condition was required, first of all, by new EU members — Estonia, Latvia,

⁴³ The Russian side’s arguments were as follows: Russia will never be focused solely on the European Union, its relations with China, the United States and a number of other countries will always play an important role in its foreign policy. In addition, unlike other countries that are part of the “ring of friends,” Russian foreign policy will always contain a global aspect related not only to the fact that it has strategic nuclear weapons. Russia as “a global power located on two continents” must “keep the freedom of determining and implementing its home and foreign policy.” See Medium-Term Strategy for the Development of Relations between the Russian Federation and the EU (2000–2010). Text presented by Russian Prime Minister Vladimir Putin at the Russia–EU summit in Helsinki on October 22, 1999. URL: <http://www.ieras.ru/journal/journal1.2000/9.htm>

⁴⁴ The idea of creating a common economic space in the EU was put forward in May 2001 by the CEC’s chairman Romano Prodi. To address this idea, the parties set up a high level group headed by the Deputy Prime Minister Viktor Khristenko and CEC Commissioner Chris Patten (Khristenko-Patten group). The term “economic space” means a territory with unified rules and/or rules similar for all economic actors, with a system of institutions ensuring freedom of movement of goods, services, capital and people. This term is used to describe relations between the EU and the EFTA countries — Norway, Iceland, and Lichtenstein. We note that in Russia’s case it means creating a *common, rather than single* economic space. This means that the parties in principle maintain sovereignty and are committed to “four freedoms,” however the level of such freedoms depends upon specific political and economic conditions.

and Lithuania⁴⁵. At the Russia–EU summit in Moscow on May 10, 2005, the parties adopted four “road maps.”

Negotiations about the content of the four “common spaces” were consistently conducted on behalf of the European Union by the Commission and the EU presidencies: Greece (first half of 2003), Italy (second half of 2003), Ireland (first half of 2004), the Netherlands (second half of 2004) and Luxembourg (first half of 2005). EU presidencies played the leading role in the third space negotiations, while CEC was the key player in the first space negotiations. As for the second space, here the competencies were divided into specific areas: presidencies negotiated about combating terrorism and Russian-European dialogue on human rights, while the CEC acted on the basis of the mandate received from the Council of Ministers and was responsible for negotiating the facilitation of visa procedures and readmission. In the fourth space, the CEC led the negotiations about scientific research matters, and the presidencies led talks on cultural cooperation.

The first is the most important: the Common Economic space — in which, despite the efforts of the Russian negotiators, the structure and purpose (“convergence of legislation”) remained as proposed by the CEC. The only real difference between the “road maps” and the “new neighborhood” programs was a substantial reduction in the Russian commitment to undertake steps aimed at harmonizing its legal provisions with those of the EU. It should be noted that the “road maps” — the result of negotiations on four “common spaces” — are not international legal documents, essentially making them a “declaration of intent.”

New Basic Agreement Between Russia and the EU: Parties’ Priorities

The initial 10-year term of the PCA expired on December 1, 2007. Russia first raised the “2007 factor” issue as early as 2005. At the Russia–EU summit in Sochi in May 2006 the parties reached a political agreement to start the work on new basic agreement. At an informal summit in Lahti (Finland) in October 2006 Russian President Vladimir Putin suggested the PCA be replaced with a strategic partnership agreement.

Negotiations about the new agreement were to begin in November 2006 at the Russia–EU summit, but Poland vetoed the EU’s negotiation mandate and called for Russia to lift its embargo on Polish meat. Under article 106, the Agreement was automatically extended for another year. When, in December 2007, Moscow and Warsaw had settled their agricultural export issues, the Polish Government announced that it would withdraw its veto. Then Lithuania blocked

⁴⁵ In May 2006 at the Russia–EU summit in Sochi the visa facilitation agreement and mutual readmission agreement were signed. The Russian side thought the execution of these agreements were the summit’s main achievement, opening the door to expanded cooperation with the European Union.

the negotiation process. Vilnius demanded that the European Union take into account, in particular, the renewal of oil supplies via the Druzhba oil pipeline, compensation for damages to the individuals deported from the Baltic countries and the resolution of the frozen conflicts in Moldova and Georgia. After receiving assurance from the EU partners that its demands will be accommodated, Lithuania consented to negotiations with Russia.

On May 26, 2008 the Council of Foreign Ministers approved the negotiation mandate for the new basic agreement with Russia without discussion. At the Russia–EU summit in Khanty-Mansiysk on June 27, 2008, the parties officially announced that they had started negotiating a new agreement⁴⁶.

The first round of negotiations took place on July 4, in Brussels. The parties reached a consensus on matters that were to become part of the new agreement and on how negotiations on the document would be organized. However, the parties had strongly divergent substantive visions of the final document. The EU wanted the agreement to include not only general principles and areas of cooperation, but also development programs in various spheres. Russia, however, noted that too many details in the draft agreement would make it extremely difficult to negotiate within a reasonable period of time. Dmitry Medvedev, at that time Russia's president, proposed that they prepare a basic agreement, in the form of a framework document, not overloaded with details, and then develop particular provisions in greater detail in separate agreements at a later stage.

The EU's key objective in this is to receive guarantees that Russia's policies will not impact European oil and gas supplies. The Europeans insist on Russia's ratification of the Energy Charter Treaty (ECT) destroying Gazprom's pipeline monopoly. Brussels considers it necessary to include Russian energy issues in the new basic agreement.

In 2010, Russia and the EU launched a Partnership for Modernization initiative, proposing the creation of a new institution as a practical embodiment of this dialogue on "common spaces." Initially the Partnership raised great hopes; however, its results to date have been quite limited. In addition, Russia's goal of modernization is gradually fading from the domestic political agenda.

⁴⁶ From the Joint Statement of the participants in the Russia–EU summit (2008): "We, the leaders of the European Union and the Russian Federation, today in Khanty-Mansiysk launched the negotiations for a New EU/Russia Agreement to replace the current Partnership and Cooperation Agreement which entered into force on December 1, 1997. We have agreed that the existing Agreement will remain in force until replaced by the New Agreement. We agreed that the aim is to conclude a strategic agreement that will provide a comprehensive framework for EU/Russia relations for the foreseeable future and help to develop the potential of our relationship. It should provide for a strengthened legal basis and legally binding commitments covering all main areas of the relationship, as included in the four EU/Russia common spaces and their road maps which were agreed at the Moscow Summit in May 2005. The New Agreement will build on the international commitments which bind the EU and Russia. It will contain the appropriate institutional provisions to ensure the efficient functioning of the EU/Russia relationship." URL: http://www.news.kremlin.ru/ref_notes/286

There has been more than a year's break in the negotiations on the new basic agreement between Russia and the EU. One of the key outstanding issues is the substance of bilateral trade and the economic regime. What the European Union understands by the WTO+ slogan is a free trade area (FTA) that means a much deeper level of interaction compared to the classic FTA. The Europeans insist on liberalizing the trade in services, regulating and liberalizing investment, limiting mutual access to the public procurement market, enhancing cooperation in competition policies and the protection of intellectual property. However, it is clear that, with the existing structure of the Russian economy and exports, this format FTA is not in Russia's interests. It was expected that Russia's WTO accession would lend a substantial impetus to negotiations with the EU on the new basic agreement. But the opposite happened: Russia's WTO accession created a system of new framework conditions for the EU negotiations and reaching consensus has become even more difficult.

PROGRESS IN FOUR "COMMON SPACES"

At the St. Petersburg summit in May 2003, Russia and the EU agreed to develop cooperation via a new institutional structure: **four "common spaces"** as part of the Partnership and Cooperation Agreement. The common spaces include the Common Economic Space, Common Space of Freedom, Security and Justice, Common Space of External Security, Common Space of Research, Education and Culture.

As has already been noted, at the Moscow summit in May 2005, the parties adopted "road maps" which represent short- and medium-term instruments to implement the four "common spaces." While the "common spaces" are strategic concepts, the "road maps" are tactical in nature. They establish the specific goals and actions needed to implement the "common spaces" and, thus, determine the cooperation agenda between the EU and Russia in the short and medium term.

The Common Economic Space (CES) is designed to make the Russian and EU economies more compatible, in the interests of promoting investment and trade. The ultimate goal is to create an integrated Russian–EU market. One element of the CES is the *Energy Dialogue*. Cooperation within the CES is structured as industry dialogue in working groups.

Obviously, the CES is the foundation for cooperation between Russia and the EU. Russia demonstrates a high level of interest and commitment to dialogue in this area. The European Union is also considerably interested in expanding economic relations.

Russia's WTO accession opened up new opportunities to promote the CES. It should be noted that EU member states supported this process. The EU played an

important diplomatic role in finding a compromise between Georgia and Russia, unblocking Russia's path to WTO accession. However, going forward, success will depend on the ability of Russia and the EU to make progress on the liberalization of bilateral trade relations.

Achievements in this area include the agreement on the gradual cancellation of fees for foreign airlines using airspace over Siberia (Siberian overflight fees), measures to reduce Russian–EU border congestion, and the Visa Facilitation Agreement between the Frontex Agency and the Russian border service coming into force. It should also be noted that there were successes in the development of trans-border cooperation, aiming to achieve the following goals: (1) ensure economic and social development in the border regions; (2) fight problems and challenges important to territories on both sides of the border (environment, energy, healthcare *etc.*); (3) ensure border efficacy and security; (4) develop people-to-people contact.

Russia is currently participating (under a co-financing arrangement) in five cross-border cooperation programs: Kolarctic — Russia, Karelia (Finland) — Russia, South–East Finland — Russia, Estonia — Latvia — Russia and Lithuania — Poland — Russia.

However, progress achieving the CES development objectives is only visible in some individual areas and generally leaves a great deal to be desired. A number of factors — ranging from protectionism in “strategic industries” to corruption, which has a negative impact on Russian business and government institutions — restrain further progress in trade and economic relations between the EU and Russia. At the same time, European experts note that the EU is incapable of defending its interests and values in negotiations with Russia. The key reason for this perceived asymmetry is that Russia has been successful in establishing bilateral relations with individual member states, which in its turn makes it more difficult for Russia and the European Union to reach agreement. Economic cooperation is focused on several areas in which Russia has comparative advantages (such as, for example, energy). Bilateral negotiations in these areas are based on the EU member states' independent foreign policies.

There is also an asymmetry at the level of developing dialogues in a variety of industries. In certain areas, cooperation is developing quite successfully but in other areas progress is limited (for example, pharmaceuticals). In practice, the greatest obstacle is poor information exchange and lack of sufficient communication with the Russian government authorities.

Energy Dialogue. As noted above, a high level of energy interdependence is one of the key elements (and one of the starting points) in building Russia–EU relations. The biggest problem is the lack of a clearly formulated goal. The partners' aspirations have seriously changed since the 1990s, when discussions were focused

on individual problems hindering exports. Today Moscow and Brussels are looking at the unified energy market — this goal is stated in the draft Russia–EU Energy Cooperation through 2050 Road Map. However, making the cooperation goal more specific is complicated by the partners’ divergent views. Brussels views the common energy market of Russia and the EU as a space liberalized to the maximum extent possible. The key element for Brussels is competition on the basis of the accepted European rules. The most important thing for Russia is to maximize revenues, which it guarantees through maintaining control over the gas pipelines built by Russian companies and access to the “last mile,” i.e., connections to end consumers in the EU (this market segment generates the highest profit).

Differences between Russia and the EU regarding the aims of cooperation are most defined in the gas sphere. This is particularly evident from the disputes over the third EU energy package regarding pricing. Discussions about the reciprocity principle are also worth mentioning: Moscow understands this principle to mean common responsibility for supplies, while Brussels views it as implying unified rules and market liberalization. Divergent positions adversely do not only have an impact on the gas trade. The export of nuclear technologies and power is jeopardized in a similar way.

Energy is a complicated combination of economy and politics — it is clearly related to both high revenues and national security. In this context, it is clear why the sector is politicized, i.e. why it becomes an arena for political confrontation rather than being an issue of purely economic cooperation. Waves of politicization have regularly “engulfed” relations between Moscow and Brussels, provoked by the accession of new members to the EU and temporary suspension of Russian gas supplies.

Both parties would like to see the energy sphere depoliticized and to focus economic cooperation, however, they also have different opinions about this process. The European Union understands it to mean seeing its market regime apply to Russia, while Russia views it as meaning a focus on profit maximization. Both appear logical in the context of the Moscow–Brussels paradigms, but Russia’s refusal to accept EU norms is automatically interpreted by some members and institutions as a reason for politicization. While Russia, due to the specific features of its foreign policy vision, is inclined to interpret the EU’s approach as interference in its internal affairs.

Some EU countries are more prone to politicization than others. This is due both to historic stereotypes that play an important role in people’s thinking, for example, in the Baltic States and Poland, and the absence of alternative channels of natural gas supplies. The acuteness of this problem is largely due to the fact that infrastructure development (in particular, pipeline construction) is lagging behind liberalization. Consequently, the domestic energy market only exists on paper, with the necessary legal conditions, but little else, created for it.

In principle, Russia and the EU could form the legal basis for energy cooperation. The first opportunity for this appeared during negotiations on the Energy Charter of 1991 and Energy Charter Treaty (ECT) of 1994. Russia took an active role in developing these documents, but refused to ratify the latter. The second opportunity arose at negotiations on the Partnership and Cooperation Agreement of 1994. That agreement did not reflect any energy issues, as during negotiations the partners hoped that the key legally binding provisions would form part of the ECT. Thus, in the 1990s, it became obvious that there was a legal vacuum, which the parties attempted to partially address via the Russia–EU Energy Dialogue. Launched in 2000, it was basically limited to consultations on regulating certain aspects of cooperation. Subsequently the same purpose was served by the Common Economic Space 2005 road map and the 2010 Partnership for Modernization initiative. To date, *energy has remained the least legally developed field in the Russia–EU relations, which is another reason for its politicization.*

It is no accident that energy is one of the key issues in negotiations on the new basic agreement. The EU is attempting to include as many liberalization provisions as possible in the text of the document, while Russia is eager to preserve flexibility and keep the energy the subject of a special protocol. It should be noted that the existing problems do not *jeopardize the hydrocarbon trade, rather they complicate the movement to a better-integrated interaction between the parties on this.*

These problems cannot be resolved immediately. This does not require “top down” will and effort, but rather a “bottom up” development of cooperation — between energy companies, environmental agencies, and researchers. This will transform the parties’ views of each other.

The creation of a Common Space of Freedom, Security and Justice was dictated by the fact that Russia and the EU face common challenges (terrorism, illegal migration, international crime, including the human trafficking and narco-trafficking), an adequate response to which requires efficient cooperation between judicial and law enforcement agencies. However, both sides are convinced that striving to achieve greater security and border safety must not create barriers to lawful interaction between our respective economies and societies. Citizens must be able to travel with the minimum possible difficulties. We stress that, in the negotiations about creating “common spaces,” the EU initially proposed a fifth space — democracy and human rights, but Russia did not accept this proposal.

A simplified visa regime and Readmission Agreement are considered the most noteworthy achievements in the Common Space of Freedom, Security and Justice. At the same time, it is fairly difficult to draw any broader conclusions about the level of progress made, as the results give a rather motley picture. In our view, the issue of *reforming the Russian judicial system* is the most critical one in this space.

Currently, visa procedures are governed by the Agreement on facilitating visa issuance to citizens of the Russian Federation and the European Union dated 2006. It covers the following: (1) visa-free regime for holders of diplomatic passports; (2) right to receive a five year multiple-entry visa for close relatives of people residing in the EU (and vice versa) and members of governments, parliaments, and supreme courts; (3) waiver of consular fees for children under six and people travelling for emergency medical treatment. At the December 15, 2011 summit, Russia and the European Union agreed to a step-by-step plan for adopting a visa free regime (this has been under discussion since 2005). The document, entitled *Common Steps Towards Visa Free Short Term Travel of Russian and EU Citizens*, requires the parties to introduce biometric passports, and to fight illegal migration, terrorism and corruption. At the December 21, 2012 summit, the parties attempted to expand the areas covered by this document, but without much success. In March 2013, the parties plan to continue discussions about cancelling visas at a meeting of the representatives of the Russian Government and the European Commission in Moscow, and at the upcoming Russia–EU summit. Moscow and Brussels are negotiating two issues —visa regime facilitation and the full removal of the visa requirement for short stays.

Achieving a visa free regime with the EU is, of course, the key goal of Russian policy. This issue is also important for the EU, as most of the visas to enter the EU countries are issued in consulates within Russia.

However, EU member states adopt very different positions on visa policy for Russian citizens. Belgium, Germany, the Netherlands, and almost all internal affairs ministries back a tougher, more restrictive approach, which they explain by raising the specter of uncontrolled immigration, an influx of refugees and expansion of organized criminal groups within the EU. Spain, Italy, Greece and Finland back a more liberal position, believing that a tougher visa regime chiefly affects average citizens and is no barrier for those who really pose threat to EU security. A tougher visa regime also limits the European Union’s ability to use its “soft power.” Consulates in these countries ask Russian citizens for fewer documents, deny visas less frequently and issue long-term visas more often.

EU member states’ positions also differ vastly on the timeline for moving toward a visa-free regime with Russia.

Here it would be appropriate to note that, broadly speaking, a particular EU member state’s political relations with Russia are not determined by its approach to visa policy. Most countries in Central and Eastern Europe take a liberal approach to visas despite political tensions with Russia. However, close partners such as Germany may, on the contrary, take a tougher approach to visa issues.

Russia’s approach to its visa policy for EU citizens has to date been a combination of several elements — criticism of the European Union for its

discriminatory policy, putting pressure on EU member states, and reciprocal steps against countries that introduce more stringent visa requirements. Thus, in autumn 2010 Russia introduced tougher requirements for German nationals (the provision of evidence that they will return home, bank account statements, and evidence of ownership of real estate or company registration), which mirrored the German requirements made of Russian citizens.

The EU sees two possible approaches towards the liberalization of the visa regime for Russia. The first approach is to set the bar high (as happened in the Western Balkans) and require better border control, ensuring document confidentiality (including biometric passports), a deep reform of law enforcement agencies, tackling corruption, and linking the visa regime to human rights issues. Officials in some EU member states, including Germany, say that the European Union should link its proposals for the visa-free regime with Russia to political or security issues in which it would like to see meaningful progress. Under this scenario, the visa-free regime can be viewed as the best possible result for Russia, but one for which it would have to exert substantial effort. Corruption would have to be tackled in order to minimize the risk of Russian passports being obtained by potential illegal migrants from third countries as a one-way ticket into the EU.

The problem is that this kind of “conditional” approach that works for other countries such as Serbia and Moldova is unlikely to work for Russia. The Russian elite has little difficulty obtaining visas to the EU, and holders of diplomatic passports already travel visa-free to Schengen states. So, European Union requirements are unlikely to encourage Russian elites to carry out reforms in order to enable average Russians to travel to the EU visa-free.

An alternative approach to visa policy for Russia involves viewing a visa-free regime as a way of helping it make progress in its modernization projects. Advocates this approach believe that, by opening its borders, the EU will make its contribution to the modernization of Russian society through a more flexible policy and an expansion of educational and cultural contact open to the Russian middle classes.

Both approaches have their difficulties and risks. The situation is further complicated by the fact that different players in EU member states hold totally different points of view: diplomats and businessmen tend to support a more liberal approach, while the law enforcement agencies — a tougher one.

Ultimately, the key issue is not whether there will be progress towards a visa free regime with Russia, but *how soon this will happen and under what conditions*. Obviously, the current visa system (more precisely, EU countries’ visa policies) is inefficient and puts regular citizens at a disadvantage, and may not function as leverage for EU member states against Russia. Russia is clearly not ready to cancel the visa regime unilaterally, as Ukraine and Moldova did.

The development of Common Space of External Security is designed to strengthen cooperation between Russia and the European Union on global security issues. There are numerous problems in which Russia and the EU could consolidate their efforts, in particular, conflict prevention, crisis management, and post-conflict recovery (this chiefly relates to frozen regional conflicts in the post-Soviet space).

In Paris on October 30, 2000, Russia and the EU signed a Joint Declaration on Strengthening Dialogue and Cooperation in Political and Security Matters in Europe. The common goals and principles of this cooperation were set out in the PCA (section 2, article 6). Currently, in-depth interaction is based on the road map of the Common Space of External Security. A high level of cooperation is provided for on conflict-resolution, which is described as “results-oriented cooperation.”

Russia and the EU agreed to be more active in joint operations on external security matters, as they are cognizant of their responsibility for security and stability in the European continent and beyond. However, there has until now been an obvious inconsistency in the numerous statements on establishing this Russia–EU partnership in global security matters and the fairly modest results delivered by practical steps to achieve these goals as part of the relevant international organizations.

The most important frozen conflicts involving questions of territory and ethnicity for Russia and the EU are those in Abkhazia, Karabakh, Transnistria and South Ossetia. In October 2005 in Transnistria the parties launched a 5+2 program (Moldova, Transnistria, the OSCE, Russia, Ukraine plus the EU and the United States as observers). In December 2005 the EU launched the EU Border Assistance Mission (EUBAM) program on the Moldova-Ukraine border to secure full customs control.

No other progress in the cooperation between Russia and the EU on other conflicts was achieved.

So far, both Russia and the EU have followed their own policy lines in relation to frozen conflicts, without investing real or meaningful efforts developing a joint action plan.

The European Union is concerned about stabilizing the situation in adjacent territories and intends to move towards this goal by developing selective and limited integration processes. Russia perceives adjacent territories primarily as its neighborhood and acts as with the mindset of internal, rather than external, actor.

A serious restraint that has a negative impact on partnership development is the absence of an agreed set of criteria for the achievement of the cooperation goals set out in the Common Space of External Security.

The Common Space for Research, Education and Culture is designed to develop scientific, educational and cultural ties, in particular, via exchange programs. Programs like this help strengthen the parties’ common economic

and intellectual potential, make it easier to maintain contacts between people and improve mutual understanding in the different communities. An example of what can be achieved is the decision to co-fund the European Studies Institute in MGIMO (University) of the MFA of Russia, which offers advanced training in EU matters for Russian professionals. The parties also launched cooperation under the TEMPUS IV program.

The **Common Space of Research, Education and Culture** may be viewed as the most promising. Of all bilateral spaces this is considered the least contentious, the most successful and most useful to both parties. Thus, Russia–EU cooperation in higher education is almost fully oriented toward the Bologna Process and the agenda in this field is determined by the reforms required in all European countries, including Russia. The intergovernmental and voluntary nature of the Bologna Process is of particular importance for Russians who are actively involved in this field and who handle the necessary reforms in a complicated domestic policy situation in which there is far from being a consensus. Notable progress was achieved in important matters such as the introduction of BA and MA degrees, the transfer to the European grading system, modernizing curricula, introducing a quality control system *etc.* However the attempt to adopt a single degree of the Doctor of Philosophy (DPhil) in the Russian educational system was not successful.

In future, shifting priorities from the “administrative” aspect of the Bologna Process (mainly involving the educational institution’s administrative sections) to a “substantive” one (involving professors, students and employers) — will be a major challenge.

Generally, when assessing the fourth common space, Russian analysts distinguish scientific research and innovations as the sphere in which cooperation is a “win-win” affair. Further cooperation between the EU and Russia may be based on a number of serious achievements by Russian science and technology, chiefly, in fundamental science. This will make it possible to apply achievements in technology materials, nuclear and biotechnologies, taking into account the fact that research in these areas is mainly government funded.

At the same time, the parties’ interaction in this field is objectively complicated by certain Russian realia, namely: red tape, underdeveloped negotiating skills, insufficiently active participation by Russian researchers in international events, lack of willingness to share the financial burden of cooperation. Differences in the environmental laws and protection of intellectual property rights, project management style, and even in how the science and technology sectors are structured also show. Then there are the political impediments (visa regime, export controls, disclosure matters), lack of industrial development, and low level of youth involvement.

“NON-POLITICIZATION” IN THE RUSSIA–EU “NORTHERN DIMENSION”

The institutions tying Russia and the European Union together that operate efficiently and are free from acute political issues deserve special attention. One example of this kind of institution is the EU’s Northern Dimension initiative (“ND”).

The Northern Dimension initiative was proposed by Finland in 1997 and adopted by the European Commission as an EU strategy in 1999, initially for the period 2000 to 2003. The most important ND component is developing cross-border cooperation between its members’ neighboring administrative units. The Northern Dimension covers Finland, Sweden, Norway, Iceland, the Baltic States and Poland, and Karelia, the Murmansk, Arkhangelsk, Leningrad, Pskov, Novgorod, Vologda, Kaliningrad Regions of the Russian Federation and St Petersburg.

The initiative is unique in that it provides for horizontal and vertical cooperation between the member states at several levels: state, regional, and local. For Russia, the ND is another opportunity to attract its partners’ attention to the potential for developing resource-rich areas that are still under-developed and for the joint resolution of issues relating to the Russian North-West with cross-border influence (environmental protection, development of transportation and border infrastructure, unemployment *etc.*).

The Northern Dimension includes several practical policy areas and currently involves two partnerships: the Environmental Partnership and the Partnership in Public Health and Social Well-Being.

Although the Northern Dimension initiative was initially criticized, a great deal has been achieved. This initiative’s key advantage may be the contribution it makes to involving Russia efficiently with European entities outside the arena of high politics. Today, interest in the theoretical base and practical experience of the Northern Dimension reaches far beyond Northern Europe and the countries that are actively involved in the initiative. However, this initiative is not only interesting from this perspective, but also in the context of broader Russia–EU relations. In future the ND may be viewed as part of strategically-related multi-level interaction between Russia and EU member states. Researchers have repeatedly underlined the critical importance of *multi-level* relations between the two parties. This initiative involves relations between EU and Russian institutions, bilateral relations between Russia and EU member states, as well as cross-border relations and cooperation at the regional (sub-national) level.

Russia and the EU are working together on multiple institutional levels and balancing between them, in an attempt to achieve numerous goals at the same

time. The key actors cannot but take into account the consequences of this “all-level” interaction, but they also attach differing importance to the results of this interaction. Thus, selecting the strategy (or tactics) for cooperation or deciding not to cooperate at an individual level makes it possible to explain why and how decisions are made at other levels.

In practice, this means that growing political tension between the EU and Russia could be “offset” by cooperation at other institutional levels. Thus, political tensions at the summit may encourage the Russian government to more actively participate in the EU’s regional initiatives (for example, the Northern Dimension). To strike the right balance between levels it is *critical* that the ND context be clearly distinguished from issues of “high politics.” Programs of cross-border and regional cooperation will seem more efficient if they are focused on localized and non-politicized matters. It must be conceded that this kind of program is not made to tackle highly politicized topics such as democratic development in Russia, media freedom, human rights, or security and energy supplies. In other words, advocates of the Northern Dimension, and those actively involved in implementing it, must deliberately avoid being dragged into politicized topics.

It can be assumed that certain actors will choose to prioritize Russia–EU relations, while others will be interested in developing bilateral relations. Similarly, different actors will have different priority areas. Generally, EU member states and sub-national territories (regions) can be expected to follow different and, possibly, contradictory strategies towards Russia. Moreover, one actor may well employ different strategies on different institutional occasions. For example, Finland may act differently in the European Council, in the Northern Dimension and in its bilateral relations with Russia. Thus, a deficit of consistency in EU foreign policy is a natural consequence of its multi-level governance structure.

The development of the Northern Dimension may well show that tension in “high politics” does not necessarily mean fewer avenues for cooperation at lower levels. ND regional cooperation has made much better progress than its critics anticipated. Despite numerous difficulties, the deterioration of relations between the Russia and the EU did not impact the Northern Dimension, and — more importantly — Russia did not withdraw from the initiative, and maintained its commitments.

The Northern Dimension was chiefly an attempt to overcome the growing dislocation between the EU and Russia by jointly addressing practical functional issues rather than creating yet another channel for the parties to battle it out in “high politics.” Security and purely political issues were either fully excluded from the ND’s agenda or their discussion was limited. Perhaps the best call was to exclude oil and gas supplies from the ND agenda; only nuclear safety and energy saving issues were included under the Environmental Partnership section.

The Northern Dimension was initially based on an equal partnership approach, open for the equal participation of countries that are not EU members. And the fact that these partner countries were involved in the process from the very outset, and participated in the foreign ministers' conference on the Northern Dimension is quite unusual in the EU context. Allowing partner countries not merely to accept EU and EU member-state policy but giving them the chance to actively participate in forming it is the ND's main distinctive feature. Involvement enables the participating countries to discuss issues that concern them based on the principle of equality. It also gives them a solid platform to do this. The equal partnership approach essentially guaranteed that the ND's activities are limited to the matters that all participants deem acceptable. In practice, the ND generally deals with the functional cooperation in "low politics."

Over time, Finland attempted to see the ND transformed from a foreign policy project to a cooperation project that would belong to both the partner countries and the EU equally. Of all the ND's partner countries, only Finland is a member of the Economic and Monetary Union (EMU) but it is fairly skeptical about promoting a common defense policy. Thus, an external observer may view the Northern Dimension as a project on the basis of which the countries of Northern Europe intend to develop, separately, their relations with the wider world and Russia in particular. The ND may also be viewed as a "northern alternative" to the "eastern" and "southern" development vectors of the EU.

According to observers, the ND shows that small EU countries can achieve a great deal if they conduct "smart small policies." In Russia's case, this means the regions that actively participated in the ND activities. The success of cooperation in this area mostly depended upon the interest and involvement of local and regional (sub-national) actors.

It is no coincidence that initiatives and projects like this arise at a sub-national level — this is mandated, among other things, by the technicalities of practice-oriented cooperation. Attempts by national governments to agree and implement similar projects necessarily result in massive transactional costs. Regional contacts, on the contrary, make it possible avoid high costs, while cooperation takes the form of a "common practice" outside the arena of "high politics."

A country's partnership in a particular "dimension" means that it may not expect to become a full-fledged member of the European Union. And if the Northern Dimension, as one element of the EU's foreign policy, is translated into a concept, it is merely a truncated regional portion of the European Union's common strategy toward Russia. Meanwhile, an alternative future for the ND could be to maintain a certain degree of autonomy in EU foreign policy. The Northern Dimension already has important innovations and differences from conventional foreign policy tools, helping it achieve its goals. A unique combination of the

partner, equal and multi-level approaches within the ND creates a particular form of subsidiarity: EU member states formulate and implement foreign policy in cooperation with external actors capable of generating the necessary “capacity” to resolve certain issues. This kind of subsidiarity would allow the EU to implement a multi-level foreign policy. At the same time, the member states most concerned may be able to avoid the differences of opinion inherent in “high politics” by focusing on those areas of cooperation in which the involvement of regional and sub-regional actors will create added value.

The subsidiarity principle in the ND is significantly different from the ideas underlying the concepts “Europe of Different Speeds” and “Europe of the Regions.” The easiest way to explain it may be using a multi-level governance approach. This approach implies that actors can influence the decision making process in the EU via different channels (working with European institutions, indirect action through regional, national and sub-national entities etc.). Applying subsidiary logic to the ND, it is rational to expect that the decision making process on private, localized matters will become decentralized, i.e. it will be distributed among regional, national and sub-national levels. However, supranational institutions will remain responsible for formulating a common policy towards Russia. Thus, different players will be responsible for different issues, depending on how important they are and the existence of a common interest. This approach to the Northern Dimension is also in the Russian side’s interest, at both federal and regional levels. At federal level, because the ND is a sort of “safety cushion” in case relations between Moscow and Brussels cool significantly, and at regional level because they are the immediate beneficiaries of this initiative.

RUSSIA–EU RELATIONS: DEVELOPMENT SCENARIOS AND PARTIES’ INTERESTS

Development scenarios for Russia–EU relations are generally not difficult to formulate — they are quite apparent. What is much more difficult and important is what will follow from any particular scenario. Before that can be established, these scenarios are needed in order to understand the risks that Russia will face when making a certain strategic choice in forming its “European vector.” It is possible that, broadly speaking, Russia–EU relations (at least in theory) may adopt the following development trajectories in the short and medium term⁴⁷.

⁴⁷ Russia is the party to implement changes under each scenario. The European Union is unlikely to drastically change its position towards Russia without being motivated by Russia’s actions.

Political Convergence with the EU Alongside Economic Inter-Dependence

This scenario requires a proactive approach on Russia's part, namely, sending a reliable and meaningful message to the EU that Russia is committed not only to economic modernization, but also to political modernization, that it is serious about tackling corruption and judicial reform. A mandatory component of this scenario is restoring a value component to relations with the EU, i.e. the focus should not only be on interests, but on common (European) values. If taken to its logical conclusion, this scenario would create a strong, legitimate and active state, capable of maintaining the territorial integrity of a large and diverse country, efficiently guaranteeing public welfare and resolving market imbalances. At the same time, in an environment open to external influences, this should be a state that is governed by clear rules and limitations.

This scenario is the best possible option for the European Union (although not for all its members), at least, taken at face value. If implemented, it would allow the European Union to form a consistent political and economic agenda and policy towards Russia, and to materially increase its influence. However, it is highly unlikely that this scenario will be practicable, at least, in the short term, and even in the medium term for that matter. The issue is that the Russian state, voluntarily or involuntarily, created a certain kind of motivation and maintains a status-quo in which the economic and political elites are more interested in remaining within a framework that is inefficient but stable in economic and policy terms, rather than incur the costs and face the risks of adopting a new model. In the short term (and possibly in the medium term) the current political and economic condition of Russia, here defined as the status quo, is institutional equilibrium. This means that *the main political and economic forces are not interested in materially changing the rules of the game or are strongly at variance regarding the substance of the changes desired.* Furthermore, numerous social groups that have successfully developed under the existing system are unhappy about the fact that the state is unable to guarantee stability and compliance with the rules.

Given this institutional equilibrium, Russia is unable to generate step-by-step changes toward making this transformation in an organic, evolutionary way, including when it comes to responding to new challenges. In this context, the absence of meaningful change is the effect of this stable equilibrium, not solely the result of a deficient system. The current system is called an institutional equilibrium because discontentment with the current rules of the game that result in such an unpromising environment in many areas of economic, political and public life does not prompt a demand for these rules to change.

The transfer becomes even more difficult in a situation in which *all the formal institutions and laws are already in place, and each institution and every rule has their*

own underlying stable interests (as is the case in Russia). The prospects for political transformation are substantially complicated by the “resource curse,” i.e. the national economy’s dependence on sales of energy resources and the absence of a tradition of individual taxation and government accountability to the taxpayers. This is not the end of the list of numerous peculiarities that particularly define the Russian scenario. Others include corruption, which has become an accepted norm of doing business and even a defining feature of the interaction between an individual and the state. Then there is also a centuries old tradition of highly concentrated executive power against the backdrop of two extremely weak chambers of parliament. Finally, there are nuclear weapons that still allow Russia to claim great power status in foreign policy. Consequently, a substantial part of society considers Russia as a “special civilization” or even “Fortress Russia,” or “Russia rising from its knees” and views it as a genuine alternative to modernization on “western” (in this case European) lines.

All this appears to lead us to the conclusion that falling energy prices should automatically “normalize” Russia’s relations with foreign countries. However, we note that a different result is likely. Since the goal of “separating” domestic and foreign policy will remain the driver of Russia’s foreign relations (its importance will even grow if economic problems for the population also rise), it may be expected that decreased foreign trade revenues could well force the Kremlin to undertake an even riskier policy, resulting in the country’s further isolation from the global community. Thus, lower prices will hardly be the “silver bullet” or cure-all that is needed. That would be too easy.

Creating a Declarative Political Distance from the EU

This scenario implies that while maintaining economic inter-dependence with the European Union, Russia will clearly and consistently politically distance itself from the EU on all matters of international relations (an apposite illustration of this approach is the response to the Syria crisis). Under this scenario, Russia will consistently work to build a pro-Russian coalition on the Eurasian space based on integration principles that are different from those of the EU, and will seek to form an independent power center in global policy.

Evaluating what Russia can realistically achieve in this regard falls outside the scope of this report. We note that, in our view, the possible tactical benefits from implementing this scenario do not balance out the strategic risks and losses, especially in the context of relations with the European Union. The reason for this is that “Eurobureaucrats,” members of the European Parliament and national European leaders, may form a group of people who advocate the Union’s further federal development, to the point when it will potentially be prepared to support any common foreign policy initiative of its colleagues.

While there is no basis for consensus, potential members of this group may remain at variance with each other on less global matters, thereby giving the impression of greater disunity in common foreign policy than is possible. However, the situation may change rapidly, and dramatically, should there be a common threat capable of pushing the Euro-skeptics to recognize the need for a common foreign policy. For example, if the *leaders of the biggest EU countries come to view Russia as a common threat to Europe*, it may be expected that the advocates of European integration will enthusiastically support them in this, strategically hoping to use this newly formed unity to add impetus to integration processes. When there is a change in leadership in Europe's largest countries, current foreign policy disagreements between EU member states may be replaced in a flash by a united course on the most vital matters (including the attitude towards Russia).

Inertia Scenario

This is the scenario that is being implemented now. This scenario combines economic openness towards the European Union (which is important to support the market economy and attract investment) and ignoring criticism that jeopardizes the stability of the Russian political system given its limited competition and lack of stable institutions. Briefly, this scenario can be formulated as follows: close economic interaction without any political commitments.

It should be noted that Russia's leadership pursues a policy of "setting apart" not only regarding domestic and foreign policy. A similar approach is applied to "set apart" (or distinguish between) Russia's policy towards the European Union as a whole and its policy toward individual member states (in other words, multilateral and bilateral relations). The success of this differentiated approach helps "release" Russia's leadership from its ideological restrictions (norms and values) and if successfully "set apart" — from pressure of public opinion. Thus, the Kremlin is able to pursue antipodal policies along different vectors and dimensions of European relations virtually without experiencing any pressure from the domestic audience.

However, this scenario is fraught with inherent contradictions and conflicts: on the one hand, it does not lead to a resolution, but rather to the *further accumulation* of issues in the country's economy and policy, and on the other hand, it may result in a gradual "slide" towards the scenario of open distancing, which is what we see now. In fact, this scenario will drive Russia into a kind of a trap, due to the contradictions between its short and medium term interests (maintaining the status quo and attaining geopolitical goals in the post-Soviet space) and long term strategic goals for the country's development (modernization).

CONCLUSIONS AND RECOMMENDATIONS

There is every reason to expect relations between Russia and the European Union to continue to be tense for the foreseeable future. Politicians on both sides do not, so far, see much benefit in looking for compromises. On the contrary, they may rely on the continuing tension in relations in order to achieve internal domestic consensus (within Russia and within the EU) on the potential transformation of their respective political systems.

As has already been noted, both Russia and the European Union use foreign policy towards Russia to further their own internal consolidation. From the point of view of the further development of relations between Russia and the EU, it is both notable and sad that the internal political rhetoric and “firm approach” to relations in the post-Soviet space make Russia a real candidate for a common threat against which the EU states could come together. Russia continually demonstrates that it is *too* big and *too* unpredictable as a country and that it is the European Union’s “most difficult” partner.

Paying tribute to this Russian “peculiarity” and the importance of the Russia–EUrope sub-system of international relations, until the mid 2000s the EU attempted to build the Russian case into its general approach to foreign policy, avoiding the creation of instruments tailored solely to Russia. In fact, partnership and cooperation agreements were signed with all former Soviet republics, excluding Tajikistan and the Baltic countries. The EU develops general strategies for all countries/regions where its member states have common interests. The neighborhood policy was designed not only for Russia, but also for those countries bordering the EU to the east and the Mediterranean countries in the south. Even the Common Economic Space was tested, as a convergence instrument, by the EU in its relations with the EFTA countries. However, this approach proved unsuccessful: the Russian side insisted on the *special* nature of its strategic partnership with the EU and was unwilling to be put in the same axis system that the EU uses in its existing approach to relations with neighboring countries, something that ultimately manifested itself in the development of the concept of four “common spaces.”

As for the EU, despite extremely impressive successes in economic integration, the principles, forms and limitations of political and foreign policy integration are the subject of lengthy and heated debates both between EU member states and domestically, within these countries. Designing and implementing a successful foreign policy could become a key breakthrough in the EU’s constitutional development as this would legitimize the subsequent expansion of supranational institutions’ competencies. However, foreign policy is an area in which EU member

states' interests significantly diverge, so they are not eager to delegate the relevant powers to EU level. Thus, the breakthrough in forming the EU's common foreign policy requires the identification of a certain key issue on which EU countries would reach an unconditional consensus. As Romano Prodi said, "Europe needs a sense of meaning and purpose."⁴⁸

The lingering tension, misunderstanding and conflict with Russia is precisely the kind of "fertile" soil that could foster the development of just such an issue, one that unites EU member states and forms the basis for a consensus on the need for a common foreign policy. In principle, a consensus could also be possible around the issue of promoting democracy in Russia, and for some time, this was a very real possibility. However, by 2000, the situation in Russia had significantly changed, and when the country's transformation lost its democratic quality, the possibility of consensus also evaporated. Subsequently, the strategy of confronting Russia became the only consensus option for the European institutions, chiefly the European Commission and European Parliament.

The premise that the EU has not yet formed a mechanism for developing common interests often leads Russian diplomats to falsely conclude that one can (and should) play on EU member states' contradictory interests. This fails to take into account the fact that, currently the key concern of many European politicians is to build common institutions, regulations and rules for EU foreign policy. Despite differing preferences on particular matters, what unites them is an understanding of the need to develop rules that can shape the future development of EU foreign policy.

In the short term, we do not see any real basis for serious progress in *political* convergence between Russia and the European Union. It is highly probable that the vector of development grounded in inertia will continue to prevail, so we will now focus on what could be improved under this inertia scenario.

In developing a set of *recommendations*, we generally proceed from the assumption that, in the short term, it is impossible and unreasonable to try to fully renounce the resource specialization of trade with the European Union; in the long run, hydrocarbon resources are Russia's only competitive advantage. In the medium term Russia should work to expand Russian exports by developing modern manufacturing businesses and becoming part of international industrial manufacturing chains. The long-term goal is creating Russian-European multinational companies that are globally competitive and rely on the aggregate domestic demand in the markets of the EU, Russia and the CIS countries.

Our recommendation for the *energy dialogue* is as follows:

⁴⁸ Prodi R. Shaping the New Europe. Speech to the European Parliament. Strasbourg, February 15, 2000. URL: http://www.europa.eu/rapid/press-release_SPEECH-00-41_en.htm

1. Goals should be clearly distinguished from the means to an end, and the goals must be formulated in a detailed manner. First, it should be determined what Russia and the EU mean by the “unified energy market.” Do they mean freedom of movement of goods and services? Or, possibly, people as well? What contracts could be involved? Some room should be left to select those instruments that will be used to achieve the goals based on the partners’ specific features. The mechanism that works well within the European Union and allows the member states’ different preferences, economic structure and culture to be factored in may well also work for the Russia–EU partnership.

2. Diversifying relations should contribute to de-politicization, to achieving the cooperation objective and forming the legal framework. Here, two areas can be identified. First, increasing energy efficiency and developing renewable energy sources. These energy elements are at the centre of the Partnership for Modernization initiative; they are a good balance for Russia’s leadership in conventional hydrocarbon-based energy. The second area involves expanding inter-state dialogue involving national leaders and heads of energy authorities, establishing inter-governmental and transnational dialogue. Inter-governmental contacts involve structuring the daily cooperation between officials from various levels and representatives of regulatory authorities. This practice, which arose within the Energy Dialogue, needs to be further developed. Transnational ties are the dialogue between businesses, environmental organizations, and independent experts. A focus on energy efficiency and renewable energy sources gives this level of cooperation a particular impetus, as it means involving small and medium sized businesses, and makes creating a transparent legal framework a particularly pressing goal.

3. While this goal remains relatively vague, one should not be over-eager to include energy-related provisions in the new basic agreement. It makes sense to use the negotiation grounds of the international entities in which both Russia and the EU are full-fledged participants. Energy issues are discussed, for example, within the G20 and G8 frameworks. Russia’s WTO accession should be a positive factor, provided that a strategy is developed regarding the stipulation of regional integration that the EU frequently uses to reinforce the supremacy of its norms. Moscow should also consider revisiting the ECT, provided it is amended to accommodate its preferences formulated in the draft Convention on Ensuring International Energy Security. The advantage of cooperation within the framework of international organizations is that it limits the EU’s ability to extend its laws to Russia unilaterally. In international forums, partners discuss the development of mechanisms that would be mutually acceptable to them and that at a later stage will be incorporated in their respective laws. This ensures the equality of the partners that, as has already been noted, remains the underlying concept of Russia’s foreign policy.

4. Resolving fundamental issues in energy relations between Russia and the EU should also be the focus of the partners' domestic policies. Therefore, improving the EU's domestic market infrastructure may facilitate the de-politicization of these relations. Russia's interests, paradoxical though it may seem, are well served by the shale gas development in Poland and the construction of an LNG receiving facility in the Baltic Sea region. These expensive projects will not become a cheap alternative to the Russian resources, rather they will create a potential for diversification and, thus, will work to depoliticize relations.

It should be noted that the issues that are restraining the current development of energy relations also impact other areas of Russia–EU partnership. Clearly distinguished goals and instruments (while the latter are flexible), diversification of relations by involving new players and including new aspects, working in international forums — all these are positive, and not only for the energy sector. Energy will, however, continue to be the litmus test in relations between Russia and the European Union generally, while success in energy cooperation will set the tone for economic interaction in other areas.

The following recommendations may be given regarding the *Common Economic Space*:

1. Avoid politicizing technical matters and follow standard procedures in bilateral economic cooperation.

2. Increase the scope and diversify formats for consultation between the authorities and business.

3. Decrease the level of red tape (lengthy delays in the activity of certain working groups are due to the Russian side taking too long to determine their members).

4. Overcome the distribution of responsibilities among various ministries (for example, the difficulties encountered on the Russian side in setting up the policy sub-group for the support of small and medium sized enterprises were due to the fact that responsibility for the support of small and medium sized business is distributed among the Ministry of Industry and Trade and the Ministry of Economic Development). Thus, one of the key issues is *how to coordinate the actions of Russian agencies* as part of individual cooperation initiatives between Russia and the EU.

5. Periodically conduct advanced training for specialists involved in specific dialogues and educate them about particular features of cooperation between Russia and the EU. During this training, draw the attention of Russian experts to the *importance and efficiency of using various formats of cooperation and communications* (including dialogue) with partners to promote Russia's interests.

6. As the experience of preparing the new basic agreement has shown, one should not rely completely on proposals prepared by partners during the negotiation process. One must be better prepared for the negotiations, develop

one's own position and not propose, at the next round, issues that have not yet been determined by the federal agencies. While negotiating the new basic agreement there were cases when issues beyond the government-issued mandate were imposed on Russian agencies, when the negotiation process was used to make decisions outside the WTO agreements. To avoid similar situations recurring and the unnecessary duplication of work, the coordination of all aspects of Russia–EU cooperation must be improved.

7. During negotiations, focus on a small number of the most important issues; make sure that the Russian negotiators understand that it is important not only to assume obligations, but also to be able to honor them.

In the *Common Space of Freedom, Security and Justice* we recommend the following.

1. As it is critical for the development of not only this space, but for that of other “common spaces” to continue reforms to the Russian judicial system, the speed with which such reforms progress should be increased.

2. In terms of visa policy, it seems less than promising to pressure EU member states and take retaliatory measures against the states that impose tougher visa requirements. Progress in this area will be aided by a general improvement in relations, primarily a higher level of trust in Russia.

In terms of the *Common Space of External Security* the key challenge is the development of common approaches to the resolution of conflicts in the “common neighborhood” space. There are several development options for the situation in crisis resolution in the region. The most dangerous is the scenario under which the parties will come to perceive relations with each other as a “zero-sum game.” Now this option seems less likely. However, the opposite option — a coordinated strategy by Russia and the European Union toward crisis resolution in the post-Soviet space — so far appears to be less than realistic due to the serious divergence of the parties' interests and different vision of the future of this region.

It is critically important for Russia and the EU to develop principles and mechanisms that would allow them to avoid aggravating their relations in which any of the outstanding crises is becoming more confrontational. The Russia–EU Committee on External Policy and Security, the creation of which was proposed by Dmitry Medvedev and German Chancellor Angela Merkel in early June 2010 in Mesenberg, could serve as the policy format for this dialogue. The heads of state suggested that the Committee could develop the key principles of joint civil/military operations by Russia and the EU in crisis resolution and management. It could also arrange for the exchange of views and develop recommendations on specific areas of cooperation, including conflicts and crisis situations, which Russia and the European Union are working to resolve within the relevant international formats.

As for the resolution of frozen conflicts, the most realistic option seems to be to focus efforts where it is politically easiest (least difficult) to find common approaches. It would be appropriate to set the most difficult cases aside, but closely monitor them with a view to preventing potential confrontation. In this respect, the proposal by the heads of state of Russia and Germany regarding Transnistrian conflict resolution, made in Mesenberg in early June 2010, is particularly noteworthy. Although this initiative was proposed by the leaders of two major states, its success is far from automatically guaranteed. Even accommodating the interests of Russia and the EU in resolving a conflict such as that in Transnistria is a very ambitious goal.

Under the *Common Space of Research, Education and Culture*, the following measures must be taken.

1. Expand the Agreement on Cooperation on Science and Technology between Russia and the EU.

2. Develop and propose (to the EU) specific mechanisms of coordination, planning and implementation of Russia-oriented R&D programs that will work at EU level (European Seventh Framework Program — FP7), at national level (EU member states) and at the level of common European programs (EUREKA, INTAS, CERN *etc.*).

3. Develop and implement more efficient mechanisms of control and coordination over cooperation between the EU and Russia, between the science segment in the fourth space and the Common Economic Space. In connection with the potential inclusion of Russia in the FP8 and launching cooperation in security research, make preparations for the creation of similar mechanisms of control and coordination between the science segment of the fourth space and the second and third common spaces (external and internal security).

4. Focus on strengthening the autonomy of university chairs in Russian higher education institutions (the “bottom up” principle) to avoid excessive centralization and the use of inefficient management methods. This is especially important in implementing the principle of subsidiarity in Russia’s higher education system.

5. EU-planned higher education programs that are open to Russia should take into account a gradual, medium term, shift of funding from support to “technical” aspects of the higher educational reform to support “substantive” reforms, i.e. from support for actions taken by the administration to support for initiatives proposed by professors, university students and employers.

6. Strengthen coordination between EU higher education programs open to Russia and programs only open to member states.

7. Increase support for the European Studies Institute at MGIMO (University) of the MFA of Russia with a view to potentially turning it into the core of a network of EU centers in Russia.

8. Explain, in more detail, to the Russian professors and assistant professors the substance of the Bologna Process to prevent the introduction of bureaucratic “innovations” under cover of being part of the Bologna Process.

* * *

Whatever Russia’s foreign policy priorities and goals are, its relations with the European Union will continue to be one of its key priorities. In the long term, the consolidation of resources and competitive advantages of both partners may result in a breakthrough boosting their global economic competitiveness. Successful economic cooperation requires mutual institutional adaptation, and Russia, for which the European Union is the main source of modernization impetus, has a long way to go to achieve this. But to be able to avail itself of these drivers, Russia needs to complete the creation of a modern state with a competitive institutional environment. The energy trade with EU countries is critical for Russia’s economy, and attaining even purely economic goals requires progress in cooperation both with EU institutions and with the institutions of most of the EU’s member states. If Russia’s federal authorities underestimate the role and importance of the European Union, Russia–EU cooperation will become “virtual,” which is not in the strategic interests of our country.

■ | **FOR ENTRIES**

Russian International Affairs Council

Printed in Russia