EU’s approach towards Russia: Time for Reconsideration?

Policy Brief on EU-Russia relations

Executive Summary

This policy brief shall explore the current relation between two powers – the European Union and Russia. This relationship, often unstable not least because of historical heritage, has altered during the past few years due to a number of changes that are to be discussed here – the changing domestic situation in Russia, the growing competition between the two parties over the ‘shared neighbourhood’ and not least the overdependence on each other in the energy field. These three are chosen as most media and forums are concerned with them, they are also the most contentious and the crucial ones overarching EU-Russia relations. After briefly outlining the current state of affairs, recommendations for improvement of the relationship by the EU side shall be given after each issue is discussed.

Background of EU-Russia Relations

After the collapse of the Soviet Union, the cooperation that developed between the EU and Russia is sometimes referred to as a ‘strategic partnership’, understood as “co-operation based on a balance of mutual responsibility, aimed at establishing and developing a common European economic and legal infrastructure”\(^1\). The legal basis for this cooperation is the 1994 Partnership and Cooperation Agreement (PCA) which established the institutional framework for bilateral relations, elaborated on common objectives and provided for a trade and economic cooperation in a number of areas (energy, technology, environment, transport, etc.). The PCA was implemented in 1997 for an initial period of ten years and renewed on an annual basis since 2007. Its aim is to regulate political and economic relations, to promote trade and investment and the development of smooth economic relations\(^2\). Later on, the EU’s Common Strategy on Russia and Russia’s Medium Term Strategy for the Development of Relations between the Russian Federation and the EU (2000-2010) stressed different priority areas for cooperation.

\(^1\) Gourova 2000:119 cited in Petermann and Matagne 2011
\(^2\) European Commission, Trade, Countries and Regions: Russia
The EU-Russia Four Common Spaces (Common Economic Space, Common Space of Freedom, Security and Justice, Common Space of External Security, Common Space of Research and Education) were established during the 2003 St. Petersburg Summit under the PCA framework and seek to reinforce cooperation. They are into effect since the 2005 Moscow Summit and outline specific objectives and required action in the form of roadmaps.

Currently a New Agreement (comprehensive framework for bilateral relations) to replace the PCA is being negotiated which was given a new momentum after the 2012 Russia’s WTO accession. The latter is seen as an opportunity to boost EU-Russia relations as mutual rules have to be respected under the WTO framework. Nevertheless, more than a year since Russia’s accession it fails to stick to some of its WTO commitments. Fundamental differences have once again considerably delayed the New Agreement negotiations, especially due to the differing stances on Trade and Investment provisions.

There are some initiatives, such as the EU-Russia Partnership for Modernization (P4M), that seek to enhance cooperation in particular areas. P4M is said to have done tangible progress in the area of investment and in key sectors driving growth and innovation, establishing a roadmap on energy security cooperation (until 2050), promotion of low-carbon and resource-efficient economy, public health, cooperation in innovation in R&D, etc. The enhancement and deepening of bilateral trade and economic relations, among overall liberalization of trade in the global economy, led to Russia’s WTO accession in August 2012. While exchange of views on a wide range of issues (future steps in developing the global financial and macroeconomic system) has taken place, resolution of outstanding issues has seen limited progress (such as customs cooperation, regulatory cooperation, approximation of standards and regulations, institution building, etc.).

Katinka Barysch, from the Centre for European Reform, points out that although at first sight P4M seems like an excellent idea because it is supposed to bring life in the stalled and tense EU-Russia relationship, the crucial point is that what the EU means by modernization is very different from the notion held by the Russian leadership. Once again, while seemingly cooperating, the two parties are just speaking different languages. Although opportunities and priorities for cooperation are explored within the P4M framework, substantial progress has not been achieved (although the 2012 Report is on the positive side) because of EU’s insistence on creating environment for business conduct through rule of law, anti-corruption measures and opposition to red tape, while Russian side insists on large investment projects and technology transfer. Nevertheless, the EEAS stresses that the P4M is the main policy platform for cooperation between the EU and Russia, which was reconfirmed at the 2012 EU-Russia Summit after President Putin’s re-election.

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3 EEAS, EU-Russia Common Spaces
4 Partnership for Modernization, 2012 Progress Report
5 Barysch, 2010, “Can the EU help Russia modernize?”
6 EEAS, EU-Russia Common Spaces, Progress Report 2012
Russia’s changing domestic situation

There is a fundamental change in Russia’s foreign policy approach over the past few years. Moscow is becoming increasingly interested in ensuring domestic stability and closer ties with China and its Eurasian neighbours. The EU has to acknowledge this in order to keep up with the changing geopolitical order – unless it develops a comprehensive, concerted and effective strategic approach towards Russia and deepens the understanding about the changing realities eastwards, the path towards further cooperation will remain blocked.

The changed reality is that Moscow increasingly does not perceive of the EU and its value system as the sole model for modernization. Consequently, relations are becoming colder. What past experience has shown is that only the Russian themselves are in the capacity to fix their country – outside influence affects change only marginally, and not always in a positive way. According to Ian Klinke (2012), it is the clash of value systems that the two different types of actors endorse which is the root cause of their conflicts. He clarifies further that it is not the two different value systems that cause conflicts but the insistence that the one is fundamentally superior to the other. A more productive relationship can only take place when there is recognition that there are two geopolitical logics that exist and the one does not need to be superior to the other.

According to the author of a new book on Russia (The Fragile Empire) Ben Judah, there were fundamental changes in Russia during the past few years (Putin moving his country from an authoritarian to a repressive state – this year’s crackdown on civil society and NGOs) which had not been met with changed EU policies. As long as the EU does not take into account Russia’s domestic developments and continues to blindly insist on ‘shared values’, the relationship does not have any prospect for improvement. The strength of EU’s criticism towards human rights issues in Russia is undermined because the united voice is limited and very difficult to achieve, not least because of the strong interests of some MS in bilateral dealings with Russia. Once the EU manages to unite its MS, then this leverage can be used in dealings with Russia – same goes for energy. Until then, the EU shall focus on areas in which it is coherent and strong – trade and economic cooperation. There is no other realist alternative than keeping Russia engaged and exploring every possibility for bilateral communication.

Faced with citizens becoming more politically active and seeking greater accountability from their rules, the Russian leadership is becoming even more insular and isolationist in an attempt to solidify its powers. It managed to stabilize its base and to disintegrate opposition groups as a result of which it is unlikely for a social unrest to burst any time soon.

The EU can do several things to better respond to the newly-created situation. Firstly, EU shall cease to be focused on what it wants Russia to become, but rather on its own needs – priorities should be expanding trade with Russia, avoiding energy overdependence on Russia through diversification, exploiting investment opportunities. Secondly, through the P4M the EU can deepen engagement with Russia at various levels – thus, a better environment for the EU will be created in the

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7 Klinke, 2012
8 EU-Russia Centre, 2013, “EU-Russia relations – Time for a Rethink?”
Transformation of Russian society should not be an aim on its own, but should rather be seen as the means to creating more business opportunities, etc. This policy brief argues that this way Russian antagonism will not be fuelled and ideally Russia will slowly converge because of acknowledging the business opportunities that come with it. Thirdly, greater attention should be paid to the visa dialogue as opening Europe's borders is one way to counter-balance the isolationist trends Moscow is leaning towards. This would be one example of EU exercising its soft power vis-à-vis Russia.

The EU should not let its relations with Russia become overly laden with controversies and arguments about internal politics and divergent values because they still matter to each other in many important aspects – energy trade, regional stability and security, economic development. EU values should dictate EU interests and not replace them.

The ‘shared’ neighbourhood

The biggest recent EU-Russia event – the EaP Summit in Vilnius at the end of November 2013 – happened without Russian presence there which is indicative of the influence it has even if it is not directly represented. Russia’s success in persuading Ukraine not the sign the Association Agreement with the EU during the Vilnius Summit reveals, or rather proves, that the EU’s incentives are not that strong and that the EU (and Europeanization) is not the only option.

Ukraine has become a normative battleground for the two powers which is now swiftly slipping through EU’s fingers. Russia succeeded in its attempts to dissuade Ukraine from signing the long-awaited Association Agreement with the EU (which includes DCFTA) and to instead join the ECU. While the latter is not a matter of fact at the time of writing, it is unquestionable that Russia managed to disrupt Ukraine’s European future.

As a result of this new state of affairs, the EU has to rethink its approach to the Eastern neigbourhood and to revisit the short- and long-term opportunities and challenges that might stem from the region. This paper calls for greater acknowledgement of the presence of Russia in the region by the EU and also for the EU to reconsider its external governance in the ‘shared neighbourhood’ and what implications this region might have for future EU-Russia relations.

Averre (2007) questions the coherence of the ENP (EU loses its leverage because of the lack of a membership perspective anytime soon for these countries) and the ability of the EU to promote its own strategic vision in a region traditionally politically and culturally influenced by Russia. Furthermore, Brussels struggles to construct a coherent and active foreign policy in the region. For example, it did not engage directly with the conflicts in South Ossetia and Transnistria (it supported OSCE’s efforts) which led some analysts to conclude that “EU’s rhetorical reach exceeds its grasp”. Furthermore, while it calls for human rights, it is reluctant to harshly accuse Russia when infringement occurs because of economic interests and interdependence.

\[\text{Averre, 2007, p.183}\]
It should be taken into account that Russia perceives of external attempts to reshape its political, economic and social models as a threat to its sovereignty, statehood and influence. Thus, the EU should not aim for reconciliation in every field, but rather acknowledge and accept Russia’s presence and try to work on areas where there are mutual and complementary interests so that the relationship could be smoothened. When the EU reflects on its strategy in the region it should bear in mind that if Moscow has been part of the problem (seen as acting against the EU in Ukraine), it most probably has to be part of the solution, too. The new foreign policy of Russia emphasizes its equal role as a sovereign power which rejects any external interference – this is what Averre (2007) terms sovereign democracy. A state of affairs that already affects the EU-Russian relationship and this has to be acknowledged by the EU.

Before the Eurasian Customs Union (ECU) regional integration in the post-Soviet space was mainly declarative characterized by a number of short-lived, institutionally-weak agreements largely justified by past-oriented discourses. However, this forward-looking Russian initiative, justified by economic pragmatism, seems more sustainable, practical and able to change the picture in the region – it has better-developed institutional framework and is committed to establishing a system that is harmonized with international rules and norms, not the least also with WTO regime. ECU offers advanced form of economic integration in the region for countries that are still in a period of transition and uncertainty. The initiative inevitably has implications for EU-Russian relations and especially for the EU’s Eastern Partnership strategy. The Eurasian Customs Union, although very ambitious and created in a rush, does have the potential to change the regional interrelations. So far what has been accomplished is the Customs Union and the plan is by 2015 an ECU to be in place. Despite the problems it is faced with, the Customs Union is actually being implemented in contrast to its predecessors.

The clashing point is Russia’s ambition that the ECU would drive regional integration of the post-Soviet space, including the countries of EU’s Eastern neighbourhood which fall also within its policies. Unfortunately, this game is a zero-sum one and ultimately these countries will have to make a choice for their future – either with the EU or with the ECU. One can anticipate the implications for the EU if they choose the latter. Thus, the EU will need to accommodate to a regional order that includes Russia and to ultimately admit that ‘the elephant is in the room’. The EU has acted as “a regional normative hegemon that is using its economic and normative clout to build a set of highly asymmetrical bilateral relationships that help to facilitate an active transference of its norms and values”\. Russia has explicitly presented the ECU as an alternative to the EU-led economic integration thus two competitive integration regimes have been created.

Like the 2009 launch of the Eastern Partnership caused vehement objections by Russia (ECU formation, opposition to new AAs, re-engagement with Ukraine) and a strong impetus to rethink its strategy in the near abroad, a change should also take place at the EU level now if it is to keep up with the current developments. The ECU is likely to stay as it has achieved substantial achievements (a common import customs tariff, Customs Code, a Commission with significant staff and adequate budget, removal of

10 Averre, 2007, p.182
and this progress would not easily be reversed without cost. The presence of the ECU is a reality now and the EU is no longer the 'only game in town' – the normative rivalry is likely to grow and the EU will have to adapt its Eastern neighbourhood strategy accordingly if it is to continue being an influential actor there.

In the Ukrainian media there were circulated Russian estimates of the impact of the DCFTA on Ukraine which emphasized Ukraine’s weak position vis-à-vis the EU, sovereignty loss because the AA and costs of convergence to EU standards. It is alarming that the EU has not been responding in any coordinated manner to the anti-DCFTA campaign taking place in Ukraine. The overreliance on its power of attraction and on the assumption that Ukraine has already made its European choice did not work in EU’s favour. Although this is not a paper on Ukraine and domestic issue shall not be discussed, it is worth noting that the EU did not make much effort to engage the general public or inform businesses about the future implications of the DCFTA. Russia was very active in this domain, as it was active with the PR campaign about its image as a reliable energy supplier.

Russia questions the necessity and legitimacy of EU’s approach of normative convergence in the shared neighbourhood which is a major stumbling block in EU-Russia relations. Since the mid-2000 the strategic partnership has been stalled, officially due to “issues of equality and reciprocity” (Dragneva and Wolczuk, 2012, p.14). It might be the case that this ‘vacuum characterizing the relationship’, the focus on ceremonial summits, actually suited both the EU and Russia.

Although the situation with the creation of the ECU and recent developments with Ukraine are largely portrayed as detrimental to EU-Russia relations, there might be emerging opportunities for economic cooperation – especially with Russia’s accession in the WTO and its adoption of international (and EU) standards. This implies improved normative compatibility and broadens the scope for trade regimes’ harmonization which might enhance work on agreements between the EU and Russia/ECU (it is worth noting that any future trade agreement would need to be concluded between EU and ECU). Nevertheless, this would require a lot of work and attention to different forms of interaction between the two normative regimes and their implementation. While this is unlikely in the short term as ECU appears to be designed not harmonized with the EU but in parallel to it, this paper calls for the EU to acknowledge that the ECU is here to stay and to try to lower political and democratic conditionality so that firstly a smoother economic cooperation can take place. EU should recognize the limits of its normative leverage and try to progress its relations with Russia on other domains.

In the years to come, especially during Putin’s current presidential term, advancement from the ECU to a Eurasian Union is likely to remain at the top of Russia’s political agenda. These developments have already had profound consequences for the European Union in its relations both with Russia and with the countries under EaP.

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12 Dragneva and Wolczuk, 2012
13 Ibid.
The Association Agreement should have been described more as a trade agreement and not as a geopolitical deal, as this ultimately made Russia see the ENP expanding at the expense of its tradition spheres of influence. Consequently, it chose the other approach and explicitly underlined that the ECU is only about economic cooperation and does not entail any political conditionality or breach of sovereignty. Here is another point of misunderstanding: while the EU insists that it does not break any ties, Russia’s realist political mind-set believes that it is a zero-sum game and the post-Soviet countries are either taken over by the EU or remain close to Russia. Thus, it is hereby recommended, that the EU shall alter its discourse away from ‘shared’ values (there is not even a mutual consensus as what these values particularly entail) to more pragmatic and economically-oriented language towards both Russia and the common neighbourhood in order not to anger Russia which will be ultimately opposed to any imposed criteria that interfere with its sovereignty (as Russia understands it). The elephant is in the room and the EU is in no position to continue pretending that it is not. The sooner, we engage Russia the way it is willing to cooperate, the sooner we can enjoy smoother relations. Only by recognizing Russia, the EU will be able to intensify the relationship in all terms. There is a need of strategic reconciliation between the two – so far, it has always been a game between them and the level of real negotiations has not been reached. It is evident that the common denominator will hardly be found in normative terms, thus the relations have to be more-pragmatically oriented to ensure that at least the possibilities that are at place are explored.

The Eastern neighbourhood is not mentioned among the priorities of the upcoming Greek Presidency of the Council, which may not come as a surprise given the challenges Greece is faced with. Greece is to be followed by Italy as the next Presidency which might mean that the southern dimension of the ENP would be given greater attention during 2014 than the eastern one. The implications this might have are that the EU’s priorities might not be on elaborating a new strategic approach regarding the EaP, which would let Russia exert its influence there undisrupted.
Energy

As regard to energy relations, they are institutionalized during the 6th EU-Russia summit in Paris in 2000 by the establishment of the energy dialogue. It seeks to provide reliability, security and predictability in the field of energy as well as to increase transparency and trust between the two parties. The European Commission website states that this confidence building was of crucial importance when overcoming the 2009 dispute. Another major achievement of the Dialogue is the 2009 Agreement on Early Warning Mechanism. Moreover, the EU-Russia Permanent Partnership Council (PPC) on Energy has been established within the Energy Dialogue to strengthen energy relations and promote open discussion and cooperation on common energy issues. The main topics in this relationship are gas supply, infrastructure and supply, the EU-Russia 2050 Energy Roadmap.

Although institutionalized at different levels, the EU-Russia energy relations are still overshadowed by a legacy of mutual distrust and suspicion. This is particularly alarming given the high level of interdependence between the two. This policy brief suggests that diversification is the answer to both Russia and the EU so that mutual reliance will be diminished thus allowing for less heated relations to take place.

The last EU-Russia Summit held in Yekaterinburg (3-4 June 2013) has traditionally touched upon the issue of energy. In March, the Roadmap for Energy Cooperation until 2050 was signed with the aim to create a single European energy sector. Nevertheless, unresolved contentious issues still stain the EU-Russia energy cooperation. The lack of concreteness and revelation of what the current state of affairs really look like only contributes to the overall lack of understanding at the highest level. The EU has to be more assertive and concrete but this would only stem from a greater cohesion within the Union itself. In turn, this would come from diversification of energy supplies which would decrease dependence on Russia and help business relations between EU MS and Russia be dealt with on a separate level.

The energy dialogue has proven to be unproductive and ineffective with both sides ignoring the other’s unilateral bids, as one commentator has put it “Russia appears monopolistic and heavy-handed to the EU, and the EU seems overly bureaucratic and unyielding to Russians”. Moscow is obsessed with strategically building pipelines to circumvent Ukraine as a transit country, although half of the pipelines capacity remains unused. In order to reduce its reliance on Russian gas, the EU shall further work on internally connecting national gas pipeline segments.

An extensive Russian PR campaign, described by Valentina Feklyunina (2012), sought to project an image of Russia as a reliable energy supplier and was especially targeted at EU institutions and MS (EU being the largest importer of Russian gas). Nevertheless, there are still varying perceptions among MS as regards Russia’s reliability. While Russia needs to diversify its energy exports, it also needs to diversify its economy as a whole as it is overly dependent on energy trade. Russia considers its role on the energy

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16 European Commission, “Energy from Abroad: EU-Russia Energy Dialogue”
17 Press statements following the Russia-EU summit
18 International Relations and Security Network, 2013, “The End of an Era in EU-Russia Relations”
markets as determinant for its geopolitical influence. Moreover, Russia stressed the divergent meanings it and the EU give to largely used concepts such as energy security, interdependence, diversification. Putin goes as far as to position Russia’s diversification projects (Nord Stream, South Stream) “as Russia’s contribution to enhancing the EU’s energy security as they will make the EU less dependent on transit countries”\textsuperscript{19}. Such an extreme claim is not very likely to be accepted as legitimate in Brussels. It once again displays the fundamentally diverging views that the two powers hold. It is by now evident that Moscow will not accept external pressure or interference on its energy policy. Until the EU is ready to acknowledge this and play the game according to these rules (that Russia is there and it has a say) it will not be possible for real negotiations to take place and such misunderstandings will continue.

The EU has to be cautious of projects that do not enhance energy security (such as South Stream – as argued by on MEP)\textsuperscript{20} but are on the contrary increasing Russian influence over the EU, making MS vulnerable to take decision on issues that are not favoured by Moscow. The more dependent the EU is on Russia, the less able it is to criticize its biggest neighbour. Thus, although easier said than done, active steps have to be pursued toward diversification on EU energy imports. Moreover, conscious efforts are needed for a greater internal EU coherence because currently there are competing images about Russia’s role both among the MS and among the EU institutions.

\textbf{Conclusion}

With Russia’s accession in the WTO and future one in the OECD, the two powers shall work together with the aim to achieve a smoother consensus and accommodate each other’s values, principles and norms. EU diplomats shall prepare their approach vis-à-vis Russia having in mind EU’s long-term strategic perspective. A concerted effort at the EU level shall take place, the policy towards Russia should not be the lowest possible denominator of national preferences, and bilateral relations between EU MS and Russia shall be incrementally progresses with EU-wide agreements which will increase EU’s ability to speak with one voice when it comes to Russia. By insisting on positive change within Russia influenced by the EU, it should be careful not to miss important opportunities for collaboration with its ‘strategic partner’ and biggest neighbour.

In order to explore the opportunities stemming from their relatively stable trade relations in full, this policy brief calls for the EU to focus more on pragmatic matters of mutual interest and not to interfere in domestic affairs because Russia sees it as a breach of sovereignty and is consequently more prone to oppose mutually beneficial deals in other areas.

\textsuperscript{19}Feklyunina, 2012:459
\textsuperscript{20}Feklyunina, 2012:454
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