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# EU–Russian Relations at a Crossroads\*

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## ABSTRACT

Relations between the EU and Russia are going through a particularly complex phase at present. As the EU expands closer to the Russian heartland, the paradoxes that characterise the EU–Russian relationship become more pronounced. Trade and investment with Russia are booming, but the EU is concerned about standards of democracy and human rights; the EU welcomes an active Russia as a partner in resolving global problems, but it is concerned with the direction and tone of Russian foreign policy; and while Russia was initially lukewarm about EU enlargement, it now regards it in largely negative terms. Against this background, this paper considers EU–Russian relations from the perspectives of shared values, the energy issue, economic relations, foreign policy and Russia as a strategic partner.

## INTRODUCTION

EU–Russian relations are presently in an especially complex phase, characterised by many paradoxes. There is a growing gap between different facets, both in terms of the substance and the perceptions of the relationship. An illustration of this is the ever growing number of articles on EU–Russian relations both in the press and in specialised journals. The discussion taking place here in Dublin is also being conducted in many other European capitals, including Brussels. As EU borders in recent years have moved closer to the Russian heartland, the paradoxes have become more pronounced.

First, while trade and investment are booming, the EU has increasingly strong concerns regarding Russia's respect for the standards of democracy and human rights that we have all subscribed to. Second, while the EU welcomes an active Russia as an important partner in solving international and global problems, it is concerned with the direction and increasingly harsh tone of Russian foreign policy. Third, while Russia was initially lukewarm towards EU enlargement, it now perceives it in largely negative terms. Bilateral problems with certain EU member states have impacted negatively on EU–Russian relations. Most notably, the impasse over the Russian bans of meat and plant imports from Poland has prevented the start

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of negotiations on a new Partnership and Cooperation Agreement. Other problems include recent issues as diverse as the Russian withdrawal from the Conventional Armed Forces in Europe Treaty, missile defence, Kosovo, growing security concerns for the supply of energy resources from Russia, and the conflict with Estonia over the bronze statue in Tallinn.<sup>1</sup>

It is easy to be negative these days about developments in Russia in general and EU–Russian relations in particular, but there are a number of specific areas of cooperation within the four common spaces where significant progress has been made, such as in the areas of visa facilitation, readmission, scientific research and cooperation in space technology.<sup>2</sup> An ever increasing number of official and unofficial contacts within the framework of EU–Russian relations provide the basis for future integration. But while there is good cooperation in certain areas, increasingly negative perceptions—on both sides—are undermining moves towards the strategic partnership desired by the EU and Russia since the middle of the 1990s. To make a real partnership function, the essential element is mutual trust. Unfortunately, it seems that there is a growing lack of confidence in what the European Union and Russia can achieve together. Many in Russia attribute this to the effect of enlargement. Many in Europe think this is due to new assertiveness of the Russian state at home as well as with regard to energy and foreign policy. Let us look at these areas.

First we look at enlargement. We have a shared neighbourhood and a shared history. Although we may interpret history quite differently, the EU and Russia are ‘doomed’ to be partners due to our geographic proximity and huge economic interdependence. Ten former allies or republics of the former Soviet Union are now members of the EU. These societies have undertaken or are still in the midst of a profound debate on their past; a similar process of objective reassessment occurred briefly during the Yeltsin years in Russia. Today’s Russia prefers to ignore the dark side of the Soviet legacy; history is viewed as a continuum from the tsars to President Putin’s ‘New Russia’. The effects of the absence of a critical domestic debate on Russia’s Soviet past have become more evident in the light of the 2004 and 2007 enlargements of the EU. While enlargement has brought the EU into much closer contact with Russia, the number of potential areas of conflict has also increased. For EU–Russian relations to function despite this legacy, we have to leave the interpretation of history to the historians and not allow it to poison our current political and economic relations. The EU’s most effective foreign policy instrument for affecting political and economic change among its neighbours—the enlargement process—is obviously not a tool at our disposal in regard to Russia.

While some in Moscow spoke during the 1990s about Russia one day joining the EU, this is no longer seen as an option; nor does Russia wish to participate in the EU’s new European Neighbourhood Policy.<sup>3</sup> Russia sees itself as too different to be bundled together with other EU neighbours. Although it sees itself as different, President Putin maintains that Russia is first and foremost a European country. In a letter to commemorate the fiftieth anniversary of the EU on 25 March 2007 he wrote, ‘I strongly believe the full unity of our continent can never be achieved until Russia,

<sup>1</sup>This conflict relates to a decision by the Estonian government in April 2007 to dismantle a monument in the Square of Freedom in Tallinn depicting a Soviet soldier.

<sup>2</sup>The four common spaces were devised at the St Petersburg Summit in May 2003. More information can be found at: [http://ec.europa.eu/external\\_relations/russia/common\\_spaces/index\\_en.htm](http://ec.europa.eu/external_relations/russia/common_spaces/index_en.htm) (8 August 2008).

<sup>3</sup>The European Neighbourhood Policy was developed in 2004, with the objective of avoiding the emergence of new dividing lines between the enlarged EU and neighbouring countries and instead strengthening the prosperity, stability and security of all concerned. Further information in regard to the policy is available at: [http://ec.europa.eu/world/enp/index\\_en.htm](http://ec.europa.eu/world/enp/index_en.htm) (14 October 2008).

as the largest European state, becomes an integral part of the European process'. He goes on to say that, 'Russia shares the values and principles of the vast majority of Europeans and the development of multifaceted ties with the EU is Russia's principled choice'.

#### SHARED VALUES—WHAT ARE THEY?

In little over a week parliamentary elections will take place in Russia.<sup>4</sup> While generally seen as a test for the upcoming presidential elections next year, the elections to the Duma should also be evaluated on their own merits and viewed as an indicator of the current level of commitment to democratic principles and the rule of law in Russia. The fact that the Office for Democratic Institutions and Human Rights (ODIHR) a week ago announced that it will not observe the elections due to the very late invitation, the ceiling on the number of observers and the difficulties for election observers to receive visas is a deplorable situation. It tells us something about the level of commitment to a free and fair elections process in Russia.

The six-monthly meetings for human rights consultations between the EU and Russia give us the chance to raise a long list of problems, such as restrictions on press freedom, attacks on journalists, the independence of the judiciary, the conditions for NGOs and civil society at large and the situation in the North Caucasus. The Russian side raises a variety of issues, but the situation of the Russian-speaking minorities in the Baltic States is always at the top of the list. It would be incorrect to claim that these consultations had achieved many concrete results, but they do provide the occasion to discuss everything without taboo while providing much-needed support to human-rights defenders inside Russia. They also have a long-term influence on official policy in view of Russia's role in bodies like the Council of Europe and the OSCE. Certainly our projects in Russia, in support of human-rights organisations and the development of civil society have a more lasting effect.

#### ENERGY—THE DEFINING ISSUE

Turning to the mutual interests in the relationship, energy is high on the agenda. The Russia–Ukraine crisis during New Year's 2005 and the conflict between Russia and Belarus one year later show the sensitivity of the energy issue in EU–Russian relations. Significantly, energy constitutes two-thirds of the EU's total trade with Russia. Prior to the uncertainties over Ukraine, Russia and the EU had over 30 years of essentially conflict-free energy relations. There are signs, however, that Russia has learned from these recent crises: when a potential crisis involving Belarus seemed imminent this summer, Gazprom quickly gave us a warning and an assurance that supplies to the EU would not be affected. Within the framework of the already existing bilateral energy dialogue, the EU and Russia have also agreed on a formal early-warning mechanism.

Energy does not have to be a confrontational issue. Here is an area where mutual dependence is unavoidable and both sides have a long-term, strategic interest to safeguard. Simply put: 'Europe wants security of supply—Russia wants security of demand.'<sup>5</sup> Let me illustrate this with some numbers. Two-thirds of EU imports from Russia consist of energy. Equally, two-thirds of Russia's total energy exports are

<sup>4</sup>The elections to the Duma were held on 2 December 2007; the presidential election took place on 2 March 2008.

<sup>5</sup>Peter Mandelson, 'The EU and Russia: our joint political challenge', speech given in Bologna, Italy, 20 April 2007; available at: [http://trade.ec.europa.eu/doclib/docs/2007/april/tradoc\\_134524.pdf](http://trade.ec.europa.eu/doclib/docs/2007/april/tradoc_134524.pdf) (14 October 2008).

destined for the EU market. Currently 44 per cent of EU's imported gas comes from Russia; this is about one-fourth of the overall gas consumption in the EU internal market. This is expected to grow to 60 per cent in the near future. More simply, the EU is Russia's largest customer by far and Russia is the EU's most important energy supplier.

Again, perceptions in Moscow and EU capitals differ. Many in the EU believe that Russia is increasingly employing energy as a weapon against its neighbours, with obvious implications for the security of our supply. Moscow sees the source of the problem as emanating from the transit countries, which do not appreciate the move to market prices. No matter which perception one may have, we should strive to keep politics out of the energy sector and instead accept the EU's and Russia's interdependence. On this basis, we should then seek to build a mutually beneficial relationship based upon agreed rules protecting both supplier and consumer interests. Our aim is transparent and non-discriminatory access, accompanied by clear rules for investment and transit.

The recent energy unbundling package is not, as has been suggested, aimed against Gazprom.<sup>6</sup> Indeed, it is not primarily aimed at third countries at all. However, it does contain an implicit invitation to all third countries, whose companies wish to invest in transmission networks, to negotiate bilateral agreements with the EU, based on the principle of reciprocity. Russian investments are welcome in Europe.

#### ECONOMIC RELATIONS

Despite the concerns over energy security and the investment climate, particularly in the area of natural resources, trade and investment relations with Russia have developed very positively in recent years. Our businesses are making major profits in each others' markets. This growing interdependence is recognised also in Moscow, although it may not always seem so.

Eighty per cent of all foreign direct investment in Russia comes from the EU; in return, Russian companies are increasingly investing in the EU. Russia is now the EU's third-largest trading partner after the United States and China. Over 50 per cent of all Russian exports go to the EU. There are queues of up to 60 kilometres at EU-Russian borders with carriers transporting goods to Russia. This is a serious and costly problem both for EU and Russian shipping and transport companies. Part of the solution is to expand the capacity of Russian ports and of border crossing points. Customs reform and advance information on cargo will also help address the problem. We are working on it, together.

Despite these boom-related problems, we can only welcome these positive trends. They will further increase pressure from businesses for economic integration between the EU and Russia, which both sides stand to benefit from. We must, however, be realistic here too. Remove hydrocarbons and the EU's trade with Russia is about the same as with Iceland or Mexico. In other words, there is much untapped potential beyond energy. The internal market of the EU is open to Russian investments in all areas, including energy, provided that transparency and internal market rules that apply to EU member states are also observed by Russian economic operators. We cannot preach rule of law in our relations with Russia and then apply a different standard to Russian investments in the EU; nor should Russia discriminate against foreign investors.

<sup>6</sup>This refers to the EU Commission's third energy-market liberalisation package, announced in September 2007; details are available at: [http://www.europarl.europa.eu/news/public/story\\_page/051-27887-119-04-18-909-20080429STO27886-2008-28-04-2008/default\\_en.htm](http://www.europarl.europa.eu/news/public/story_page/051-27887-119-04-18-909-20080429STO27886-2008-28-04-2008/default_en.htm) (14 October 2008).

Corruption, an unpredictable legal framework as well as the lack of an independent judiciary are among the major challenges and risks for all foreign investors in Russia. Nevertheless, many European investors see the potential gains outweighing the risks and continue to be bullish about Russia as a market place. The best way for Russia to ensure a continued inflow of investment and growing trade is to join the WTO as soon as possible and the European Commission undertakes great efforts to make this happen, but there is a growing number of voices against such membership in Russia. To quote Commissioner Mandelson:

If Russia's ambition is to be a hydrocarbon power, then it probably doesn't need the WTO. But a diversified Russian economy, attracting investment and growing trade can only be built on the back of full integration into the international trading system. WTO membership is also an anchor for domestic reforms, and the foundation for closer economic ties between the EU and Russia.<sup>7</sup>

Once WTO accession is confirmed, the EU should move towards deep and comprehensive economic integration with Russia, including free trade. The combination of Russian WTO membership and a Free Trade Agreement (FTA) will offer more opportunities for small and medium sized enterprises to benefit from the vast potential in bilateral trade and investment between Russia and the EU. A stronger sector of small and medium-sized Russian companies, what Germans call 'der Mittelstand', will also strengthen the still embryonic civil society in Russia.

#### FOREIGN POLICY—INCREASING TENSIONS

The 1990s were a period of internal turmoil in Russia, when the former superpower was unable to project its foreign policy interests beyond most of its own borders. Much of Russia's current positioning as a major foreign-policy actor seems to be responding to what, for many Russians, appeared as a humiliating phase of Russian history and Russia's role in world affairs. A strong, united and confident Russia that plays a constructive role and upholds the system of international rules is in everyone's interest. We have to work with the fact that, as a member of the UN Security Council, Russia has the power of veto. In the 1990s the rest of the world spent much time worrying about the internal weakness of the Russian state and the negative effects this could have on the proliferation of weapons of mass destruction and the fight against terrorism. *Ipsa facto*, it would seem that a stronger Russia can deal better with such threats.

Just like any other sovereign state, Russia has a right to defend its national interests and we should not be surprised when Russia behaves like a nation-state. We should be concerned, however, if there is a lack of domestic checks and balances on Russia's foreign policy and if civil society is repressed. It is, perhaps, in the area of foreign policy that we have witnessed the sharpest deterioration in relations between the West and Russia over the last couple of years. The effect that Russia's hardening position on a number of foreign-policy issues has had in many European capitals has, perhaps, been underestimated by Moscow. Conversely, Russia's intention to stand firm on its position with regard to Kosovo and missile defence seems to have been equally underestimated in many Western capitals.

Russia still sees the EU primarily as an economic actor and the US as the only

<sup>7</sup>Peter Mandelson, 'Russia, its future and the WTO', speech to the Association of European Business and the Russian Confederation of Business Industries, Moscow, 27 March 2007; the text of the speech is available at: <http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/07/192&format=HTML&aged=0&language=EN&guiLanguage=en> (14 October 2008).

strategic partner on foreign- and security-policy issues. However, the European Union has collective interests, although we still tend to be careful in expressing them in the area of foreign policy. These EU interests are most visibly projected in the Middle East, the Balkans and in the common neighbourhood, which Russia all too often still refers to as the 'post-Soviet space'. While cooperation on the former is good, our dialogue with regard to the latter is all too often seen by too many as a competition for spheres of influence. This is, however, not the purpose of the European Neighbourhood Policy, which helps our neighbours to underpin their domestic reform agenda while deepening their ties with the European Union. In fact, there is a huge untapped potential for much closer cooperation with Russia in solving the 'frozen conflicts' in the Southern Caucasus and in Moldova.

Concerning the Balkans: if there is another outburst of violence in Kosovo this is a major problem for the security interests of the European Union, which was due to take over full responsibility for the administration of Kosovo from the UN this summer. It is in the EU's interests to avoid another conflict on the Balkans, which is right on our doorstep. We are dealing here with future members of the EU.

#### IS RUSSIA A STRATEGIC PARTNER?

Voices in the EU question Russia as a strategic partner because of the lack of real democracy as opposed to the existence of formal democracy. I do not agree. Size, proximity, history, economic interdependence as well as a simple comparison with some of the EU's other strategic partners, leads to this conclusion. But there are also voices in Russia, which often perceive the EU as not a fully strategic actor and as being unable to get its act together. They fail to grasp the EU's increasing world wide soft-power projection, its magnetic attraction to its neighbours. They consider the EU as being used by member states to project their individual bilateral grievances against Russia. Recent studies by the European Council on Foreign Affairs and the EU–Russia Centre in Brussels do, indeed, make it abundantly clear how individual EU member states continue to pursue a bilateral agenda with Russia in parallel to the common EU agenda dealing with Russia.

Russia does not shy away from conflicts, when national interests are perceived to be at stake, as a way to manage disagreements. The EU, on the other hand, is a consensus machinery in which member states have agreed to pool certain sovereign interests. Whatever we are, we are not a nation-state. This is a fact that we always have to keep in mind when dealing with strong nation-states, such as Russia. There is no alternative to constructive engagement, which should ultimately lead us to fulfil our strategic objectives: deep economic integration and close political cooperation. This requires, however, that the EU and its member states have both the *capacity* to act together and preserve unity as well as the *will* to achieve results and solve problems. Member states must realise that EU solidarity is a two-way street, also in external relations.

#### CONCLUSION

There is an enormous potential in EU–Russia cooperation, but Russia is likely to remain a difficult partner for the foreseeable future. We need to meet the challenge of doing business with Russia through a mixture of firmness and creative ideas. George Kennan used to argue that the only way to live with Russia was to, 'let the Russians be Russian'.<sup>8</sup> While there may be an element of truth in this, it is not an

<sup>8</sup>George F. Kennan was an American advisor, diplomat, historian and political scientist. He served briefly as US ambassador to the Soviet Union in 1952; he is regarded as the 'father' of the policy of containment.

adequate answer in this day and age. The shared European continent and the forces of globalisation will continue to push us together. Our goal should be a relationship that does not deny our differences, but that tries to address them constructively and work around them when and where necessary. To achieve this we need to bring as many of our citizens as possible into contact with each other and not remain within the certainty of pre-conceived perceptions about each other.

