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The EU and Russia Uncommon spaces

By Ian Bond



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- ★ Russia is challenging the EU's values and interests, above all in Eastern Europe and the South Caucasus. The Union has struggled to forge a unified response to Russia, but the invasion of Crimea and Russian interference in other parts of Ukraine should make it do so.
- ★ Russia is not the Soviet Union. Money competes with ideology as a motivation. The desire of the elite to keep their assets safe in Europe's financial system gives the EU leverage. The Union should use this leverage, even if there are costs to European economies in the short term. If it does not, it will only encourage more Russian adventurism.
- ★ Russia's commodity-based economy and weak rule of law hold back both its economic development, and EU trade with and investment in it. The Union should use EU law and the WTO to make Russia play by the rules; and it should direct more of its funding to small and medium enterprises in Russia, and to civil society organisations.
- ★ On some foreign policy issues, the EU and Russia will continue to have shared aims, but the EU should not trade its interests in its eastern neighbourhood for Russian co-operation further afield.
- ★ In the long term, the soft power of the EU's open society is more attractive than Russia's authoritarianism, not only in the former Soviet Union, but also in Russia itself. The EU should settle in for the long haul and build connections with the next generation of opinion-formers and with ordinary Russians.

The EU can no longer pretend that it has a strategic partnership with Russia. The signs of a troubled relationship have been there for years, but by annexing Crimea President Vladimir Putin should force the EU at last to acknowledge the reality. In the past year, Russia has organised military exercises in which it has practiced invading its EU neighbours, pointed nuclear-capable missiles at their territory and blocked cross-border trade with them. The EU's response has been ostrich-like.

If doing the same thing over and over again and expecting a different result is evidence of insanity, then the EU's Russia policy is proof of collective madness. It is 14 years since Vladimir Putin became acting president of Russia. In that time Russia has become less democratic, less economically liberal and less co-operative internationally.

The EU's policy towards Russia since the late 1990s has been based on the fantasy that Russia was becoming more European. After years of disappointment and self-deception, Europeans need to accept the reality. Individual Russians are indeed becoming more European, as the numbers of young, well-educated, internationally-

minded Russians living in London and other EU capitals show. But the Russian government is not just choosing a different economic and political course from the rest of Europe. It is actively working against European values and EU interests.

In 2004, more than a hundred leading European and American political and academic figures wrote an open letter to the heads of state and government of the European Union and NATO, warning that Putin was taking Russia a step closer to an authoritarian regime, and that his foreign policy was marked by a threatening attitude towards Russia's neighbours.¹ Among the European signatories were Carl Bildt (now Swedish foreign minister),

¹: 'An open letter to the Heads of State and Government of the European Union and NATO', *Moscow Times*, September 30th 2004.

Toomas Hendrik Ilves (now President of Estonia) and Radoslaw Sikorski (now Polish foreign minister). They were prescient, but at the time none was in government and they were not in a position to change the EU's direction. They could write the same letter today: Putin has not changed his policies. Perhaps now they will find it easier to persuade their partners that Europe needs a fresh approach to Russia.

From cold war to thaw and back to chill

Things did not have to turn out this way. After the break-up of the Soviet Union there was none of the residual hostility between Russia and the EU that characterised the NATO-Russia relationship from the mid-1990s. The EU adopted its Common Strategy for Russia in 1999, welcoming "Russia's return to its rightful place in the European family in a spirit of friendship, co-operation, fair accommodation of interests and on the foundations of shared values enshrined in the common heritage of European civilisation". However, Russia under Putin has become steadily less interested in co-operation with the EU.

A fascinating paper by Thomas Ambrosio and Geoffrey Vandrovec tracks the EU's gradual fall from Moscow's favour through the references to Europe in annual addresses to the Federal Assembly by Presidents Putin and Dmitry Medvedev from 2000 to 2011 (these addresses are the equivalent of the US president's 'State of the Union' speech).² In 2001, Putin said that integration with Europe was a key area of foreign policy; in 2003 he spoke of "becoming truly integrated with Europe". By the time of Medvedev's last address as president, at the end of 2011, relations with the EU were hardly mentioned; Medvedev focused instead on the importance to Russia of integration with its former Soviet partners in the Eurasian Economic Community, which he said would "largely determine the future" of these countries.

Putin and Medvedev are not alone in seeing the countries of the former Soviet Union as somehow different from countries further away. Most Russians see Ukraine, as the home of the medieval principality of Kievan Rus, as part of Russia's historic territory. Even educated Russians and many political liberals would agree with Putin's characterisation of Russians and Ukrainians as "one people". They would see Crimea, transferred from Russia to Ukraine in 1954 – when moving an internal Soviet administrative boundary was a meaningless gesture – as even less 'foreign' than the rest of Ukraine.

Winston Churchill found it hard to accept that Ireland had the right to determine its own foreign policy, and to remain neutral in the Second World War, though the Irish had by that time been independent for almost twenty

The EU must stop clinging to the hope that differences between Moscow and Brussels are just a matter of miscommunication. One more eloquent explanation will not show the Russian authorities that their real interests dovetail with the EU's. Putin and his government have calculated where their interests are, and they are pursuing them in their own way. The EU should do the same.

years. So perhaps it is not entirely surprising that Putin has found it hard to reconcile himself to the idea of Ukraine as a separate and fully sovereign country. At the same time, Putin has played on popular nostalgia for the Soviet past (famously describing the break-up of the Soviet Union as "the greatest geopolitical catastrophe of the 20th Century" in his 2005 address to the Federal Assembly) and stoked suspicion of the role of foreign institutions such as the EU in the countries on Russia's borders.

After his return to the presidency in 2012, Putin reinforced the trend away from Europe. In his 2013 address to the Federal Assembly, he responded to European and North American criticism of Russia's law banning homosexual "propaganda" by attacking "so-called tolerance" in certain countries, and defending traditional values. Like Medvedev, he stressed the importance of Eurasian integration. There was no longer any suggestion that Russia itself aspired to integrate with Europe.

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Putin has now taken a big step beyond this. His March 18th 2014 speech to the Federal Assembly not only asserted Russian ownership of Crimea but also implied that Southern and Eastern Ukraine should belong to Russia for historical reasons. He expressed his resentment that Russians had become the world's largest "divided population" after the fall of the Soviet Union. And he spoke of "the striving of the Russian world, of historical Russia, to re-establish its unity".

The pressure put on Ukraine and Armenia not to sign or initial association agreements with the EU at the Vilnius Eastern Partnership summit in November 2013 showed clearly that Putin saw the relationship as a struggle to control the post-Soviet space, not a partnership. Putin's approach to Ukraine since the fall of President Viktor Yanukovich has further emphasised the extent to which

²: 'Mapping the geopolitics of the Russian Federation: the Federal Assembly addresses of Putin and Medvedev', Geopolitics, 2013.

he is prepared to block his neighbours' progress towards the EU: in a situation where Ukraine's new government needed a period of stability, Russia has chosen to destabilise the country rather than see it turn westwards.

If Russia is determined to behave as a geopolitical and civilisational rival, the EU needs to find a way to defend its own interests and values. It neither can nor should use the same armoury of force, blackmail and bribery that Russia employs in the pursuit of influence. But it is not powerless, particularly if it can stay united.

Unfortunately, the EU's reaction to events in Crimea shows that old fault-lines in Europe are still near the surface. In recent years there had been convergence between those like Germany who wanted to give Russia the benefit of the doubt, and those like Poland who were more wary. Both were able to support a firm, pragmatic but not confrontational approach. In the face of Russian aggression towards Kyiv, however, the EU has been able to issue strong statements but not to agree on tough actions.

This lack of consensus meant that the first of three phases of action against Russia included only the suspension of talks on visa liberalisation and on a new EU-Russia agreement to replace the 1997 partnership and co-operation agreement, and the threat of further measures. The second phase included cancellation of the next EU-Russia Summit (due in June 2014) and two rounds of visa bans on a number of Russians and Crimeans. Unlike the US, however, the EU did not target anyone in Putin's immediate circle, nor any financial institutions. The third phase, yet to be triggered, would include targeted measures affecting "a broad range of economic areas", but only in the event of "further steps by the Russian Federation to destabilise the situation in Ukraine".

Most of the big Western European countries have economic interests in Russia which they want to protect. For countries like Italy and France, trade relations with Russia are too valuable to put at risk for a country with as many problems as Ukraine. France has been reluctant to block the export of two Mistral-class amphibious assault ships to Russia, despite the concerns of some of its EU partners.

At the European Council discussions on March 6th and March 20th 2014, the British prime minister, David Cameron, took a tough line in support of possible sanctions; but none of the measures yet discussed, such as an arms embargo against Russia, would have as much impact on the UK as on others. Increasing trade with Russia (as well as with other emerging markets) has been part of the British government's plan for economic recovery. Russia is Britain's eighth largest non-EU export

destination, according to the latest UK government figures (though this only amounts to 1.2 per cent of British exports). The UK launched a programme in January 2014 to increase support for Russian investors in Britain. From 2008 to 2013, wealthy Russians made up more than a quarter of the beneficiaries of the scheme to give residence to those who invest at least £1 million in the UK for five years.³ An official briefing paper was inadvertently revealed in public before the March 6th European Council discussion of measures against Russia; it suggested that the government might resist any sanctions that affected Russian access to UK financial markets, though recent research by Open Europe concludes that the City of London is less exposed to Russia than is commonly assumed.⁴

In Germany the Social Democrats (SPD) have traditionally taken a more pro-Russian line than their Christian Democrat (CDU) coalition partners. Encouragingly, the coalition agreement of November 2013 stated that the government would work for greater coherence in the EU's policy towards Russia, and called on Moscow to respect the rule of law, democratic standards and World Trade Organisation (WTO) obligations. Less encouragingly, German foreign minister Frank-Walter Steinmeier continues to argue for the kind of partnership with Russia which has visibly failed. On March 30th, Steinmeier criticised the EU's policy towards its Eastern neighbours for forcing them into either-or choices, and suggested that the EU had indirectly driven Ukraine into the arms of Russia. The German government is also under pressure from the country's business lobby, including major companies such as Siemens, ThyssenKrupp, Adidas and Deutsche Post, to oppose further sanctions against Russia even if it encroaches further on Ukraine. Chancellor Merkel has shown herself willing to stand up to President Putin; she may also need to stand up to her foreign ministry team and to German exporters. Her speech to the Bundestag on March 13th, in which she said that Germany would be "ready and determined" to impose economic sanctions if they became unavoidable, is a positive sign.

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If the crisis over Crimea endures, and even more if Russia continues to interfere in Eastern Ukraine, voices in favour of harder-hitting EU sanctions will strengthen. The EU-Russia relationship may enter a long period of stagnation. But sanctions are only an immediate and necessary response to Russian action; they are not in themselves a strategy. While there should not be an early return

3: Migration Advisory Committee, 'Tier 1 (investor) route – investment thresholds and economic benefits', February 2014.

4: Raoul Ruparel, 'The battle of Londongrad? How vulnerable is the City to sanctions on Russia?', Open Europe flash analysis, March 21st 2014.

to 'business as usual' in the EU-Russia relationship, the EU will still need to devise a coherent long-term policy towards Russia; it cannot ignore it or pretend that it does not exist.

This paper therefore tries to look at the EU's interests in relation to Russia. It does this through the prism of the four 'Common Spaces' launched at the St Petersburg EU-Russia summit in 2003. These form the main policy framework around which the EU and Russia have tried to develop their relations over the last decade. They

were designed to increase co-operation on trade and the economy; freedom, security and justice (that is to say co-operation in legal matters, visas and human rights); external security; and research and education (including culture). They were supplemented by an EU-Russia 'partnership for modernisation', initiated in 2010 (Russia also has bilateral 'partnerships for modernisation' with 25 EU member-states). The paper suggests where Europe needs to cut its losses, where there could still be scope for pragmatic co-operation and what the EU could do to promote change in Russia over an extended period.

EU interests – is Russia an indispensable nation?

The EU's essential interests are its prosperity and security. The Union sees its neighbours as potential contributors to both. If the EU is surrounded by impoverished, unstable and authoritarian countries, it will face increased risks from illegal migration, organised crime and terrorism; there will be less likelihood of being able to work together to solve international problems; and EU exporters and investors will have fewer opportunities. On the other hand, prosperous, stable and democratic countries will pose fewer security challenges, will be more open to trade and investment, and more likely to be helpful on the international stage. So the EU sees relations with neighbours, including Russia, as a positive-sum game.

It is a mistake, however, for the EU to see a good relationship with Russia as an interest in its own right. Good relations with Russia may contribute to prosperity and security, but not always. Good relations with any partner should be seen as a means to an end and an expression of shared aims and outlooks. If such shared aims and outlooks are missing, the most that can be achieved is transactional co-operation where interests happen to coincide – as they do, sometimes, with Russia.

In the economic field, the EU risks underestimating its strength in comparison to Russia, and overestimating its vulnerability, particularly in the energy sector. It may be true that if gas supplies from Russia to the EU were turned off, Europeans would freeze before Russia would run out of money. At the same time, the revenues from exports of hydrocarbons to Europe are vital to Russia's state budget as well as to the private budgets of many well-connected oligarchs. The EU can certainly do more to increase the resilience of its energy supplies to disruption, however caused, but it does not have to assume that the price of offending Russia is to have the gas turned off, and that therefore it can only protect its prosperity by agreeing to whatever terms Moscow chooses to offer.⁵

As a market for EU goods and services, Russia is significant but not irreplaceable. About 7 per cent of the EU's exports go to Russia; more goes to China and even Switzerland,

while more than twice as much goes to the US. Moreover, Russia's growth prospects, particularly in the absence of dramatic changes in economic policy, are limited. Jim O'Neill, then of Goldman Sachs, erred when he included Russia with Brazil, India and China as the BRIC countries: Russia's growth since its default in 1998 has depended largely on higher prices for hydrocarbons and increased demand (especially from China) for primary commodities. The economy is undiversified and unmodernised; investment is low, and consumption has stagnated since 2010. Capital flight, traditionally high, reached \$50.6 billion in the first quarter of 2014, compared with \$63 billion in the whole of 2013. Russia's economy expanded by just 1.3 per cent in 2013; even before market turmoil caused by intervention in Ukraine, the IMF was expecting Russian GDP to grow by just 2 per cent in 2014; on April 8th it downgraded this forecast to 1.3 per cent. This does not compare too badly with Brazil, where the IMF forecasts growth of 1.8 per cent, but is far weaker than in China and India, which the IMF expects to expand by 7.5 per cent and 5.4 per cent respectively.

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Russia's demographic situation is also dire, as Putin has repeatedly admitted. Life expectancy, especially for men, is low (according to a recent study, 25 per cent of men in Russia die before age 55, compared with 7 per cent in the UK);⁶ birth rates are low; and health indicators such as prevalence of alcoholism, drug addiction and HIV infection, are poor. More Russians will move into the middle class, but Russia does not have hundreds of millions to lift out of poverty, and turn into consumers of EU goods and services, as China and India have.

In the foreign policy field, good relations with Russia are only worth having to the extent that they help the EU

5: Stephen Tindale, 'How to reduce dependence on Russian gas', CER insight, April 10th 2014.

6: David Zaridze and others, 'Alcohol and mortality in Russia: prospective observational study of 151,000 adults', *The Lancet*, January 2014.

achieve wider goals. The EU should not pay a significant price just for Russia's goodwill, and certainly not offer concessions to Russia as a reward for policy steps which, in its own interest, it would take anyway. Instead of reflexively assuming that Russia is part of the answer to any international problem (which has justified a wide range of regular meetings of EU and Russian foreign policy experts, without a lot of outcomes), the European External Action Service should rigorously audit the extent to which Russia can contribute, and the extent to which it can or is likely to obstruct progress, and focus on areas where working with Russia will bring added value.

The biggest problems posed by Russia for EU foreign policy interests are in the eastern neighbourhood – the countries of the former Soviet Union included in the EU's Eastern Partnership (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine). The partnership is an expression of the EU's belief that its interests are best served by having neighbours that broadly share its values, whether or not they are on the road to EU membership. Russia, however, sees this as a region where it has 'privileged interests', as Medvedev put it

– a place where Russia's word should carry more weight than anyone else's.⁷ In Moscow's zero-sum world, if countries like Georgia and Moldova attempt to adopt EU standards, then that is to Russia's detriment. For Russia, as for the Soviet Union, it is better to have neighbours who are dependent, even if impoverished, than to have prosperous neighbours emboldened to take an independent line. Its policy towards Ukraine since

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the fall of Yanukovich has been the clearest possible demonstration of this. As the great American diplomat and Kremlinologist George Kennan wrote in 1944, “The jealous eye of the Kremlin can distinguish, in the end, only vassals and enemies; and the neighbors of Russia, if they do not wish to be one, must reconcile themselves to being the other.”⁸

The common spaces and the partnership for modernisation – the right tools?

For all the shortcomings in their implementation, the 2003 common spaces identified most of the right areas for the EU to focus on. They provide a good starting point for a new EU policy towards Russia, which pursues Europe's interests and defends Europe's values, and is based on Russian behaviour as it is, not as the EU would like it to be. Their implementation has been half-hearted, but that could be put right.

The 2010 partnership for modernisation, on the other hand, was based on a false premise. It was supposed to serve as a “flexible framework for promoting reform, enhancing growth and raising competitiveness”. The EU has allocated around €7 million to a ‘partnership for modernisation facility’. Russia initially promised a contribution of €3 million to the partnership, though it seems not to have paid. The results have been modest so far, though the January 2014 progress report takes a determinedly upbeat view. Despite its hopeful words about exchanging experiences and holding intensive discussions, reform, growth and competitiveness in Russia are in the doldrums. As the report states: “Improvements in the Russian business climate are a

pre-condition for attracting foreign direct investment, and for the blossoming of small and medium sized companies in Russia.”⁹

The problem is that the climate for modernisation in Russia has significantly deteriorated since Putin replaced Medvedev in 2012. Medvedev, as he showed in his famous 2009 article ‘Go, Russia!’, had some idea of the kind of modernisation Russia needed in order to get rid of (as he put it) “the primitive, raw-materials based economy, chronic corruption, and the old fashioned habit of relying on the state... and anyone but oneself for solving problems”.¹⁰ Putin's idea of modernisation, however, is to make the old ways work better, continuing to rely on the extractive industries and the military-industrial complex for future prosperity. These sectors, under heavy state influence, provide a reliable source of rents for elite groups and ensure that there is a large body of workers who depend on the state for their livelihoods. And rather than creating the conditions for market-led competition and then standing back, both Medvedev and Putin have treated modernisation as essentially a top-down process and have achieved little.

7: ‘Medvedev outlines five main points of future foreign policy’, *RIANovosti*, August 31st 2008.

8: George Kennan, ‘Memoirs: 1925-1950’, quoted by Walter Hixson in ‘George F Kennan: Cold War iconoclast’, 1989.

9: ‘Progress report agreed by the co-ordinators of the EU-Russia partnership for modernisation for information to the EU-Russia Summit of 28 January 2014’, January 28th 2014.

10: ‘Dmitry Medvedev's article, Go Russia!’, *kremlin.ru*, September 10th 2009.

Freedom, security and justice – mind the gap

The common space of freedom, security and justice illustrates vividly the gap between EU and Russian objectives and values. The original aim of enhanced co-operation on justice and home affairs, leading in the long term to visa-free travel, remains. But the sides no longer agree on the overarching principles of democracy, the rule of law, independence of the judiciary and respect for human rights, which were supposed to govern the common space. The EU cannot force the Russian authorities to reform, but it can do more to support institutions and individuals which promote European values, and look at ways to ensure that those who reject and work to undermine those values gain as little benefit as possible from their actions.

Russia is not the Soviet Union. It is not just that repression is not on the same scale (though excessively curious journalists and civil society activists are more likely to be killed now than in the Brezhnev era). The motivation of the leadership is different. Putin and his officials often criticise Western economic and moral failings in ideological terms, but money, as well as ideology, drives the Russian political system in a different direction from the systems of EU countries. In the EU, most governments work to create national wealth by regulating and facilitating the operation of the economy; in Russia, the authorities manipulate the economy to reward or control both elite and grass-roots supporters – something which is much easier to do in an economy based heavily on extracting natural resources.

This inefficient economic system offers the EU opportunities, if it chooses to take them, to reduce the incentives for keeping things as they are. The EU has responded to the occupation of Crimea with targeted sanctions on those Russians it deems responsible. But it should consider a longer term and broader effort to influence Russian leadership behaviour in favour of reform.

Russia's elite wants access to Europe. Despite Putin's public efforts to get Russian officials to repatriate wealth held overseas, senior officials and business figures still rely on the European financial system to protect their assets, whether legitimately acquired or not. The families of many leading figures also live in the EU for significant periods, while their children are often educated in British boarding schools. Walter Kegö and Alexander Georgieff published a paper in 2013 on Russian criminal money and EU anti-money laundering policy.¹¹ It exposes both the extent to which criminal behaviour (in the form of corruption, misappropriation of state funds

and worse) has become embedded in the Russian system, and the ineffectiveness of EU anti-money laundering policy. The EU could make it much harder for Russian officials and business leaders to 'legitimise' the proceeds of crime.

Existing EU regulations on money laundering are inconsistently applied and policed. In 2010, the last year for which (almost) comprehensive EU figures are available, UK financial and other institutions submitted more than 240,000 reports of suspicious activity or transactions (obviously not all involving Russia or the former Soviet Union); Cypriot financial and other

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institutions submitted 510. Given that at the time of its bailout an estimated one-third of the deposits in Cyprus' banks came from Russia, and that Cyprus had a long-standing reputation as a destination for 'hot' Russian money, that seems an implausibly low figure. Though the link between Russian deposits in Cyprus and corrupt practices in Russia cannot be definitively proved, exhaustive research by Svetlana Ledyeva, Paivi Karhunen and John Whalley provides empirical evidence of a connection.¹² It is easy to conclude that banks in Cyprus were not suspicious as often as they should have been.

Latvia is also a popular destination for Russian money. Almost half of bank deposits are from non-residents, mostly in the former Soviet Union. But the resources devoted to countering money laundering are too limited to cope: while France had more than 50 full-time staff to investigate around 17,000 reports, Latvia had only 19 staff to investigate 26,000. The problem with weak enforcement at the EU's 'outer borders' is that once money has received a clean bill of health in one member-state it can pass relatively freely into others, making it ever harder to track. Britain itself is far from blameless: in a 2013 report on Russian corruption and its impact on the UK, Julia Pettengill points to UK official assessments that most banks fail to take adequate measures to establish that customers have come by their wealth legitimately; that some banks do not have formal procedures to assess 'politically exposed persons' – that is, senior political figures who are considered to pose a higher risk of involvement in bribery and corruption; and

11: 'The threat of Russian criminal money: re-assessing EU anti-money laundering policy', Stockholm Paper, Institute for Security and Development Policy, June 2013.

12: 'Offshore jurisdictions (including Cyprus), corruption money-laundering and Russian round-trip investment', (US) National Bureau of Economic Research working paper, 2013.

that shell companies in UK-controlled territories make it relatively easy to hide laundered funds and transfer them into Britain.¹³

The European Commission put forward the draft of the Fourth Anti-Money Laundering Directive in February 2013. Among other things, the Commission is trying to ensure more consistency in the way money laundering is reported, investigated and punished by the member-states. This will strengthen the EU's regime, but it will not come into force until 2016 at the earliest, after further negotiations between member-states, the Commission and the European Parliament. In March 2014, the European Parliament voted by an overwhelming majority to amend the Commission's draft to set up public registers of the beneficial owners of companies and trusts (that is, not the individuals who are listed as directors without having a stake in the companies or trusts, but the real owners of the assets). This was in part a reaction to the revelation that former President Yanukovich had hidden his ownership of substantial assets behind companies in the EU whose beneficial ownership was previously unknown. None of the measures in the draft directive is specifically aimed at Russia, but they would enable member-states to discourage the flow of dirty Russian money into the EU.

Keeping the proceeds of corruption out of the EU is more than just an expression of moral indignation. Safe havens for the proceeds of crime often become safe havens for the criminals themselves. Dirty money can have a distorting effect on EU economies (for example, driving property price bubbles) and it perpetuates a system in which corrupt Russian officials profit from weak rule of law within Russia and rely on strong rule of law in the EU to protect their ill-gotten gains. Thereby it contributes to what James Sherr of Chatham House has described as "reversing the plumbing": lowering standards of financial probity in the EU to those of the former Soviet Union, rather than raising Russian standards to European levels.¹⁴

Instead of encouraging investment from Russia with few questions asked, the UK and other EU member-states should increase the incentives for banks and other financial intermediaries to scrutinise the origins of funds much more closely. Reducing access to Western markets for Russian money might put pressure on the Russian authorities to strengthen the rule of law and property rights within Russia. In a somewhat analogous way, the 'robber barons' of late 19th century American capitalism created the financial institutions and the political and judicial infrastructure they needed in order to protect their wealth, gradually eliminating the sharp practices by which they themselves had grown rich.

13: 'Russian corruption: domestic and international consequences', The Henry Jackson Society, 2013.

14: Evidence to the House of Commons Select Committee on Defence, February 24th 2009.

As well as access to the EU for their money, members of the Russian elite also value their ability to travel to the West. It was interesting to see the strong Russian reaction to the US 'Magnitsky Act' – a law which put a number of officials on a visa black list in order to punish them for their involvement in the death in custody of Sergei Magnitsky, a lawyer who uncovered a massive tax fraud. Russia has put enormous political effort in recent years into trying to persuade the EU to give visa-free access to Europe to holders of Russian 'service passports' (official but non-diplomatic passports). There are about 15,000 of these. The criteria for receiving one are unclear and open to political manipulation or corruption. The EU has rightly been suspicious that not every holder has legitimate business in the Union. In fact, such officials are among those who ought to be subject to extra scrutiny before they are allowed into European countries. There is no particular benefit to the EU from lifting visa restrictions on holders of service passports, so it is a concession which should be withheld until Russia offers something of comparable value in return, for example relaxing or removing restrictions on non-governmental organisations receiving funding from abroad.

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The European Parliament would like the Council of Ministers to bring in its own 'Magnitsky list', and has repeatedly passed resolutions to that effect since 2009; the Council has ignored them all. A list linked only to the death of Magnitsky, like that linked to the annexation of Crimea, would be better than nothing, but there is a strong case for having a broader EU policy on barring Russian officials against whom there is compelling evidence of corruption, human rights abuses or both. No doubt the Russian government would retaliate with visa bans against EU officials, as it has against the US, but that would be a sign that the EU had found a useful tool in its long-term effort to improve human rights and strengthen the rule of law in Russia.

The EU should continue to talk to the Russian authorities about human rights, but without illusions. From their inception, EU-Russia consultations on human rights have disappointed: the Russian side has only ever included representatives from the foreign ministry, never from ministries like interior or justice that are responsible for the issues of concern to the EU, and still less from Russian civil society. Indeed, in its last progress report on the common spaces the EU drew attention to increased pressure on civil society organisations in Russia, which had caused a decrease in NGO activity.¹⁵

15: 'EU-Russia Common Spaces Progress Report 2012', European Union External Action Service, March 2013.

The EU should look at the instruments it has available to support civil society in Russia. Instead of spending funds on joint projects with the Russian government the results of which the authorities then ignore or undermine, the EU should offer more support to grass roots organisations. These do not have to be overtly political or opposition bodies; ideally they should not be. But they should be the sort of groups whose activities would uphold European values, such as anti-corruption campaigners, human rights defenders or environmental organisations (particularly in areas near the EU's borders, where pollution from Russia affects neighbouring countries).

The European Endowment for Democracy (EED), first proposed by Radoslaw Sikorski, has as its mission statement "to support the unsupported". Its very modest funding from the Commission and member-states should be increased to allow it to support more of them. Its initial geographical focus has been on countries

in Eastern Europe and North Africa included in the EU's neighbourhood policy. It should expand this, as recommended by the non-governmental organisations of the Eastern Partnership Civil Society Forum, to cover Russia. So far, the EED has received €6 million from the Commission, €4.5 million each from Denmark, Poland and Sweden and €1 million each from Germany, the Netherlands and Switzerland. The UK has not contributed at all, but should.

Russian law obliges civil society organisations that receive foreign funding to register as 'foreign agents' (a loaded term in Russian, with a clear implication of spying). This is an obstacle to the EED and other forms of EU assistance channeled to or via Russian NGOs, but it is up to the Russian organisations themselves to decide whether this should stop them accepting financing from abroad. Most have so far resisted the pressure to register; some have successfully challenged orders to do so.

Trade and economic relations – money makes the world go round

The weakness of the rule of law in Russia has a considerable impact on trade and economic co-operation. The road map for the common economic space, adopted in 2005, sets ambitious goals for regulatory convergence, public procurement, competition, investment and the like. It rests on an enormous structure of sectoral and thematic working groups, with objectives which should, if achieved, offer huge benefits to businesses on both sides.

Russia is the EU's third largest trading partner, but trade shows large imbalances both in flows (the Union imported almost twice as much as it exported in 2012) and in content. About half of European exports to Russia are machinery and transport equipment, and about another third other manufactured goods and chemicals, while more than three quarters of Russian exports to the EU are oil, gas or petroleum products. Russia is the EU's largest supplier of oil and coal, as well as gas. These asymmetries contribute to the very different objectives of the two parties: the EU seeks market access for its companies, in a fair and transparent business environment, while Russia tries to retain a dominant position in Europe's energy markets.

The EU-Russia Industrialists Round Table (IRT), a body set up in 1997 which prepares recommendations for the twice-yearly EU-Russia Summit, struggles to get political leaders to address its concerns. Year after year it calls for the removal of barriers to investment (particularly on the Russian side), more regulatory predictability and better protection of intellectual property rights (among other things), apparently without much change on the ground. Reflecting the concerns of its Russian participants, it also calls for the EU to liberalise its visa policy; but the Russian government has

put more effort into opening the Schengen area to its own officials than to Russian entrepreneurs.

“The EU seeks market access for its companies, in a fair and transparent business environment.”

The IRT Council reflects the different models of ownership and control of companies on the two sides, with state-owned enterprises such as RusNano and Russian Railways heavily represented on the Russian side. The European Bank for Reconstruction and Development's structural change indicators for Russia show that since 2005 the proportion of GDP produced by the private sector has declined; the OECD's 'Going for Growth' report shows that state involvement in business operations through price controls and the use of command and control regulation is higher in Russia than in any other OECD member country or applicant. The Russian economy is much more dependent on large enterprises than EU economies: in 2011, there were approximately twice as many small and medium enterprises per capita in the EU as in Russia.¹⁶ Big companies have more reason to try to keep out competitors, and more opportunities to work with government to that end. Closeness to power is vital to businesses in Russia: speaking privately, a senior Russian executive said recently that good government relations contributed twice as much as product quality to business success.

After Russia acceded to the WTO in August 2012, there was optimism in Europe that Moscow would fulfil its

¹⁶: European Commission, 'A recovery on the horizon? Annual report on European SMEs 2012/2013', October 2013.

commitments on accession and remove a number of long-standing irritants, including discriminatory charges levied on non-Russian airlines flying over Siberia. It did not. Though some tariffs were reduced, the Commission stated that a year after accession Russia was still not respecting all its WTO commitments; indeed, it had introduced more protectionist measures at a time when trade liberalisation would have been expected.¹⁷ These included increased tariffs on a variety of industrial and agricultural products, and measures such as state subsidies for farmers to purchase equipment. Not all of these measures are necessarily illegal under WTO rules, but they are obstacles to trade between the EU and Russia.

An increasing problem for the EU as it tries to address these issues is that Russia tells it to talk instead to the Customs Union of the Eurasian Economic Community. This (in theory at least) has competence in trade matters involving Russia, Kazakhstan and Belarus. The customs union, which began operating in 2010, is the first stage in a plan to create a 'Eurasian Union'. This is the latest of many attempts to establish a single economic space bringing together the states of the former Soviet Union. In September 2013, Armenia announced its intention to join the customs union and not to initial an association agreement with the EU. Kyrgyzstan and Tajikistan have also expressed a wish to join. Russia put pressure on Ukraine to follow suit. Though the government of President Yanukovich pulled out of signing Ukraine's association agreement with the EU, it did not commit itself to the customs union, and the new Ukrainian government has signed the political parts of the association agreement; the free trade provisions are due to be signed as soon as elections have been held and a new government is in place.

The EU has no formal relations with the customs union or with the Eurasian Economic Commission that is its main decision-making body. In theory, both Russia and the EU ultimately favour a free trade area "from Lisbon to Vladivostok", as Putin proposed in 2010. The two sides agreed in June 2013 that the Eurasian Economic Commission should take part in EU-Russia trade liberalisation talks as an observer. But the EU has remained suspicious that the customs union is just another Russian attempt to put some of the pieces of the Soviet economic system back together, rather than a building-block for an EU-Russia free-trade zone.

This suspicion is justified: the Eurasian Economic Commission has equal numbers of board members from each of the members of the customs union, but it is located in Moscow in a Russian government building, and the chairman and board member in charge of the development of integration are both Russians. The qualified majority system in the intergovernmental

council (equivalent to the EU's Council of Ministers) is weighted in favour of Russia (Russia can block any decision on its own; Belarus and Kazakhstan can only block a decision if they both vote against it). Of 23 heads of department in the Commission, at least 17 are former Russian government officials. Given the relative sizes of the three economies, this Russian dominance may be hard to avoid, but it reduces the credibility of the Eurasian Economic Commission as a genuinely independent actor on the same footing as the European Commission.

In putting pressure on Ukraine not to sign the association agreement with the EU, Russia argued that Ukraine could not have free trade with the customs union once it had a 'Deep and Comprehensive Free Trade Agreement' with the EU (which is part of the association agreement). It claimed that the EU was forcing Ukraine to choose between trade with its eastern neighbours, or trade with the West – an argument which has subsequently been given credence by Steinmeier and others. But there is no reason why a country like Ukraine, which is already part of the intra-CIS free trade area, cannot also have a free trade agreement with the EU; Ukrainian companies would simply have to meet different regulatory requirements depending on the destination of their exports. This is the situation of Mexico, which has a free trade agreement with the EU and is a member of the North American Free Trade Area (NAFTA). It is therefore misleading for Russian foreign minister Sergey Lavrov to claim that Russia would have to react to Ukraine "changing the economic rules of the game on their side of the border"¹⁸

“In theory, both Russia and the EU favour a free trade area “from Lisbon to Vladivostok.””

If Ukraine became part of the customs union, however, as opposed to merely having a free trade agreement with it, Kyiv could not autonomously enter into a free trade agreement with the EU, because it would be obliged to abide by the common external tariff of the customs union. This underlines the different approaches of the EU and Russia to creating a continent-wide free trade area: the EU would like to build it one country at a time, as each state is ready, meanwhile working to harmonise standards to reduce technical barriers to trade; Russia would prefer to expand the customs union first, delaying a free trade agreement with the EU until the customs union as a whole is ready – giving it an effective veto over the trade relations of its neighbours.

17: European Commission DG Trade website <http://ec.europa.eu/trade/policy/countries-and-regions/countries/russia/>, accessed on March 13th 2014.

18: Sergey Lavrov, 'Russia-EU: decision time', *New Europe* on-line edition, February 12th 2014.

Nonetheless, the EU should not rule out working with the customs union and the Eurasian Economic Commission, if Belarus and Kazakhstan agree that they want their trade relations with the EU to be mediated in this way, and if the customs union shows that it is an effective international actor. If nothing else, the EU has an interest in negotiating to reduce the customs union's high external tariff, which has (for example) increased demand for Russian-manufactured cars at the expense of those imported from the EU and elsewhere.

Russia and Belarus are in first and second places globally in terms of the total number of protectionist measures in force. According to Global Trade Alert, Russia has in place 117 trade measures that have a negative impact on the economies of EU member-states.¹⁹ The EU itself is not blameless: the Commission or member-states are responsible for 39 measures that have a negative impact on Russia. But in 2013 alone Russia was responsible for 78 new measures against various countries or groups of countries, or about a third of all the negative trade measures adopted by G20 members.

Three areas of particular importance to the EU are the automobile industry, air services and agriculture. In October 2013, after months of bilateral consultations, the EU asked the WTO to convene a dispute settlement panel in relation to Russia's automobile recycling fee, a charge introduced in September 2012 and levied on vehicles imported from outside the customs union. Russia quickly amended its legislation so that the fee would also apply to domestically-produced vehicles.

On the abolition of Siberian overflight royalties, however, the picture is less positive. In 2011 the European Commission estimated that EU airlines were paying around €320 million per year to overfly Siberia, most of which went to the state-owned Russian airline, Aeroflot. As part of its pre-accession commitments to the WTO, Russia promised to reduce these charges progressively to zero by 2014. But in September 2013 Russian deputy transport minister Valeriy Okulov said that they would be reduced, but not abolished. He suggested that the charge would depend on how much the EU charged non-EU airlines for their greenhouse gas emissions under the Emissions Trading Scheme (ETS). Russia has not yet responded to the EU's decision, agreed by the European Parliament on April 3rd, not to charge non-EU airlines, so it is possible that it will now remove overflight royalties. On the other hand, there were also indications last year that the continued imposition of the royalties might be linked to plans to privatise Aeroflot: though the airline does not

report exactly how much it receives, experts estimated that in 2012 the payments accounted for all its profit.²⁰

In agriculture, the EU continues to wrestle with Russia's sanitary and phytosanitary (SPS) regulations. The European Commission's progress report on the Common Spaces for 2012 (published in 2013) said that "in a number of cases, Russian/customs union SPS measures remain non-transparent, discriminatory, disproportionate and not in line with international standards and norms". This was even before Russia banned Lithuanian dairy products in October 2013, allegedly on sanitary grounds, and pork products from Poland and Lithuania in January 2014. In the latter case, the EU has opened a case against Russia at the WTO.

Despite its WTO membership, Russia frequently uses SPS measures not because they are a scientifically justified response to a real animal or plant health concern, but as an instrument of political pressure. The measures against Lithuania, coupled with stepped-up Russian border inspections of goods, were seemingly linked to the Lithuanian EU presidency's efforts to secure Ukraine's signature of its EU association agreement. When Vilnius said that it would raise the problem of Russian SPS measures at the WTO, the Russian authorities warned that they would retaliate by prolonging the measures. In such circumstances, the EU must be ready to respond in ways which go beyond statements of concern and expert-level discussions.

“Links between EU and Russian technical experts must be supplemented by more willingness to act in the WTO.”

Links between EU and Russian technical experts need to be supplemented both by more willingness to take action in the WTO, and a strong political message that the EU is ready to use legitimate means to retaliate against Russia financially. The WTO dispute settlement procedure, though not offering quick remedies, provides for retaliatory measures if a country is found to have breached its obligations, has not carried out the WTO's recommendations and has not compensated the complainant. The EU could make clear that in such cases it would target Russian state-owned companies, particularly those which contribute most to the state's budget, or companies linked to members of the leadership or their families.

19: Global Trade Alert (www.globaltradealert.org) is an independent monitoring initiative co-ordinated by the Centre for Economic Policy Research.

20: Alexander Panin, 'Overflight fees to remain after 2014', *Moscow Times*, September 5th 2013.

The energy relationship – who has whom over a barrel?

Russia's economy remains heavily dependent on commodities – significantly over half of its state budget revenues come from oil and gas. The EU is its main customer, which gives the EU some leverage, but also makes it vulnerable to Russian pressure, including on third countries. Because oil and coal are relatively easy to buy on the spot market, the fact that Russia is the EU's largest supplier of these commodities is of less concern. But gas pipelines effectively tie European consumers to Russian producers and put the EU at risk of Russian government manipulation of the supply. The most notable example of this was the January 2009 gas crisis, when a Russian dispute with Ukraine led to gas supplies to Italy and south-east Europe being cut off for 13 days. As tension has grown between Russia and the new authorities in Ukraine, Gazprom has raised the price of gas for Ukraine by 80 per cent, and has warned that it might reduce or stop the flow again, ostensibly because of the Ukrainian gas company's debts.

The EU's interest is in security of supply, and prior to 2009 Russia (and before it the Soviet Union) had been seen as a reliable supplier, regardless of political tensions. Even before 2009, however, the EU had begun to look more critically at the risks if it were too dependent on a single supplier. Diverse sources of supply (including imports of liquefied natural gas) and the ability to switch between them would help price competition and reduce the leverage that any individual producer or supplier had.

The EU can also reduce its dependence on Russian gas and other energy sources through greater use of renewable energy and nuclear power (in those member-states which support this technology – though those with Russian-supplied reactors will still have to rely on Russia for maintenance and fuel) and through increased energy efficiency. Many of the member-states who are most dependent on Russia for energy supplies, such as Bulgaria and Slovakia, are also the least energy efficient.

For Russia, the key aim is to have secure demand. It has traditionally achieved this by negotiating long-term gas supply contracts at prices linked to the oil price; and it has tried to keep control of production, transit and distribution through strategic investments or outright ownership of key companies involved in each stage. It has also, according to James Sherr, reinforced its position through “murky and untransparent deals in the energy sector” – allegedly including bribery of leading politicians in some member-states.²¹

The EU is already attacking Russia's preferred business model through the ‘Third Energy Package’. This was

proposed by the Commission in 2007 and adopted in 2009. It is designed to open up gas and electricity markets by preventing companies from controlling both the production and transmission of energy – a split referred to as ‘unbundling’. The package is forcing Gazprom to unbundle its operations in the EU and to end practices like ‘take or pay’ (which obliges purchasers to pay for a minimum quantity of gas, whether they take it from Gazprom or not). In December 2013 the Commission ordered six EU member-states as well as Serbia to renegotiate their agreements with Gazprom in connection with the South Stream project (a pipeline across the Black Sea, bypassing Ukraine), in order to comply with the package.²² At a meeting of the EU-Russia Permanent Partnership Council on energy on January 17th 2014, the two sides agreed to set up a working group to discuss the issues surrounding South Stream. Strict enforcement of the Third Energy Package is central to reducing Gazprom's disproportionate influence in European markets, and the next energy commissioner should continue the good work started by Günther Oettinger.

“The EU can reduce its dependence on Russian gas through greater use of renewable energy and nuclear power.”

The crisis over Ukraine has given new impetus to EU efforts to develop a coherent strategy for energy security. The European Council on March 20th-21st called on the Commission “to conduct an in-depth study of EU energy security and to present by June 2014 a comprehensive plan for the reduction of EU energy dependence”. It identified a number of priority areas, including diversification of supply, increased energy efficiency, better interconnections and “solidarity in case of sudden disruptions of energy supply” in any member-state.

The Council also called for action to support the development of the ‘southern corridor’. This will eventually bring gas from Azerbaijan (and perhaps elsewhere) via Turkey to south-east Europe, bypassing Russia. The option chosen, known as the Trans-Adriatic Pipeline (TAP), offers less to Central European countries than the Commission-backed NabuccoWest project would have (TAP's route takes it through Greece and Albania to Italy, while NabuccoWest would have supplied Bulgaria, Romania, Hungary and Austria – all heavily dependent on Russian gas), but it will still make a contribution to energy security.

21: Evidence to the House of Commons Select Committee on Defence, February 24th 2009.

22: As a member of the Energy Community, along with the other countries of the Western Balkans, Ukraine and Moldova, Serbia is bound by the *acquis communautaire* in the energy field.

Developments in the global market, including the influence of shale gas on US markets, are likely to reduce the global price of gas and to make it much harder for Gazprom to maintain prices pegged to the oil price, even if European gas production, including from shale deposits, fails to substantially increase Europe's supplies.²³ Despite the relative abundance of gas in America, the US government still requires companies to go through a lengthy licensing process before they can export liquefied natural gas; even in advance of agreement on the Transatlantic Trade and Investment Partnership (which should remove the need for licences), the EU should lobby hard for an end to this system as an important component in the energy security of US allies in Europe.

At the same time, the EU has recognised in the joint EU-Russia roadmap for energy co-operation until 2050 that "interdependence is likely to remain a key feature of the EU-Russia energy relationship in the coming decades"; and it has accepted that without some level of certainty about demand, Russia is unlikely to make the investment in new production which will be required to ensure that it remains a reliable gas supplier to Europe for the longer term.

The challenge is for the EU to minimise the price Russia can extract (in whatever form – financial or political) for being a dependable supplier, and to use Russia's need for revenue as a lever for improved terms of business. To achieve this the EU needs a coherent approach to energy issues across member-states and policy areas. In the past, Germany and some others have been happy to have the predictability of long-term supply contracts, while the UK and others have preferred a more market-based approach. With the increasing divergence between the spot price for gas and Gazprom's oil-linked price, even German companies have reconsidered their approach: the German energy company RWE won an arbitration ruling against Gazprom in July 2013, forcing it to renegotiate prices.

At present some 80 per cent of Gazprom's supplies to the EU are at oil-linked prices. Forcing Gazprom to break this link would have some economic benefits for EU countries (at least as long as world gas supplies are abundant). If cheaper gas led to a shift from higher-carbon fuels in the EU, it would also bring climate benefits. But it would be of less value if Gazprom remained a monopoly or near-monopoly supplier for many member-states: their leverage in negotiations with the Russian company would still be limited.

It is therefore vital that the EU continues to pursue its efforts to diversify supply. The Action Plan for North-South Energy Interconnections in Central-Eastern Europe, agreed in 2011, sets out an ambitious list of

projects to be completed by 2020. They would make it possible for countries that were previously wholly or largely dependent on Russian gas supplies to access gas from elsewhere. But the financing available – part of the total of €5.9 billion allocated to energy infrastructure projects in the EU's 2014-20 budget plan – is inadequate. It is only intended to leverage private financing for projects that are justified because of their contribution to security of supply but unlikely to attract enough market-based finance. Member-states (and not just the states directly affected) need to look at the strategic advantages to Europe from such projects, and should be prepared to help ensure that they go ahead, including through loan guarantees. The Commission should consider shifting funds from transport infrastructure (allocated €26 billion over the next seven years) to energy infrastructure.

The EU should also look for more effective ways to encourage modernisation of the Russian economy. A trade relationship that relies on the EU importing vast quantities of primary commodities while Russian demand for EU goods and services is weak is not ideal for either side. The EU runs a large trade deficit with Russia – more than €80 billion in 2012. European exporters would benefit from selling into a more modern Russian economy, to more prosperous consumers. On the face of it, modernisation should be an easy area for the parties to co-operate on. But, as Katinka Barysch wrote in 2010, "what most people in the EU mean by modernisation is very different from the notion held by the Russian leadership".²⁴ Rather than trying to leap to the cutting edge through government-driven innovation programmes, she advised Russia to move its existing industrial sectors up the value chain by using imported technology and know-how.

“The EU should also look for more effective ways to encourage modernisation of the Russian economy.”

That was good advice, not taken. Medvedev tried to set up a Russian 'Silicon Valley' at Skolkovo, near Moscow; so far it has been no more successful than most attempts by governments to pick high-technology winners. Putin complained in his address to the Federal Assembly in December 2013 that there was not enough demand in Russia for advanced technology. He ordered that the public procurement system and state company investment programmes should help to create demand. That is a recipe for diverting technology into Russia's bloated military industrial complex, rather than ensuring that the benefits of innovation are felt in the economy as a whole.

23: David Buchan, 'Can shale gas transform Europe's energy landscape?', CER policy brief, July 2013.

24: 'Can the EU help Russia modernise?', CER insight, May 28th 2010.

The EU has a long-term interest in the growth of a genuine middle class in Russia, of entrepreneurs not dependent on the state, and of small businesses with a stake in the rule of law. Such people exist – they are the backbone of support for anti-corruption blogger and leading opposition figure Aleksei Navalny, for example. EU funding for the partnership for modernisation includes an element for various activities in support of small and medium enterprises (SMEs), including encouraging the development of relations between Russian and European associations that support innovative SMEs. The EU should direct more of its funding to such programmes and less

to programmes which primarily benefit Russian state agencies or state-owned companies, such as TAIEX (a programme through which the EU's neighbours can ask for help in bringing their legislation and its application into line with EU standards). TAIEX projects are dictated by Russian government proposals rather than EU priorities; TAIEX seminars, study visits and expert missions in 2012 focused on "food safety, police co-operation and witness protection" (no report for 2013 has yet been published). It is not clear what the outcomes of these projects were, why the Russian side chose these topics or whether they helped the EU to achieve its objectives.

The common space of external security – ineffective multilateralism?

The roadmap for the common space of external security opens with the words "The EU and Russia share responsibility for an international order based on effective multilateralism". Conceptually and practically, however, the two sides mean very different things by these words. For the EU, the multilateral system is about rules which are binding on strong countries and weak alike. It is an idea which is at the heart of the EU itself. For Russia, the international system is designed to legitimise (within limits) the superiority of the great powers. As Charles Grant wrote in 2012, "The Russian world-view is more focused on power than rules".²⁵ Despite their differences, however, the EU can work with Russia on some foreign policy problems.

Russia is often described as a Westphalian power – attached to national sovereignty and opposed to external interference in internal affairs – while the EU is 'post-Westphalian': it has supranational institutions which can and do interfere in the internal affairs of member-states. In reality, Russia's Westphalianism is largely tactical. It strongly criticised Western interventions in Kosovo, Iraq and Libya, but has had no qualms about interfering in the internal affairs of its neighbours and limiting their sovereignty, particularly when it comes to their engagement with international organisations which it sees as a threat. The most obvious examples of this are the 2008 war against Georgia, which destroyed for the foreseeable future any chance that country had of joining NATO, and the annexation of Crimea. But pressure can be more subtle. In August 2013 Putin visited Azerbaijan, still at war with Armenia, and agreed to sell it weapons; and soon afterwards the Armenian president decided not to initial an association agreement with the EU and to join Russia's customs union instead.²⁶ Russia blocked exports from Ukraine in autumn 2013, contributing to Yanukovich's decision not to sign an association agreement; it then rewarded him with a cut in the gas price and a loan on favourable terms. In 2010 it used reduced gas prices as an incentive to persuade the

Ukrainian president to extend the lease on Russia's Black Sea Fleet base at Sevastopol until 2042.

In his December 2013 address to the Federal Assembly, Putin called Russia "one of the key guarantors of global and regional stability". It would be more true to say that Russia is one of the powers most able to obstruct efforts to secure global and regional stability if it chooses to do so. There have been few recent occasions when Russia has had a positive international agenda.

"For the EU, the multilateral system is about rules which are binding on strong countries and weak alike."

The deal between the US and Russia on the removal of chemical weapons from Syria may at first sight look like an exception, but is not. It was an unusually agile diplomatic manoeuvre, certainly, from a Russian foreign policy machine that more often specialises in trench warfare. But it did not contribute to an overall settlement in Syria. Instead, it reinforced Western reluctance to get involved in Syria militarily (a second large-scale chemical weapons attack might well have changed the views of British and American opponents of military action); it made the Assad regime look more reasonable; and it reduced the pressure on Moscow to stop supplying yet more conventional weapons to the regime.

Russia has gradually helped to turn the situation in Syria from one in which no solution involving Bashar al Assad staying in power could be contemplated to one in which the increasingly radicalised opposition looks like a very unattractive alternative to his rule. Russia is not wrong to worry about jihadists, and the effect that they may have outside Syria, including in Russia's restive North Caucasus.

25: 'Russia, China and global governance', CER report, February 29th 2012.

26: Both sides initial an association agreement to show that the text is agreed; it then has to be checked and translated and the Council has to authorise signature before either side is bound by it; after signature, some or all of it can be provisionally applied prior to ratification by the Council.

But at the beginning of the crisis in Syria, extremists were a relatively insignificant factor; they have become more influential and more dangerous the longer the fighting has gone on. Russia is not the only country responsible for Syria's current state: Iran has also propped up Assad with arms and support from its Lebanese proxy force, Hezbollah; and some Gulf States have supplied weapons to jihadi extremists. Russia's support for Assad has ensured the survival of a long-standing ally, and preserved Russian equities in Syria such as its naval facility at Tartus. But by blocking UN Security Council action against Assad and keeping the weapons pipeline to him open, Russia has made a significant contribution to prolonging the conflict.

In the process, Russia has sidelined the EU and European interests. Inevitably, the refugee crisis in the countries around Syria is starting to bleed into the EU – particularly countries like Bulgaria and Greece which are the entry points for refugees who have come via Turkey. The security threat to European countries from radicalised residents who have fought in Syria is increasing and poses a long-term law enforcement and counter-terrorism problem. The EU (with the US, which has also allowed itself to be out-manoeuvred by Russia) should be looking at how to limit the damage to its objectives and how best to protect the long-term possibility of a transition to more democratic rule in Syria. If it does not, then the Assad regime will gradually re-establish control and the threat to Europe from terrorists returning from Syria will grow. If there is to be a settlement, then Russia will still have to play an important part in the peace process; but it should not be allowed to dictate terms.

Russia's role in the international negotiations on Iran's nuclear programme has been more constructive. The negotiations involve France, Germany, the UK, China, Russia and the US, as well as EU High Representative, Baroness Ashton. Russia has no obvious interest in Iran gaining a nuclear weapon, given the risk that this would pose of further regional proliferation, or of outright warfare sparked by either a US or Israeli attack on Iran. It has suffered economic damage as a result of agreeing to impose successive UN sanctions packages on Iran, and cancelling the delivery of a sophisticated air-defence system, the S-300. But it has also tried to limit the extent of UN sanctions and has complained about EU and US supplementary sanctions on Iran (which Russia claims are contrary to international law), even when such measures are helping to achieve a goal which Russia shares. Nonetheless, the effort to constrain Iran's nuclear programme is an area in which EU and Russian interests broadly coincide and in which the two should continue to work together. The same is true of non-proliferation more generally, including in relation to North Korea.

The EU should continue to discuss arms export control issues with Russia, though the basic premises of the two

parties are very different: the objectives of the EU system of arms export control are “to set high common standards ... for the management of and restraint in transfers of military technology and equipment” and “to prevent the export of military technology and equipment which might be used for internal repression or international aggression or contribute to regional instability”.²⁷ Russia's export control mechanisms are more narrowly drawn in terms of compliance with international obligations such as mandatory UN sanctions regimes, and protecting sensitive Russian technology and information.²⁸ But occasionally the EU – and its partners – may be able to persuade Russia to think twice about some particularly destabilising transfer, as with the S-300 system intended for Iran.

What the EU should not do in pursuit of its foreign policy goals is to trade Russian support elsewhere for European acceptance of a Russian *droit de regard* in the former Soviet Union. The principle of “nothing about us, without us” was first expressed in Poland's 16th century constitution; it was revived at the end of the Cold War to remind Western powers not to do deals with the Soviet Union over the heads of the Central European states. It should apply now to the countries of Eastern Europe and the South Caucasus. The EU may not be comfortable with the idea that it is in competition with Russia in the eastern neighbourhood, but it is; the invasion of Crimea and attempts to destabilise regions of eastern and southern Ukraine should dispel any illusions about that. It is a competition in which the countries of the region should have a decisive voice.

“The EU may not be comfortable with the idea that it is in competition with Russia, but it is.”

The EU wants to help the countries concerned to resolve the frozen conflicts in the former Soviet space; this will involve assisting them in resisting Russian pressure. In all the main conflicts (Moldova/Transnistria; Georgia/Abkhazia/South Ossetia; Nagorno-Karabakh), Russia is backing separatists against the legitimate government of the state concerned. As long as the conflicts remain unresolved, Russia can exert some degree of influence in these countries.

The competition between the EU and Russia is asymmetric, as the situation in Ukraine has shown. In 2013 the EU was unable to match Russia's trade blockade, followed by the offer of reduced gas prices and loans on soft terms. These measures were designed to influence the Ukrainian elite: they offered them the prospect of the continuation of an economic and political system which had made them rich and comfortable, and underlined

27: European Council Common Position of December 8th 2008.

28: Federal Service for Military-Technical Co-operation, 'FSMTC of Russia objectives', www.fsvts.gov.ru.

what they would lose by getting too close to the EU. In 2014, the EU has been unable effectively to counter Russian propaganda which grossly misrepresents what the EU can offer Ukraine, and what the consequences of a closer relationship with Western Europe would be for Kyiv.

The EU, however, has other ways to influence developments, slower and less brutal than those of Russia, but effective over time. First, it can offer long-term material incentives to its eastern neighbours and their populations. Despite its economic problems, in comparison with most countries in the former Soviet Union the EU seems to be a prosperous paradise. The EU should offer generous trade terms once countries have completed negotiation of association agreements. It has done this for Moldova by increasing quotas for the export of Moldovan wine to the EU. And it can make travel to the Schengen area easier, particularly for students and entrepreneurs. Moldovans with biometric passports will have visa-free access to the Schengen area from April 28th 2014; the EU should work with other Eastern Partnership countries to get them to the same stage. The UK, despite its domestic political angst over migration, should follow suit: it is in Britain's long-term interest to welcome Eastern Europe's brightest and best, not just to provide a home for the cash piles of the region's elites.

Second, the EU can make use of its soft power in the former Soviet Union, which is at least as important as any trade or visa liberalisation. As European Council president Herman Van Rompuy said at the Munich Security Conference in February 2014, "Our biggest carrot is a way of life; our biggest stick: a closed door". Opinion polls show that Ukrainians, Belarusians and Georgians would all prefer to have a European way of life than be in Putin's Russia. It may take them a long time to get there; some will pay a high price to do it. But it is not just a romantic notion that Europe should be whole and free; it is in the EU's economic and security interest.

The EU should therefore make a clear but conditional offer of eventual membership for European countries that want it and verifiably meet EU standards, particularly in areas like the administration of justice and good economic governance. Given that membership would still be a very distant prospect, even for the most advanced countries of the Eastern Partnership, the EU should also reform the Eastern Partnership to give more incentives and assistance to countries which are committed to taking the long road to European integration.

As important, the EU needs to step up its public information effort in Eastern Europe and in Russia. The association agreements and deep and comprehensive free trade agreements on offer from the EU are extraordinarily long and technical documents; Russia's messages in response are admirably clear (if menacing). EU delegations in the region need to use simple and effective messages to set out for Eastern Partnership countries why the European course is the right one,

regardless of potential Russian retaliation; and for Russian audiences, why a zero-sum approach to its neighbourhood hurts Russia. Well-regarded international public service broadcasters, such as the BBC World Service and Deutsche Welle, should step up their coverage of the debate on relations with the EU. The EU's delegations in the region are currently struggling to compete with Russian state-controlled media, which are a key information source in many former Soviet countries, but often provide scare-mongering anti-EU stories. In Ukraine, about a fifth of the population gets most of its news from Russian TV channels; since the fall of Yanukovych, these have told them that the EU is supporting fascist terrorists in Kyiv.

Russian leaders, including members of the Duma (parliament), are frequent visitors to the former Soviet countries of Eastern Europe. EU leaders and MEPs should be equally assiduous in cultivating leaders and potential leaders in these countries. The French, German and Polish foreign ministers (the so-called 'Weimar Triangle') played a crucial role during their visit to Kyiv in brokering the February 21st agreement between the government and the opposition; despite the fact that Yanukovych fled to Russia without carrying out his side of the agreement, it played a significant role in ending the violence in Kyiv. High Representative Ashton and enlargement commissioner Stefan Füle have been frequent visitors to Kyiv during the crisis.

“The EU has been unable effectively to counter Russian propaganda which misrepresents what the EU can offer Ukraine.”

Given the importance of the eastern neighbourhood to the EU, these should not be the only EU political figures devoting attention to the region's problems, and Ukraine should not be the only target. Moldova and Georgia are both likely to come under heavy pressure from Moscow, having initialed association agreements in November 2013. They are relatively small countries (with populations of 3.6 million and 4.5 million respectively).

Strategically, Georgia is the more important of the two because, as long as Azerbaijan and Armenia remain at war over Nagorno-Karabakh, Georgia is the only route for oil and gas from the Caspian to reach Europe without going through Russia. But it is not in the EU's interest for either Georgia or Moldova to be knocked off their (more or less) pro-European courses, or to end up as corrupt and badly governed as the Moscow-dominated separatist enclaves in the two countries currently are.

Moldova faces a difficult general election, which must take place no later than November this year. Russia, which has close links to the Moldovan Communist Party, is already trying to create conditions favourable to its

allies by threatening Moldova's gas supply if it gets too close to the EU. It has encouraged the leadership of Transnistria to take steps such as adopting Russian law, thereby making a settlement of the dispute and the reintegration of the country more difficult. It has also claimed that Transnistria is being "blockaded", perhaps to create a pretext for future intervention. The EU, which has an assistance mission on the Transnistrian section of the Ukraine-Moldova border, has denied the claim. Gagauzia, another region of Moldova where a Moscow-influenced separatist movement has been strong, held a 'referendum' on February 2nd 2014 in which (allegedly) 98.4 per cent of voters backed closer relations with the customs union, 97.2 per cent opposed closer links to the EU and 98.9 per cent supported Gagauzia's right to declare independence if Moldova surrendered its independence (presumably to the EU).

Apart from making the Union more visible throughout Moldovan territory, including through a co-ordinated programme of visits by EU and member-state leaders, the EU should ensure that Moldova gets early tangible benefits from the progress it has already made towards meeting European standards. The EU's agonisingly slow

process from initialing to signature of an association agreement has been telescoped so that the agreement can be signed in June 2014. It should enter into force as soon as possible after that.

Georgia is less vulnerable to Russian pressure than Moldova: having endured several years of Russian trade sanctions and Russian occupation of the separatist regions of Abkhazia and South Ossetia, it has had to redirect its trade as well as foreign relations away from Moscow. But it also has a young and inexperienced prime minister, and a new and untested president. They will need reassurance and advice, as well as continued technical assistance to help them harmonise Georgian law and practice with that of the EU. The EU's first rule of law mission was EUJUST THEMIS, deployed in Georgia from 2004 to 2005 to help reform the criminal justice system. Something similar may be needed to accelerate the process of reforming civil and administrative justice. And the Union needs to continue to show its support for Georgia's territorial integrity, and its determination to contribute to stability in the region, including through the EU monitoring mission deployed in Georgia after the Russian invasion in 2008.

The common space of research and education, including cultural aspects – bright horizons?

The common space of research and education has been the only one of the four spaces not to suffer from serious problems in implementation. It has been the area in which Russia has invested the most effort and cash: in the EU's seventh framework programme for research and technological development (FP7), which finished at the end of 2013, Russia was the most successful non-EU partner in terms of numbers of projects and the amount of funding. In contrast with some of the other common spaces, Russia contributed significant funds to co-finance research in areas of mutual interest.

It is too early to say whether this level of co-operation will continue under the successor to FP7, 'Horizon 2020'. In the March 2013 progress report on the common spaces, the Commission foresaw "a real risk of a steep decline in Russian participation" because of changes in the funding system for international participants in EU research and innovation projects (something which will affect other EU partners as well as Russia). A contentious reorganisation of the Russian Academy of Sciences and its multiple subsidiary institutes may also cause disruption in 2014. Ironically, the December 2012 EU-Russia summit designated 2014 'The EU-Russia year of science, technology and innovation'.

In the education field, both the EU and Russia are keen to increase the number of exchanges. The EU should

consider whether it could do more to attract Russian students to EU higher education establishments, and whether it could build stronger links to Russian universities by setting up more EU centres in Russia. There are currently six, only one of which is east of the Urals; and many centres of higher education and major cities, including Novosibirsk, Volgograd and Yekaterinburg, lack them.

“The EU should consider whether it could do more to attract Russian students to EU higher education establishments.”

Apart from the academic benefits of student and professional exchanges, increased educational links are a long-term investment in improving EU-Russian relations. They expose more of Russia's and the EU's future thinkers and leaders to each other's countries and cultures; they give ordinary Russians the chance to see the realities of life in Europe, particularly in former Communist countries that have made successful transitions to democracy and market economics; and they enable the two sides to build connections between non-officials that may be useful even when the political atmosphere is frosty.

Conclusions – From chill to what?

For all the elements of competition and tension in the EU-Russia relationship, this does not have to become a new Cold War. The Russian elite need the EU too much; they have no wish (in Khrushchev's famous expression) to "bury" it. But Moscow wants to weaken the Union's influence in Russia's neighbourhood, and to ensure that European notions of rule of law and effective multilateral institutions do not spread too far, at the expense of Russia's preferred great power politics.

The EU should resist Russian pressure, but maintaining its internal unity will be difficult. Treating Russia as a strategic rival but occasional tactical ally, rather than a partner sharing the same values and aims, will be a challenge for a number of member-states. Many, including some of the largest, would rather concentrate on having good economic relations with Russia than competing with it politically. But if Europeans want to live in rules-based societies, they cannot complacently allow Russia to undermine in Europe's eastern neighbourhood the principles that have made the

EU, for all its current economic troubles, a beacon of prosperity and political freedom.

Equally, the EU and its member-states cannot just close down relations with Russia: for the foreseeable future it will remain a major trading partner, a key supplier of energy to many European countries and an important and influential foreign policy player in Eastern Europe and beyond. But Europeans should not behave as though every Russian complaint about the EU demands a concession, or as though a Russian sphere of influence in Eastern Europe is an acceptable notion in the 21st century. This should be a relationship between two equals, not a bear and twenty-eight rabbits.

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