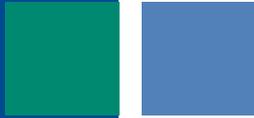


NO. 50  
April 2008



# FACTS & FINDINGS



## Prospects for EU-Russia relations

by Fraser Cameron | Horst Teltschik (ext.)

The EU and Russia are two of the most important, albeit very different, global actors, with many shared interests. Both sides, however, have found it difficult to understand each other's interests and motives. Russia is undergoing an unprecedented historical political, economic and social transformation. Change can only come from within Russia but the EU has a positive role to play. Russia has regained power and influence thanks to rocketing energy prices. With the signature of the Lisbon Treaty, the EU seems finally to have emerged from its navel gazing and is contemplating a greater role in external affairs. Although Russia has been designated a 'strategic partner' of the EU, there are a growing number of problems, from foreign policy to internal developments which cause an increasing number of member states to doubt whether it is still worthwhile to attempt to negotiate a new strategic partnership agreement with Russia. There are different perceptions within the EU and in Russia about recent trends. Some member states view Russia as a threat while Russia views NATO enlargement as a threat. Following the recent change in leadership in Moscow this paper considers the prospects for EU-Russia relations. It argues that both sides should seek to adopt a win-win attitude rather than scoring points off the other side.

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ISBN 978-3-940955-00-5



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## SUMMARY

- The EU and Russia are neighbours with many shared interests. They should approach their relations in terms of seeking win-win outcomes.
- Russian-EU trade is at historic levels. Russia's entry into the WTO should be followed by negotiations for an EU-Russia free trade area.
- There should be a comprehensive discussion with Russia on shared threats (terrorism, proliferation, regional conflicts), how to tackle them, and areas of dispute (Kosovo, missile defence, NATO enlargement). The aim should be a new comprehensive European security system.
- Energy should be a major area of cooperation, not confrontation. Russia needs the EU as a reliable customer. The EU needs Russia as a reliable supplier. The EU can help Russia improve its energy efficiency.
- The EU-Russia relationship needs a political impetus which can come from the new leadership in Moscow and a more confident, united EU. Russia should stop its purely negative coverage of the EU in the media. There are many practical steps that can be taken from improvements at border crossings to increasing student, youth cultural and scientific exchanges.
- Russian internal developments are worrying but we must remember Russia's historical legacy. The EU should encourage President Medvedev to live up to his own statements and Russia's agreed international commitments regarding the rule of law.

## RUSSIA INTERNAL

The 2 March presidential elections resulted in an overwhelming victory for Dimitry Medvedev, the United Russia candidate and protégé of Vladimir Putin. Medvedev will take over the reins of power officially on 9 May and has indicated that Putin will be his prime minister. There is much speculation as to how this new duo will work together in practice. The new team will have overwhelming support in the Duma where United Russia secured almost two-thirds of the seats in the December 2007 elections. In speeches before the election, Medvedev spoke of the urgency of developing the rule of law, an independent judiciary, tackling corruption and reducing the role of the state. But how will Medvedev behave in office and what are the challenges he faces? It is important that the EU gives Medvedev the opportunity and indeed encourages him to live up to his campaign promises. Medvedev has acknowledged that much has to be done to promote a

strong civil society, an independent media, private property and entrepreneurship.

One of the worrying trends during the past four years has been the encroaching role of the state in more and more areas. Over 50% of the economy is now controlled by companies chaired by Kremlin officials. The majority of the media is under state control. Civil society is under constant tension. To a large extent, the rule of law and an independent judiciary exist only on paper. Research earlier this year by the EU-Russia Centre reveals limited understanding and support for democracy in Russia. Less than a third of Russians understand the importance of the separation of powers and 62% prefer a 'strong president' combining executive, legislative and judicial functions. These results testify to the major role played by the state-controlled media in influencing attitudes.

President Putin has been fortunate to preside over an economy which has been bolstered by high energy prices. But his government has failed to tackle sufficiently any of the major social problems such as the poor state of the health service (around 30% of the 142m population cannot afford medical care), the demographic catastrophe with the population shrinking by 800,000 annually, or the dismal standard of pensions (around €50-150 per month). Nor has the government made much headway in attempts to diversify and sustain the economy. Inflation is rising and there is much concern about increases in food prices and housing costs.

President Medvedev will thus be confronted with a number of social and economic problems which will require careful political management. Prior to the election he spoke of the urgent need for reform and to stamp out corruption. But it is an open question as to how far he and his new government led by prime minister Putin can reform the system when so many of the leading clans prefer the status quo. In foreign policy it will also be interesting to see whether he continues the more assertive approach to foreign policy or whether he seeks a more moderate tone and a constructive approach to the EU, NATO and the OSCE.

## ENERGY SUPERPOWER

Russia possesses the world's largest known natural gas reserves (28%) which put it ahead of Iran and Qatar. Gazprom alone controls 17% of the gas reserves of the world. Russia holds the eighth-largest proven oil reserves in the world and is the second-biggest producer and exporter of mineral oil. Russia also holds the second-largest coal reserves in the world after the US. At present more than 440 hydroelectric and thermal power plants, 77 of them coal based, and 31 nuclear reactors provide the electricity Russia needs. Russia's share in the global nuclear energy output is 5.4%,



far below that of such major nuclear energy consumers as the US, France and Japan. However, it is large enough for Russia to export considerable quantities of electricity to the former Soviet republics, China, Finland, Poland and Turkey. Yet some analysts have doubts whether Russia can fulfil its present commitments beyond 2010 unless there is massive new investment in the energy sector. This will require Western finance, technology and know how.

The EU member states often appear scared in case Russia turns off the tap, as it did briefly with Ukraine and Belarus. But Gazprom gets almost 70% of its profits from sales to the EU so why should it wish to endanger its revenues? Putin has repeatedly insisted to the EU that Russia is a reliable supplier. As the largest consumer of Russian energy the EU has certain leverage (there are alternative suppliers) but so far has failed to use it.

### RUSSIAN FOREIGN POLICY

Russia's markedly active foreign policy is principally based on the energy sector and the improving economic performance of the country. Energy diplomacy, arms sales and investment are cornerstones of Russia's new drive for increased influence in the world. Although Russia has opposed the EU and US on a number of major international issues, it has nevertheless avoided open confrontation with them. It emphasizes the need for continuing dialogue in the interest of global stability and security. Russia disapproves of what some regard as a US unipolar world. It supports instead a multipolar system with Russia being one of the "poles". Russia still considers it has a *droit de regard* concerning its neighbours and the CIS at large. There is little evidence of new thinking about security issues in Moscow. Russia has to overcome its old stereotypes about the EU and NATO as threatening organisations while the West should stop regarding Russia as an imminent threat.

The ruling elite, however, is unlikely to endanger its own stability, the inflow of money and the ability to spend this money abroad by embarking on military adventures. Russia will thus continue to seek ways to increase its influence but caution will characterise its foreign policy. President Putin's more nationalist and assertive foreign policy may have gained him domestic support but few friends abroad. Russia and China are the cornerstones of the Shanghai Cooperation Organisation but both harbour suspicions of the other's intentions.

Increasingly Russia tends to lump the EU/the US and NATO together with many politicians and analysts criticising 'the West' for seeking to weaken Russia. There is considerable resentment at the alleged neglect of Russia by the US, as

Putin believes that he went out of his way to accommodate the US after 9/11 and received little in return. The West was charged with bombing Kosovo, invading Iraq, expanding NATO and promoting the Orange and Rose revolutions. The US decision to install radar and missile defences in Poland and the Czech Republic has been met with counter threats and Russia's withdrawal from the CFE treaty. More recently, Russia has asserted its rights in the Arctic and resumed strategic bomber patrols. It is time to launch a discussion with Russia on common external threats.

At the same time there has been some useful cooperation with Russia in dealing with nuclear safety and proliferation, Islamic terrorism (regarded as major threat by Moscow) and crisis management (North Korea, Middle East). It is important that the EU is perceived as developing its own united policy towards Russia and not following any line laid down by Washington. The EU and US have different interests (e.g. trade and energy) with regard to Russia but this should not hinder a frank exchange of views on Russian foreign policy within the transatlantic dialogue.

*Kosovo:* The most serious divisions are over Kosovo, where Russia has been strongly critical of EU and US recognition of Kosovo's independence. Although Kosovo is not a big popular issue in Russia, it is an important question for the pan-Slavic lobby and the increasingly powerful Russian Orthodox church. Russian officials see the issue as one they can exploit for leverage on other questions. They point to double standards eg over northern Cyprus, and warn of possible consequences in the Caucasus and elsewhere.

*CFE Treaty:* The CFE pact, signed in 1991 and amended in 1999, not only limits the number of tanks, artillery, military aircraft and helicopters deployed by Russia and NATO states, it also contains a raft of confidence-building measures involving, for example, mutual notification of overflights or the firing of missiles. Why is there disagreement? Moscow wants the three Baltic states to be covered by the CFE provisions. These three states were still part of the Soviet Union when the CFE was agreed in 1991 but are now part of NATO. NATO has its own demands. It says it will not ratify an amended version of the CFE unless Russia abides by what it believes is a commitment from Moscow to withdraw troops from two former Soviet republics, Moldova and Georgia. President Putin suspended Russia's participation in the CFE treaty on 12 December 2007. These issues do not seem insurmountable and both sides should meet as soon as possible to agree on the terms for ratification of the CFE treaty.

*Missile deployment:* Russia's move on the CFE treaty is a direct response to US plans to deploy a radar and missile defence system in the Czech Republic and Poland. That has no deadlines, but the action has aroused deep Russian sus-



pcion, being compared by Putin to the Soviet Union's installation of missiles in Cuba. The US plan to deploy a missile defence shield in Europe is also a divisive issue in the EU, and even in NATO. Public opinion in the Czech Republic and Poland – and many other member states – is largely hostile. There is little doubt that Russia will seek to exploit this European scepticism. The correct forum to discuss this issue should be the NATO-Russia Council.

*Iran:* Only on Iran is there a greater meeting of minds as Moscow would not like a nuclear Iran on its borders. But Russia remains opposed to more sanctions that might threaten its commercial interests. But again the EU and Russia have more in common than disagreements on this major issue.

*NATO enlargement:* NATO holds its annual summit in Bucharest in April, where further candidates for membership – such as Albania, Macedonia and Croatia – will be considered. NATO enlargement is still a red rag to the Moscow military establishment. NATO should thus be cautious in addressing the question of new members. It needs to maintain an 'open door' policy while insisting that Russia has no veto rights over further enlargement. At the same time NATO should seek to intensify its cooperation with Russia and take into account Russia's legitimate security interests. In the long term there is no reason why a reformed Russia should not become a member of NATO, something that President Clinton proposed to Yeltsin in the 1990s.

*Russian Military:* Russia has used its economic growth to try and improve the condition of its armed forces which are in poor shape. Russia has approximately 1.4 million military personnel. It is envisaged that by the end of 2008 two-thirds will be regulars, and conscription will then be reduced to 12 months. Russia spends 2.7% of GDP on defence (approximately \$24 billion). By 2011, some 50% of that should be spent on running costs, and the other half on modernisation and equipment. The armed forces are still top heavy in their personnel structure, and they are increasingly struggling to maintain military discipline and sufficient morale to enable them to fight and sustain combat operations. For the next 10 to 15 years, the Russian military will continue to struggle with reform, and not many of the objectives set out by President Putin will be achieved. For example, according to Russian force planning, all intercontinental ballistic missiles (ICBMs) are supposed to be Topol-M missiles by 2015, but the annual production rate is a mere seven missiles. In the air force, just half of the aircraft are operational, 55% are older than 15 years, and new aircraft procurement is very low. Regarding air defence, Russia would need some 650 S-300 missiles, but only around 100 are operational. Overall, not much more than 20% of the Russian military equipment can be called modern, and 15 to 20% of all ma-

teriel can be classified as not operational. For all of these reasons, it is fair to say that today it is not the strength of Russia's military that is a cause for concern, but rather its weakness.

At the same time, Russia possesses a capable industrial base, and it exports \$7 billion worth of military technology to 82 countries. The Russian arms industry has been increasing for the past few years. Its major buyers include Venezuela, Iran, Syria, China, India, Algeria and Malaysia. Moscow expects its revenues from arms sales to total US\$ 6.5 billion in 2007.

## **EU-RUSSIA RELATIONS**

The EU has a major interest in a stable, peaceful, prosperous, democratic Russia that is a reliable trading partner, friendly neighbour and a supporter of an effective rules-based international system. Both sides are committed to a new strategic agreement that would replace the PCA. Russia contends that the 1997 PCA was negotiated during a period of Russian weakness and expects that new negotiations will be carried out by two equals. The EU contends that the PCA needs to be replaced in order to provide a legal base for new policy areas that have been developed over the past decade. These include sensitive areas of legal and police cooperation, foreign and security policy as well as the energy sector. Meanwhile there is much on-going business between the EU and Russia with officials meeting regularly and progress being made in different areas across the four 'common spaces.' The networking between large numbers of Russian officials meeting with their EU counterparts should not be under-estimated.

Work with Russia is progressing on many less visible areas, not least in the area of justice and home affairs. Meetings on trafficking of human beings, money laundering and terrorist financing are held on a regular basis between the Commission and the Russian authorities. Passenger data exchange also takes place in the framework of the agreement on Kaliningrad. An agreed priority area is improving the border crossing points between Russia and the EU.

With regard to foreign and security policy cooperation, Russia has shown little interest in the CFSP/ESDP. There has been no consensus within the EU, however, to grant Russia any special status. Many member states have also pointed to the difficulties of cooperating with Russia in this sensitive area when there are a number of issues where both sides take very different views e.g. Kosovo, the frozen conflicts. Nevertheless, given the importance of Russia as a global actor, the EU wishes to intensify efforts to work with Russia in foreign and security policy. The 'frozen conflicts' can only be resolved with Russian involvement. Russia is a key player with



regard to Iran, an important player in the Middle East and is keen to strengthen the multilateral system. The EU should discuss with Russia possible changes to strengthen international institutions, and seek to cooperate with Russia more in crisis management, peacekeeping operations and civil rescue missions.

In recent years, trade in goods between the EU and Russia has grown considerably. In 2006 Russia was the EU's third most important trading partner behind the US and China. EU exports to Russia have more than tripled, while imports have doubled. The sharp rise of energy prices has resulted in a large trade deficit (€70bn in 2006), but the margin has decreased. Energy accounts for two thirds of the EU's imports while the main exports are machinery and vehicles. In the same year, 32% of the total EU exports to Russia came from Germany, by far the largest exporter, followed by Italy and Finland. Germany also occupies the first place in imports from Russia, followed by the Netherlands and Italy. Even in countries with poor political relations with Russia, such as Poland and Estonia, trade relations have gained considerable momentum in the current decade. It is to be hoped that the remaining obstacles to Russia's WTO membership can be overcome quickly and that negotiations between the EU and Russia on a free trade area can start as soon as possible thereafter.

While the PCA arrangements provide for 'business as usual' the opening of negotiations on a new strategic partnership has been delayed due to a bilateral Polish-Russian trade dispute. Russian pressure on Estonia and Lithuania, and recent trade disputes with other member states such as the UK has not helped create an atmosphere conducive for negotiations. Some of the newer member states have pressed the EU to adopt a tougher approach towards Russia, a stance not necessarily accepted by other member states. The advent of Merkel and Sarkozy has led to a change in rhetoric if not substance. If and when the negotiations start they may last for at least two years with a further two years for ratification. The EU has a number of strong cards to play including the sheer size of its internal market, its consumption of Russian energy (in a global market), its technology and its know-how in finance, social, environmental and regional issues.

Russia is one of Europe's main energy providers. Many EU member states (especially new member states) are heavily dependent on Russian natural gas and oil for their domestic energy consumption needs. In absolute figures, Germany is the largest importer of both Russian gas and oil. The past few years have seen a tension in EU-Russia relations because of the rise in energy prices and Russia's assertive behaviour with some of its other neighbours (Ukraine, Belarus, Georgia, Moldova) in reviewing the terms for energy supplies.

This has led to recent proposals from the European Commission for the creation of a comprehensive European energy policy. The latest such proposal, the Third Legislative Package for the EU electricity and gas markets contains safeguards against majority ownership by foreign businesses of EU electricity and gas networks. A clause of reciprocity in unbundling and other legal requirements is proposed. Furthermore, foreign control of a Community transmission system will be permitted only by way of bilateral agreements between the EU and the third country. Russia has considered these proposals as directly threatening Gazprom's intentions to invest in European energy assets.

Despite the difficulties of achieving a common EU approach towards Russia, it is incontestable that all member states are likely to be more effective in securing their aims by speaking with one voice. This applies to the security of energy supplies, investment protection to tackling international issues such as climate change, Kosovo, Iran and terrorism among other topics. At present, however, Russia finds it relatively easy to divide member states by offering energy deals. These are partly a reflection of short-term political and economic interests, and partly due to the absence of any real EU competence in the energy field. If the EU was given the power to negotiate with Russia on energy it would greatly improve the situation.

At present the EU and Russia seem to be talking 'past' each other, with Russia playing the energy power card and (most of) the Europeans insisting on values as part of discussions. It is vital to explain to Russia that a rules-based system is very much in its own interest, not least in helping to provide a more stable environment for domestic and foreign investment. The EU might also emphasise more its willingness to help Russia diversify its economy, bringing know-how and technology that is absent in Russia today. The present lopsided trading relationship is not healthy in the long-run for either side. The EU should stress its desire to see a prosperous, democratic Russia, as a long-term political and economic partner across the board. Cooperating on energy efficiency is a good example of a win-win situation for the EU and Russia. Russian membership of the WTO should also be a step on the road towards an EU-Russia free trade agreement.

#### **RUSSIAN VIEWS OF THE EU**

How does Russia see the EU? The official line is that Russia is eager to work with the EU. But the state media rarely provide any positive coverage of the EU. According to EU-Russia Centre research undertaken earlier this year, 71% of Russians do not consider themselves to be European and just over half view the EU as a threat to Russian interests. The EU, therefore, has a major task ahead in engaging with



Russians across the spectrum to inform them about the EU, to emphasise the importance of European values and to strengthen democratic forces in Russia. That engagement needs to take place among the leaders of tomorrow and will only be achieved by developing an understanding and appreciation of one another's cultures.

There needs to be a vast increase in the number of student, youth, cultural and scientific exchanges. The two sides might usefully establish a Young Leaders Forum. Serious consideration should be also given to abolishing visas, encouraging more visits to EU countries by Russians from all walks of life, giving them exposure to different values and societal systems. This would have an immediate and positive impact on people to people contacts. The previous EU cooperation and assistance programmes (TACIS) had only a marginal effect in Russia and one should not have over-high expectations of the new instruments.

## VALUES

The EU and Russia tend to overlook each others' values. Some member states have downplayed the importance of values in dealing with Russia. But the pendulum is now swinging the other way, partly due to changes in the leadership of several member states, partly due to the urgings of some new member states and partly due to developments in Russia. In September 2007, Transparency International ranked Russia as one of the forty most corrupt nations of 180 of the world's countries, while the World Bank ranked the country as the 106th easiest country to do business from a list of 178. If there is a further slide in popular attitudes towards Russia it may be impossible to get a new treaty ratified by all 27 member states. The EU should recognize the very difficult historical legacy facing Russia, but the bottom line for the EU must be to insist that Russia respects the commitments it entered into on democracy, human rights and the rule of law in the 1990 Paris Charter, the Council of Europe which it joined in 1996 and the 1997 PCA. The EU should press Russia to ratify Protocol 14 that would greatly speed up court procedures in Strasbourg.

## CONCLUSION

No one can predict which way Russia will go in the coming years. Russia is still far freer today than for most of its history. But the authoritarian trends are worrying. EU-Russia relations are at a crossroads. While it is tempting for some EU member states to strike bilateral deals with Russia the EU should seek to promote a united front towards Russia and ensure that its values remain a key part of any negotiations. A sound and long-term relationship cannot be built between two actors who do not share common values and mutual respect. Both sides suffered greatly as a result of two hot wars

and one cold war during the twentieth century. The EU's primary interest should be to help promote a stable, democratic and prosperous Russia that enjoys the same civil liberties and rule of law as EU citizens. The negotiations for a new strategic partnership should be judged on whether they promote these aims. There are many issues where the EU and Russia share common interests and the attempt should be to find win-win situations in as many areas as possible. Both partners face common threats and have a shared responsibility to tackle these threats. This should lead to the development of a new European security system.

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*The authors wish to thank the participants in the Konrad-Adenauer-Stiftung Security Forum in Brussels for comments on this paper. The contents are the responsibility of the authors alone.*