



## The EU-Russia Relationship: A Flawed Strategic Partnership

**Russia's** relations with the EU and the US seem to have reached a defining moment. Moscow considers EU and US policies as threatening to Russia's domestic and foreign interests. The EU and the US also have similar concerns about Russia, particularly in terms of the consolidation of a new political power structure, the slowing of political and legal reforms (and evolving counter-reform in some areas), and the more unilateral foreign policy approach Moscow is developing. They also recognize that their potential for leverage over Russia is decreasing, as Russian economic strength (in the shape of income provided by energy exports) grows.

The EU and US need to understand how Russia fits into their key political agendas such as security, the spread of democracy, and energy security. Whilst globalization means that there is a triangular relationship between the US, EU and Russia, it remains low-key and at the stage of initial dialogue. Indeed, there are a number of key differences in the nature of the relationship between US-Russia and EU-Russia that will be highlighted in this brief. Washington has long dropped its interest in Russia's internal development<sup>1</sup>. Instead, it has pursued a pragmatic policy towards Russia that has focused on securing Russian support for issues of specific interest to the US: The Global War on Terror, Iranian nuclear proliferation, etc. However, the two continue to sit on opposite sides of the fence on a host of international issues, from NATO Enlargement and the future of Kosovo to US plans for ballistic missile defense.

The EU-Russia relationship, on the other hand, continues to be of key importance for both sides, and the agenda remains very broad. Economic ties between the two are strong: the EU is Russia's largest trading partner, while Russia ranks third to the EU in this regard. At the same time, the EU receives 40% of its imports of natural gas from Russia, representing around 25% of European gas needs. The EU enlargement process has also significantly lengthened the common border and created a common neighborhood, increasing the range and urgency of issues to be addressed, particularly border control and migration management, organized crime, and crisis management in the new common neighborhood. Partly, as a consequence of this increased interdependence EU-Russia relations have been highly institutionalized since the late-1990s, leading to the development of a dense network of ties on all levels. Indeed, both sides now officially consider their relationship a "Strategic Partnership".

However, also as a result of these particularly close and over-lapping relations, the EU-Russia partnership has recently experienced a considerable amount of friction. The main reasons behind the dramatic deterioration in their relationship over the last few years have been the change in Russia's geopolitical position as a result of the energy boom and President Putin's determination to provide Russia with a greater influence in its geographic neighborhood. On the other hand, Europe's internal divisions and its inability to adapt its common foreign policy approach to the changed geopolitical situation have certainly not helped to stabilize the relationship. Locked in an increasingly nasty competition for influence in their common neighborhood and

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unable to revise a mutually beneficial agreement in the energy sector, Russia and Europe seem to be slowly turning from partners into adversaries.

### **The EU-Russia Strategic Partnership**

Since the end of the Cold War, the European Union has tried to deal with Russia in essentially the same way that it has dealt with all its other Eastern neighbors. Following a policy of dialogue and integration, Europe has sought to persuade Russia to adopt Europe's own social, political and economic model of development. While excluding the possibility of future Russian membership, the EU attempted to integrate Russia in its own economic and regulatory framework. Instead of shaping its policy towards Russia around traditional lines, based on a policy of non-interference, mutual respect and the balance of power, the EU hoped to bind Russia in a tightly-knit net of mutually acknowledged rules and regulations that would draw it into the western orbit. The basis of this post-Cold War European strategy was the 1997 Partnership and Cooperation Agreement (PCA), negotiated with a weak but pro-western Russia under the leadership of Boris Yeltsin.

The EU-Russia PCA, initially in force for a period of ten years, purports to be based on a common set of universally accepted values: the promotion of international peace and security; a free and open liberal market economy; and support for democratic norms and political freedom. The PCA determines as a long-term goal the adoption of Russian laws and trading norms to European standards to allow for deeper integration and the eventual formation of a common free trade area. The PCA further established an institutional framework for regular political consultation, providing for biannual meetings of Heads of States, frequent meetings of ministers in the Permanent Partnership Council (PPC), and regular exchanges between the Russian Duma and the European Parliament. The PCA covers a wide-range of policy areas and issues of common concern, from trade, finance and investment legislation, to cooperation in the sciences, the environment and culture.

Since 1997, the PCA has provided the cornerstone of EU-Russia relations, based on European optimism that Russia would follow a relatively linear path towards western pluralism and open economic markets. In the meantime, the PCA has been complemented by several additional strategies and agreements. The first unfortunate milestone in the developing EU-Russia relationship was Europe's unilateral adoption of a "Common Strategy" on Russia in 1999. The Common Strategy boldly asserted that Europe's main objective was the consolidation of Russian democracy and its integration into a European-dominated economic and social area. Vexed at having been made the object of EU policy, Russia adopted its "medium-term strategy", which declared that the main objective of EU-Russia relations was the balancing of US power and to provide Russia with access to EU finances and markets<sup>ii</sup>.

Following this unfortunate start of more lasting importance for the strategic partnership has been the development of the EU-Russia energy dialogue in 2000. Held at regular intervals in order to discuss energy-related question, including questions concerning exploration, production and transport, the dialogue has proven itself to be an important forum, although it failed to deliver any concrete results.

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Indeed, one of the main objectives of the energy dialogue, the ratification of an Energy Charter Treaty by Russia, has still not been achieved. Russia has refused to ratify the Charter on the basis that its liberal rules would give foreigners improved access to Russia's gas monopoly, Gazprom. Finally, in an attempt to meet Russian demands for a more balanced relationship, in 2005 the EU and Russia adopted the so-called four "Common Spaces": economics, internal security, foreign affairs, and research. Commonly developed road maps in each of these areas set out a host of objectives for developing EU-Russia relations in the future. However, progress on these roadmaps has since been stalled.

In 2006, the European Commission and Russia have publicly announced their common determination to negotiate a new strategic partnership agreement to succeed the outdated and ineffective PCA that was scheduled to expire in November 2007 (in the absence of a new agreement, the PCA is automatically extended on an annual basis). However, due to a trade dispute between Russia and Poland, concerning the export of Polish meat products to the Russian Federation, Poland has since vetoed the initiation of negotiations. While Russia has argued that its ban of Polish meat products was based on sanitary concerns, it is widely believed that the ban was imposed as a punishment for the anti-Russian rhetoric adopted by the Polish government under the right-wing Kaczynski brothers. Indeed, with the accession of a new and more moderate Polish government under Donald Tusk in 2007, Russia agreed to lift its ban on Polish meat in December 2007. In theory that should open the way to negotiations for a new EU-Russian Partnership Agreement.

In the meantime, the rationale for a new agreement remains strong. Economically, both Russia and the EU share many common interests. The EU remains by far Russia's greatest trading partner both in terms of exports (56.2%) and imports (44.8%) and good relations with the EU remain essential for Russia's economic development. Russia similarly has importance for Europe, as the EU's third largest foreign trade partner in terms of both imports (5.6%) and exports (6.2%). Moreover, in 2006, Europe received some 28% of its energy imports from Russia, with large parts of Central and Eastern Europe almost entirely dependent on Russia as an energy provider. Above this, considerable investments have been made by both partners in each others economies. Moreover, the list of regional and global problems that could benefit from constructive EU-Russian cooperation is virtually endless. However, recent developments have meant that rather than cooperating, the two partners have found themselves in a seemingly unending spiral of competition and confrontation.

### **EU Trade in Goods with Russia (€million)**

Year	Exports	Imports	Balance
2000	22,738	63,777	-41,039
2001	31,602	65,875	-34,272
2002	34,420	64,493	-30,073
2003	37,206	70,663	-33,457
2004	46,030	83,954	-37,924
2005	56,880	112,613	-55,733
2006	72,360	140,586	-68,226

Source: European Commission 2007

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**EU-25 FDI flows with Russia (€million)**

	2001	2002	2003	2004	2005
EU-25 FDI in Russia	2,495	2,454	7,704	5,878	8,997
Russian FDI in EU-25	753	342	704	196	4107
Net EU-25 FDI flows	1,743	2,112	7,000	5,682	4,890

Source: European Commission 2007

**From Partners to Competitors**

With the dramatic rise in international oil prices since 9/11 and the shift of power from the vacillating and inebriated Boris Yeltsin to the dynamic and focused Vladimir Putin in 2000, Russian foreign policy has undergone an extraordinary transformation. From Russia's point of view, its weakness, following the end of the Cold War, enabled the West to dictate to Russia the rules of the international game over the last decade. Constrained by internal developments, Russia found all its objections ignored, even when it came to developments in its own neighborhood. NATO and EU enlargement, the US withdrawal from the ABM Treaty, the establishment of US military bases in former Warsaw Pact countries, NATO's Balkan Wars, have all largely ignored Russian concerns and interests. Now that Russia is awash with oil and gas money, with its economy booming, its debt largely repaid and its foreign currency reserves brimming with money, Moscow is seeking to revise the post-Cold War settlement and satisfy its desire to be acknowledged as a great power.

After achieving a series of internal victories – pacifying Chechnya, confronting the oligarchs, and avoiding Russian disintegration – President Putin has shifted attention during his second term to foreign policy issues. Here he has engaged in an increasingly revisionist strategy, seeking to rebuild Russian influence in its own neighborhood and standing up to Western dominance and pressure wherever possible. Not surprisingly, Russian revisionism has led to an increasingly antagonistic relationship with Europe and the US, which developed their own interest and strategies in Russia's geo-strategically important neighborhood, from Eastern Europe to the Caucasus and Central Asia. Indeed, from a western point of view, the list of Russian treacheries are now legion: on Kosovo, Russian support for Serbia is seen as a major obstacle to peace in the Balkans; in the Caucasus and Central Asia, Russia has checked Western oil interests and reversed Western attempts to promote political reform; and in Moldova and the Ukraine, Russia has acted as a counter-balance to European influence. Moreover, all of this has been paired with Russia's tendency to ignore existing treaties, revise its economic contracts and repudiate internationally respected norms.

**Russian Revisionism<sup>iii</sup>**

Geostrategic:	<ul style="list-style-type: none"> <li>• Revision of the CFE Treaty</li> <li>• Non-respect of commitment on troop withdrawal from Moldova and Georgia</li> </ul>
Political:	<ul style="list-style-type: none"> <li>• Repudiation of OSCE and Helsinki Norms</li> <li>• Disregard of Council of Europe commitments</li> <li>• Breaches of Vienna Convention</li> </ul>
Economic:	<ul style="list-style-type: none"> <li>• Failure to respect contracts</li> <li>• Challenge of Energy Charter Treaty</li> <li>• Disregard for WTO Norms</li> </ul>

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European irritation with Russian policies has been particularly marked in three areas: the Russian attempt to split the European Union by employing divide and rule strategies; Russia's attempt to set itself up as an alternative to the EU in the common neighborhood; and Russia's own turn away from democracy and domestic reforms.

In its relationship with Europe, Russia has recently sought to undermine European unity by engaging in bilateral relations in which it can play to its natural power advantage. This has meant that Russia has increasingly sidelined the European Commission, dismissing it as inflexible and of little importance. Rather, Russia has been trying to build "special relationships" with some of Europe's great powers, above all Germany, France and Italy. President Putin has tried and often succeeded in building close and harmonious relations with the leaders of these countries and Russia's state-controlled energy industry has build up some of its more important partnerships with German, French, Portuguese and Italian businesses. At the same time, Russia has variably ignored or punished some countries in Europe, especially amongst the new member state, that have shown themselves to be overtly critical of Russian policies. Amongst others, Russia has interrupted its oil supplies to Latvia in 2003 and Lithuanian in 2006 for "technical reasons"; boycotted Polish meat exports; levied export tariffs on the sale of timber to Sweden and Finland; and it has turned a blind-eye to the harassment of Estonian and British diplomats, in 2007 and 2008 respectively, after high-profile disputes with these countries.

In its common neighborhood with the European Union, Russia has increasingly attempted to provide an ideological and geopolitical alternative to the European Union and to regain its standing in what Russia regards as its traditional sphere of influence. Here, Russian action increased in response to the peaceful revolutions in Georgia and Ukraine which undermined its influence in these countries. Since then, it has been reclaiming its influence through a mixture of coercion and incentives that have proven themselves much more effective than the limited incentives on offer from the EU. Indeed, Russian offers of cheap energy, labor market access and diplomatic support, coupled with an absence of conditionality, no demands for political or economic liberalization have enabled it to check European influence in the Caucasus and Central Asia. Moreover, by combining its good relations with the countries of these regions with tempting commercial offers to some European member states, Russia has seemingly succeeded in thwarting western plans for constructing energy pipelines that could have potentially freed Europe from its energy dependence on Russia<sup>iv</sup>. In Eastern Europe, Moscow has mainly relied on pressure in an attempt to circumvent former European advances, cutting of gas supplies to Ukraine and Belarus on separate occasions.

Finally, the European Union has become increasingly frustrated with domestic developments inside Russia and has proven more vociferous in denouncing these moves to the great annoyance of Russia. The EU for its side maintains that it has a vital interest in Russia's internal developments and continues to underline its demands that Russia should adopt European norms and standards of behavior to avoid going back to the days of the Cold War. Doing so seems increasingly futile, as the EU was reduced to helplessly look on as President Putin exiled his critics, undermined the

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political opposition, harassed NGOs and destroyed Russia's free media. As most European analysts nowadays agree, "today's Russia is about 'sovereign democracy' rather than pluralism, and 'state capitalism', rather than open markets. It is not based on values that many in the EU would share."<sup>v</sup> Unwilling to accept the democratic reversal, the EU continues to employ the same language towards Russia than in the 1990s and frequently scolds it for its misbehaviors, something regarded with much resentment by many ordinary Russians.

As a result of these developments, Europe and Russia seem to be locked on a course of increasing confrontation and destined to turn from strategic partners into competitors. And yet, at the same time, the two continue to need each other too much than to allow a serious rupture to arise. Russia, while frequently threatening to look for new markets in energy-thirsty Asia, remains dependent on the EU to sustain its boom. While currently no infrastructure exists to transport Russian oil and gas to Asia, China remains lukewarm on the idea, preferring instead to build up its energy relationship with Africa and the Middle East. In this situation, Russia seems to be opting for a policy of "asymmetric interdependence", hoping to create a situation, in which Europe will need Russia more than Russia the EU. The EU, on the other hand, while seeking to diversify and integrate its energy supplies, has no alternative than to cooperate with Russia. Moreover, Russia remains the key to solving many of the frozen conflicts in Europe's neighborhood, problems which the EU has invested a large amount of political capital over the last few years. All this has complicated Europe's relationship with Russia, sparking conflict between EU governments over which strategy the EU should pursue towards Russia.

### **Internal Divisions**

The lack of EU cohesion, together with concerted Russian attempts to open up European divisions has split the EU in roughly two schools of thought on how relations with Russia should evolve. One school continues to regard Russia as a potential partner. This "friends of Russia" group, which includes France, Germany, Spain, Italy, Greece, Cyprus and some others holds to a policy that favors a close dialogue and economic cooperation, arguing that this remains the only chance for influencing Russian foreign policy behavior. On the other side of the spectrum has formed a "Russia realist" group<sup>vi</sup>, consisting of the UK and many of the new member states of Central and Eastern Europe. These countries have argued for a more forceful foreign policy approach, arguing that "they know Russia better" and that Moscow only understands the language of power and force. The growing influence of this group is reflected in the increasing criticism of Russia from formerly "pro-Russian" countries such as Germany. Indeed, Germany is currently split between the more overtly "anti-Russian" Angela Merkel and her more "pro-Russian" coalition partner. Should Germany shift more pronounced towards the "Russia realist" camp, this might well tip the balance of power within Europe towards this group.

The inability of the EU to pursue a unified line towards Russia undermines its ability to develop a pragmatic relationship with this important country and over the last 15 years, the different elements of the EU have acknowledged this problem. The diversity of interests within the EU continues to undermine its ability to formulate

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coherent and practical solutions. There is a greater urgency for some states (those with common borders or who depend significantly on Russia for energy imports) to develop relations with Russia, while other states simply have different priorities. This makes real progress in EU-Russia relations to a certain extent dependent on which member governments presides over the European Council at a given time.

### **Towards a New PCA with a Post-Putin Russia?**

Given the recent removal of the most immediate obstacle for negotiating a new partnership agreement with Russia, in theory the road is now open for a thorough review of EU-Russia relations. Indeed, with the impending retirement of Vladimir Putin from the office of President (although he most likely will continue to play a dominant role in Russian politics) there might be an opening for a new relationship with Russia and many expect PCA negotiations to restart after the Russian Presidential Elections in March 2008. However, it seems far from clear, whether negotiations will stand a chance of success, especially as the EU seems divided on what it would want a new PCA agreement to look like. In the course of the 2006 attempt to initiate negotiations, the Commission formulated the somewhat unrealistic goal that any new agreement should be based on “common values, such as democracy, human rights and the rule of law.” Taking this as a starting point, it seems unlikely that the EU will be able to reach a meaningful agreement with Russia in the tense current atmosphere.

Based on the current internal divisions, it is more likely that the EU will adopt one of two negotiating positions. If it should heed the “friends of Russia” group, a new PCA is likely to offer to Russia the possibility of deeper integration with the EU, in the hope that by luring Russia into Europe it will force it to politically reform. Proponents of this point of view have, for example, argued that Europe should allow a greater number of Gazprom investments in Europe, as this would force Gazprom to adapt its behavior to European legal standards (witness the latest Microsoft fines). At the same time, it can be expected that the language of the agreement would be blurred on “contentious” issues such as press freedom and human rights in order to assure Russian acceptance. On the other side, the “Russia realist” school has been clamoring that any new agreement should reflect both progress and setbacks in EU-Russia relations and that it should employ a tough language on Russian misconducts. According to them, any agreement should be slim on European commitments and aid, but make strong demands on Russia. For example they might make any agreement conditional on Russia’s ratification of the Energy Charter Treaty. Russia, for its part is mostly interested in an agreement that emphasizes its status as an equal international partner and that avoids language of integration with the EU.

These divisions have the clear potential of derailing negotiations, further dividing the EU, and leading to a new low in EU-Russia relations. Indeed, some have argued that given the potential risks stemming from negotiations, Europe should scrap the idea of a new comprehensive agreement and opt for separate arrangements for areas of common interest, such as security cooperation, justice and home affairs, or specific trade issues. Agreements in these areas should be relatively easy to reach as has been demonstrated by the recent visa facilitation agreement and the agreement on trade in

steel. For the time being, Europe has not made a decision either way and might not do so for some time to come. Indeed, given the continuing importance of the bilateral relationship for both partners and uncertainty about the possible impact of a shift in power within Russia, it seems likely that both sides will proceed carefully on the issue. In this situation, it seems likely that negotiations might be slow to start and could potentially drag on for a long period of time, with the potential for closer relations if the income from oil and gas happens to level off or decrease, instilling a conciliatory atmosphere in Moscow.

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<sup>i</sup> Council on Foreign Relations (2006), “Russia’s wrong direction: What the US can and should do?”, March 2006

<sup>ii</sup> While the EU Common Strategy expired in 2003 and was not extended, Russia’s “medium-term strategy” remains valid until 2009.

<sup>iii</sup> Mark Leonard & Nicu Popescu (2007), A Power Audit of EU-Russia Relations, European Council on Foreign Relations, Policy Paper

<sup>iv</sup> In May 2007, Moscow reached an agreement with Turkmenistan, Kazakhstan and Uzbekistan on a new gas pipeline to Russia, effectively killing plans for a Transcaspian pipeline that would have circumvented Russia. At the same time, Russia has tried to tempt some Southern European countries into constructing a South Stream pipeline to transport Russian gas under the Black Sea into Southern Europe, which would mean the effective death of any plans for any new pipeline project with Azerbaijan and Turkmenistan.

<sup>v</sup> Katinka Barysch (2006), The EU and Russia: From principle to pragmatism?, Policy Brief: Centre for European Reform

<sup>vi</sup> Perhaps something of a misnomer, as their position is hardly realist in the sense of international relations.