Arkady Moshes*

THE EU-RUSSIAN STRATEGIC PARTNERSHIP: A PATIENT IN A DEPLORABLE CONDITION

The purpose of this paper is not to argue that EU-Russian relations are in a state of crisis. A workable and apparently sustainable model of economic interaction has no doubt emerged as a basis of this relationship. In 2011, the trade between the sides set a historic record and surpassed the 300 billion euro threshold. The present economic interdependence can be illustrated through the use of a simple observation: the more Russia exports to Europe, the more it imports from Europe, and this propels the mutual interest. In other words; there is a positive story to tell.

Moreover, it is well-known that "strategic partnership" is a fairly imprecise term used indiscreetly around the world to label quite diverse types of relationships. The sheer size of the trade exchange between Russia and the EU justifies the applicability of this term to the EU-Russia case in the eyes of both the naturally optimistic and the people whose job description predisposes them to promote the optimistic view. At the same time, more importantly, this conveniently distracts attention from existing concerns.

The problem, however, is that from its inception the EU-Russian partnership was expected to become more than a simple exchange of Russian hydrocarbons for European-made machinery, medicine, food and, not least, luxury goods. It was seen as a process of incremental norm and value-based rapprochement, potentially leading to integration, at least in certain fields. From this perspective, the results are not satisfactory.

The fifth anniversary of the start of negotiations on a new framework agreement between the EU and Russia, which were – rather pompously – launched in June 2008, is highly unlikely to be crowned with the birth of a document. In fact, June 2013 the 10th anniversary of the agreement

** Arkady Moshes is Programme Director of "The EU's Eastern Neighbourhood and Russia research programme" at the Finnish Institute of International Affairs (FIIA), Helsinki.*

On 27th and 28th of September 2012 the fourth German-Nordic-Baltic Forum took place. The conference was entitled "EU Responses to external challenges as seen from Germany, Poland, Nordic and Baltic countries and the EU neighbourhood". Not only experts from the Baltic States, the Nordic States, Poland and Germany participated in the forum, but for the first time also scientists coming from those countries to which the EU policies are addressed. Thus, a fruitful exchange of ideas and opinions among the stakeholders involved on the contents of the European Neighbourhood Policy (ENP) and its perception among the partner states could be achieved.

The expert seminar was organised by the Institut für Europäische Politik (IE) in cooperation with the Finnish Institute of International Affairs (FIIA), Helsinki and took place at the premises of FIIA. The conference was generously supported by the Federal Foreign Office and the Finnish Ministry of Foreign Affairs.

on the so-called 'four Common Spaces', which envisaged the introduction of common standards in the economy, external security, justice and home affairs, and culture, education and research will be even gloomier. Strategically speaking, the two parties are as far from implementing that deal as they were at the moment when the deal was concluded. And the 20th anniversary of the Partnership and Cooperation Agreement (2014) is promising to be yet another sad reminder of the failure to move towards the goal which was once set: harmonization of norms between the EU and Russia.

On a practical level, the partners show signs of exhaustion. Expectations are low. Summits are routinely held twice a year, often in exotic locations in Russia, and the dialogue is said to go on, but the last tangible agreement – on visa liberalization – was initialed as far back as October 2005 and came into force in July 2007 (Russian WTO entry is not a bilateral compromise as such). Furthermore, Moscow openly declares that it would like "to catch China's winds in Russia's economic sails" and, to the extent possible, to reorient its ties to Asia and the Pacific[1]. By so saying, it reveals Russia's vision of its future partnership with Europe – or rather the decline of interest towards it. As for the latter, the critical image of Russia in the European media indicates well that it also sees the limits of interaction clearly enough.

The dreams that did not come true

The key areas, where the gap between the two sides is widening, include the following.

First of all, it is in the field of energy. True, on the one hand, the mutual EU-Russian complementarity in this field remains the backbone of economic interdependence. But on the other hand, years of arguments, resulting in the failure to create a mechanism that would guarantee reciprocal security of supply, demand, transit and investment have taken a heavy toll and undermined mutual confidence. In 2009, Russia withdrew from the Energy Charter Treaty, thus ruling out the prospect of cooperation that would make possible the transit of Caspian and Central Asian hydrocarbons to Europe. Gas wars between Russia and Ukraine in 2006 and 2009, which affected several EU member states, have shaken Russia's reputation as Europe's reliable energy supplier and provoked Brussels into responding by making sure that energy will remain a commodity only; not an instrument to promote the political status of Russia as an "energy superpower". In 2011, the so-called "third energy package" entered into force in the EU which

[1] See V.Putin. Rossiya v menyayushchemsya mire (Russia in a changing world), *Moskovskie novosti*, 27 February 2012, http://mn.ru/politics/20120227/312306749.html .

requires energy companies to "unbundle" production, transportation and sales. Moscow interprets this legislation as working directly against Russia's economic interests. The September 2012 launch of the European Commission's investigation aimed at preventing the possible abuse of Russian Gazprom's monopoly status in certain EU member states, as well as the regulator's efforts to promote a truly common European energy market, have visibly irritated Moscow.

This tug of war is likely to continue. Russia has powerful allies at the company level and other well-developed lobbying instruments to defend its positions. Yet, for the EU, applying the regulations in full is crucial, not only for economic reasons – to increase the competition and lower the energy prices in its domestic market – but even more so in order to maintain institutional credibility.

Second, the political objectives of the EU and Russia in their Common Neighbourhood are difficult, perhaps impossible, to reconcile. Europe may not have the resources, or the understanding as to how to achieve its goals, but it would certainly want to see the region transforming and moving towards the goals of liberal democracy and a functioning market economy. Unlike in the case of Russia itself, which Europe has acquiesced to deal with it "as it is", the status quo in the region – let alone regress in terms of the development of democratic institutions, as it was witnessed in Ukraine under President Viktor Yanukovych – is not seen as acceptable. The EU has made its most promising regional partners the best offer it could: a deep and comprehensive free-trade area and an association agreement. This decision was of fundamental importance in its own right. It showed that *de facto* the EU policy towards its immediate Eastern periphery was decoupled from relations with Russia. Indeed, to a visible extent, this policy runs parallel with the latter, thus implicitly denying Russian veto power and the *droit de regard* in the region.

The Kremlin does not welcome these prospects. It hopes to increase its own influence across the region, but can only hope to do so if the old, non-transparent, "post-Soviet" rules of the game are preserved. One is free not to accept the journalistic cliché of a "geopolitical rivalry", but the clash of conceptual approaches is undeniable, and this has profound implications in practical policy. The EU-Ukraine free trade and association would be at odds with Moscow's preference to bring Ukraine into the Russia-led Customs Union with Belarus and Kazakhstan. The deterioration of Europe's relations with Minsk, which followed the repression of opposition after the 2010 presidential election, contrasts starkly with the international protection and economic support rendered to the Belarusian regime by Moscow, eliminating the last illusions about a possible joint or coordinated EU-Russian course vis-à-vis the regime in Minsk, which some in the EU had

harboured in the past. The lack of practical measures taken to implement the 2010 Meseberg memorandum between Russian president Dmitry Medvedev and German Chancellor Angela Merkel, aimed at bringing progress to the resolution of the conflict in Transnistria, demonstrates that the Kremlin does not intend to assist Moldova's integration with the EU in any way.

Third, disagreements on security matters run deep. Long gone are the days of the Russian-German-French axis which emerged during the preparation for the US-led invasion of Iraq. Today, Russia and the EU are on opposite sides concerning a long list of issues from Kosovo to Georgia. Moscow's cooperation with the West on Libya was an exception, whereas the diplomatic conflict on Syria is the rule. The two-year discussion of the Russian proposal to conclude a new European Security Treaty only underlined the reality: whereas Russia's EU partners together with the US believe that a European security order based on the OSCE and NATO is adequate and does not need structural changes, Moscow finds the situation once again placing Russia in an inferior position. Meanwhile, Russia's own planned increase in defence expenditure – in a situation when the country withdrew from the treaty on Conventional Forces in Europe – gradually starts to provoke concerns in the neighbouring EU member states at least.

Fourth, the value gap is widening. The hopes for political liberalization in Russia have waned after Vladimir Putin returned as the country's president. For economic interaction, this is not a critical impediment. However, the strengthening of a system of governance which is known for its corruption, selective justice, lack of rule of law and many other ills, establishes a context which is not conducive for partnership. Europeans do not envisage many new opportunities emerging in Russia in the years to come. This does not make Russia "evil" or a "threat", but it does stimulate business people to look beyond Russia and to look for better chances elsewhere.

In addition, it is obvious today that the "pilot projects" which were used to circumvent the general stagnation have not worked as hoped. Primarily, this concerns the much-advertised "partnerships for Russia's modernization". Well-intentioned – they were seen as a way around an impasse in the negotiations on the new framework agreement – the multiple "modernization partnerships" remain declarative and largely lack substance. From the institutional point of view, it is a step back if compared with commitments taken before (the same "common spaces", for instance, or obligations within the 1994 Partnership and Cooperation Agreement, which formally remains the legal base of the relations, even if not fully complied with). From the political point of view, it deprives the EU of initiative and conditionality instruments. If Russia chooses to

modernize, the EU may be invited to get involved and help, but if not, there is nothing that Europe can do. The choice lies with Moscow in full.

Visa liberalization is another example. This issue of utmost importance for ordinary citizens visa-free travel was recognized as a long-term policy goal many years ago. In practice, however, this goal was substituted with easing travel conditions for certain categories of people, which by definition had a privileged status (sportsmen, businessmen, researchers, close family members, and most of all – holders of diplomatic passports). At the moment of writing, a comprehensive visa-free travel between Russia and the EU is not in sight. The worsening human rights situation in Russia, which can potentially provoke a wave of asylum-seekers, is an additional factor in this regard, as it is a no less realistic concern than illegal labour migration. This outcome is especially regretful, since, for as long as Russia was initially a *demandeur*, the EU had a chance, however slim, to apply conditionality and to promote overall freedom of movement in Russia. But that chance seems to have been missed. Instead, the EU's reluctance to demonstrate its willingness to really move towards visa freedom, even if strictly conditioned, helped the authorities to portray the EU negatively inside Russia.

At the moment, the EU's new hopes are linked with Russia's recent entry to the WTO. From the political point of view, it goes without saying that Russia's accession to the organization is a fact of primary significance. From the economic point of view, however, the effects should not be exaggerated. They will not dramatically change the picture described above.

First, the WTO implementation process is prone to unpleasant surprises. From September 1, 2012, for instance, Russia introduced a new recycling fee on imported cars, which nullifies the tariff deduction. This measure is fully legal, but it does not correspond with the spirit of the agreement. And this may only be the beginning. The above-mentioned Customs Union may further complicate things. The reason is not economic protectionism *per se*. It is rather the philosophy, according to which an automatic application of any externally-set rules should not be allowed in Russia since it undermines the political control and loyalties inside the country. Second, in relative terms, trade creation effects will not be large. It is estimated that EU exports to Russia will grow by up to 3.9 billion euros annually – if everything goes right[2]. But in 2011, EU exports to Russia grew by almost 22 billion euros, thanks to the high price on the Russian exported hydrocarbons, which

[2] EU welcomes Russia's WTO accession after 18 years of negotiations. *European Commission Press Release* IP/12/96, Brussels, 22 August 2012 http://europa.eu/rapid/pressReleasesAction.do?reference=IP/12/906&format=HTML&aged=0&language=EN&guiLanguage=en

enabled Russia to increase imports. This means that the final impact may be for the markets to decide, and this is not an optimistic assumption in a time of global economic uncertainty. Third, in comparison with the full free trade, which is realistically achievable between the EU and Ukraine or the EU and Moldova, the WTO-linked tariff reductions in Russia do not appear to be an overachievement, once again underlining the fact that, institutionally, EU-Russian economic partnership lags behind.

Is there good news?

This grim picture is not a novelty. What is new is the change in attitudes to it[3].

Traditionally, Moscow used to express a very self-confident approach. It behaved as if it thought that it would always be able to dictate to the EU the conditions of a compromise and saw nothing "dramatic" in the absence of a compromise at all. There were several reasons for that. One was a generally dismissive view of the EU as an economic club with limited police functions and no prospect of having a real common foreign and security policy. Moscow's proven capability to use bilateral ties with several member states to undermine the common line supported that view. Another reason was Europe's consent to pursue so-called pragmatic interests in relations with Russia and to pay only lip service to liberal values. In other words, Moscow assumed, and had good grounds for this assumption, that money, or the promise of money, would buy influence and attraction.

Yet another reason was the EU's weakening position inside Russia. The pro-EU constituency in the country was indeed shrinking. Europe's objective difficulties were extensively reported to draw a picture of an approaching catastrophe. In parallel, the general public was constantly reminded of the EU's "unfriendliness", as on the visa issue, while the pro-European liberals were frustrated with the EU's apparent readiness to trade economic benefits for liberal principles. In the eyes of Moscow, the best proof of the validity of this self-confident approach was the EU's line in autumn 2008, after the Russian-Georgian crisis, when relations cooled for some time, as the EU reportedly needed "to review" its approach to Russia, but then quickly returned to "business as usual".

[3] I dealt more with some of these issues in A. Moshes. Russia's European Policy under Medvedev: how sustainable is a new compromise? *International Affairs,* Vol. 88, No. 1 (2012), pp. 17-30.

Indeed, an impression was created that it was the EU, more so than Russia that needed an unproblematic relationship. But in the same autumn of 2008, with the arrival of the global economic crisis, the situation started to change – slowly, but surely. In fact, in November 2008, by the publication of the "Review of EU-Russian relations", a clear signal was sent that set the right perspective. The document concluded that the EU can be firm in its relations with Russia since Russia needs the EU markets no less than the EU needs Russia[4].

But the real game-changer was the evolution in the global gas market. Due to the arrival of new technologies, of liquefied and especially shale gas, the mantra of the lack of alternatives to the energy partnership with Russia was forgotten. And even though the issue remains complex and the fight between the lobbyists continues, the strategic picture does not justify exaggerated worries about "freezing in the winter". Instead, it is Gazprom's turn now to guarantee sales by offering price discounts and other benefits to major European consumers. Meanwhile, it is also becoming clear that Russia's plans to re-orient energy export to China and other Asian markets can be implemented only to a very small extent. As a result, the EU-Russian energy relationship is ceasing to be a security issue, and is progressively becoming a commercial one, which boosts the EU's confidence and makes the Commission an appropriate authority to deal with it.

On a separate note, today, the EU is closer to a common position on Russia than ever before. On the one hand, the "new" member states, which are now sending their second generation of EU commissioners and European Parliament members to Brussels, are better able to make themselves heard within the EU and are less worried that their interests are being discussed with outsiders behind their backs. On the other handsome of the "old" and "big" states, Germany in particular, are growing more critical and frustrated with false expectations and illusions in their relations with Russia[5]. For this reason, they do not appear ready to continue to pursue their own mercantile interests in Russia or the Eastern Neighbourhood more generally at the expense of the common agenda.

Somewhat paradoxically, perhaps, the EU-Russian relationship now looks more like a relationship of equals than at any time previously. If expectations are low, they are equally low. If all parties decide to take this relationship further, one party will not be expected (nor interested) to contribute or sacrifice more than the other.

[4] Review of EU-Russian Relations. Memo/08/876, Brussels, November 5, 2008.
[5] See more in H.Adomeit. German-Russian relations. Balance sheet since 2000 and perspectives until 2025. *IFRI etude prospective & strategic*, 2012.

What to do?

At the moment, however, radical changes are hardly possible. The EU-Russian strategic partnership was designed for a different Russia – less rich, but more pluralist and "European-minded", more able to realize that the Europe of the 21st century is not a geographic or historic concept, but an entity based on certain norms and rules. Therefore, EU-Russian relations are, and will be, to a large extent a function of Russia's domestic choices. A primitive trade exchange is for the foreseeable future possible with any regime. But a sustainable strategic interaction on either bilateral or global issues could take place only if Russia profoundly changed internally, if it made itself more open and guaranteed security of investment, if it fought corruption and moved towards a rule-of-law state. In view of the record of Russia's current administration, however, this would be too much to expect.

In these circumstances the minimalist approach – "dealing with Russia as it as" – may be the only option available in practice, for the time-being at least. Such an approach by Brussels is acceptable for Moscow, as it gives the Kremlin full freedom in its domestic politics and does not interfere with the plans of Russia's ruling circles to perpetuate their stay in power. It is acceptable for Europe in a situation when Russia's challenge in either economic or soft power terms is not as strong as it was feared some years ago. In addition, it is well-known that small expectations are the best safeguard against disillusionment. In view of this, it is better not to have a new framework agreement at all, than to have a bad one or to tolerate non-compliance, as it sometimes happened before.

But a strong warning against complacency is needed, notably the conviction that time and markets will "do the job", that a rule-based, European pattern will somehow become the role-model for Russia. Many within the EU seem to underestimate the risk of importing the ills which they believe only exist on the Russian side of the divide, ills like corruption and non-transparent practices. The EU should be advised to increase the efforts at enforcing their own rules at home. In particular, the EU should continue the work to build a common energy market. It should fight against monopolism, distortion of competition, and seek to further diversify sources of energy supply.

The EU and its member states should pay greater attention to the lobbying practices at play, which threaten the success of this policy. It has been convincingly argued by some analysts, that the EU needs greater transparency in the operations of foreign-financed consultancies and the

work of former EU and government officials in the service of external energy companies[6]. Meanwhile, it is high time to increase the security of confidential information.

But the challenge to "put one's own house in order" and build proper firewalls, however big they need to be, pales in comparison with the need to reach out to Russia. The EU has to learn to speak "beyond Putin" – i.e. beyond conservative ruling elites, to by-pass the ineffectual bureaucratic interface and to engage with the wider public. The actual size of the pro-European constituency in Russia is not known. As observed in this paper, it has been shrinking under the impact of different factors. And yet, sympathies to Europe exist, and its power of attraction extends rather far. The EU has to identify the needs and expectations of this constituency, to address those needs, while at the same time informing this constituency better about the EU's own interests and policy in Russia. And the first thing to do in order to engage with this community is to restore its own credibility as an actor which cares about European values and wants to promote them externally.

In its current shape the EU-Russian strategic partnership is less and less worth its name. If the EU wants to change the trend, it should start thinking about how to contribute to fundamental transformations inside Russia.

[6] For details see K.Smith. Unconventional Gas and European Security: Politics and Foreign Policy of Fracking in Europe. *CSIS paper*, 2012, p.13.