

DISCUSSION SUMMARY

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EU-Russia relations in 2010*

TRENDS AND PERSPECTIVES IN THE NEIGHBOURHOOD POLICY

Assessments of the recent EU–Russia summit 2009 in Stockholm differ. Most experts see it as a new beginning for the EU–Russia relations – not so much because of the substantial progress achieved in some areas (the EU and Russia finally concluded an agreement on cross-border cooperation), but because it signalled a change towards a constructive mood in the relationship. While until recently, the parties lacked mutually acceptable positions on important issues and resorted to minor decisions, they now seem ready to work on important initiatives. The Stockholm summit showed that the EU has decided in favour of inclusion instead of sanctioning Russia. In return, Russia is abandoning its self-isolationist policies.

To more sceptical observers, the recent Stockholm summit brought meagre results. Although the meeting demonstrated an emergent rationality in Russia's policies, it has also, critics believe, demonstrated that the EU still lacks a realistic agenda for its relations with Russia. The EU, in this assessment, has no leaders, no concerted political will and no coherent strategy to deal with the relationship. The sceptical account of the EU–Russia dialogue has it that there are no significant new preconditions for more success in 2010 compared to 2008, a year that also started with high expectations.

Despite some positive, but low-profile developments, it is unlikely that big steps will be taken in the nearest future. The political dynamics of the presidential elections in Russia that are due in two years might push aside the modernisation agenda in the

country, thus creating a less favourable climate for the EU–Russia relations.

After the Lisbon treaty came into effect in 2009, and with the EU's external service hopefully up and running effectively soon, the two parties can talk more efficiently. Russia has always been positive towards the Lisbon treaty process and does not see the Lisbon treaty as an impediment to its relations with individual member states; on the contrary, Russia hopes that the new arrangement will make the EU more understandable. The fact that there is, reportedly, personal chemistry between the EU's High Representative for Foreign Affairs and Security Policy, Catherine Ashton, and Russia's President Dmitri Medvedev also helps.

Russia's Foreign Policy Trends: From Zero-sum Game to Cooperation

Russia's foreign policy thinking is shaped by two competing logics. One is geopolitical, based on the idea of international politics as a zero-sum game. The other makes place for both competition and cooperation and focuses on the project of modernisation of Russia as a common effort that should involve Europe. President Medvedev's rhetoric reflects both these competing approaches.

Russian diplomacy is often guided by emotions, experts note. One of such emotions is the resentment over not being represented in the decision making process, but invited to take part when decisions already have been taken. In reality, however, Russia is not excluded from influencing the decisions even in such fora as Eastern partnership and the Baltic Sea Strategy which the country formally is not part of. There is in Russia a suspicion that the EU is intentionally un-

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dermining Russia's influence, hence the talk of EU imperialism, etc.

Such feelings and perceptions present a significant challenge, but they are changing fast. Russia's foreign policy is not as conservative as it sometimes is perceived to be in the West. It is multidimensional and is shaped under the influence of different people and different institutions reflecting a diversity of views and interests. The gradual cadre evolution in the Russian foreign policy establishment will bring in more people with modern thinking that is closer to the country's relatively more liberal expert community.

Specific EU-Russia Policy Issues: An Update

VISAS. The Russian public mostly judge the EU through the prism of the visa issue. The day Russians get visa-free regime with the EU, they will be much more inclined to feel as part of Europe. Russia has declared it is ready to reciprocate and abolish visas for EU citizens. The security issues linked to the visa issue can be solved as well. The coming EU–Russia summit in Rostov-on-Don could produce a roadmap for visa-free regime between the EU and Russia.

THE PCA. Despite its shortcomings, the current Partnership and Cooperation Agreement (PCA), is an effective legal document. It would be in everyone's interest to leave it in force instead of replacing it with a new, but vague and general declaration. The new PCA talks are far from their final stage, but the cooperation can be taken much further even before the document is ready.

THE WTO. Russia is sure now that it is not interested in joining the WTO under the conditions of the current economic crisis.

THE ECONOMY. Among other trends signalling more EU–Russia cooperation the experts mentioned the exchanges between ECOFIN and Russia's Central Bank on policies to address the economic crisis.

THE BALTIC COUNTRIES. Recently, Russia has been putting an effort into restoring its relations with Lithuania. Even if not always successful, this reflects a new trend: Russia has started paying attention to the relations

with the Baltic countries and wants them to be improved.

Modernisation: A Limited Role for the EU

Modernisation is a central part of President Medvedev's political programme; its failure would be his personal failure as well. For this reason, the idea of partnership for modernisation has become a central issue on the EU–Russia agenda. While the EU cannot modernise Russia, or even play a crucial role in the process, it can be a supporting factor; and the new agenda as such opens for new possibilities.

Russia liked the technical points in the partnership for modernisation plan proposed by the EU, but has shown little enthusiasm for the political points. Although delaying political modernisation and pursuing the technical modernisation first is not a sustainable way. Russia is likely to eventually embark on political reforms because of its own, internal reasons. The EU, however, should not be expected to insist on its wishes regarding political modernisation; the Union gives priority to the practical aspects of the relationship and is not going to get much involved in the quest for political change in Russia.

The Eastern Partnership: A Useful Toolkit, not a Readymade Solution

The European Union's Eastern Partnership initiative (EaP) with its palette of bilateral, multilateral and people-to-people cooperation instruments, illustrates how the Union's methods and approaches are hardly suitable for the pursuit of geopolitical goals, but may be good for promoting modernisation and reform.

Assessments of the effectiveness of the EaP differ. Some believe that it sends recipient countries a message of solidarity and will help them towards achieving stability, security and prosperity. Critics claim that the EaP is doomed to fail and point to its already low level of ambition and lack of substance. The EaP, they believe, was aimed to appease Central and Eastern Europe and to show that the EU has a proposal for the EU's Eastern neighbours. The sceptics doubt that the EU Commission is serious about the EaP.

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Some experts believe that lack of promise of full membership is EaP's weakness. While the EU enlargement was an important transformation tool for the former candidate countries, the EaP, critics say, is more about telling the six countries included in the program that the Union is not ready to enlarge again. Others argue that the accession experience is unique and, in countries such as Ukraine which are still far from ready to join the Union, the promise of accession would be perceived as victory, discouraging rather than encouraging further efforts to reform.

One reason for the EaP's weakness is that despite political, cultural and economic differences between the six EaP countries, the EU has a 'one size fits all' policy towards them. Russia, in comparison, tailors its approach towards each country on an individual basis. Even the sceptics, however, agree that the EaP is not without its merits and is helpful in supporting democratic transformations. It has already produced some positive results, such as the energy cooperation with Ukraine and re-westernisation of Belarus. In other important areas, such as rule of law, public diplomacy and civil society, there is promise of success.

The EaP and Russia: Potential for Conflict, Chance of Cooperation

Russia intentionally chose not to take part in the ENP (European Neighbourhood Policy) and it is therefore logical that it is not part of the EaP. This, however, is not a satisfactory answer to Russia's nervousness over the EaP. The initiative has been under the influence of the geopolitical thinking most clearly resurrected during the Georgian conflict. While the conflict sped up the internal consensus in the EU in favour of the EaP, there is fear in Russia that the initiative will make the countries choose between the EU and Russia and consolidate the 'anti-Russian' trends. Recently, however, fear has been giving way to a tendency to play down the significance of the EaP, to present it as 'nothing to be afraid of'. (Hence the ironic use of BUMAGA as the acronym for the six EaP countries, also meaning 'paper' in Russian.) Whether the EaP was primarily designed to send a signal of stabilisation to the respective countries, or, as some experts believe, to show that the EU has a strategy to compete with the Russian influ-

ence, because of the geopolitical rivalry between the EU and Russia, some opportunities for cooperation in the common neighbourhood are already being lost.

Russia has a legitimate interest to know whether the EaP will have negative effects on Russia's relations with the six countries in such areas as technical standards for trade, visa regulations, etc. Even though the bilateral component of the EaP will be the strongest, there is place for modernising synergies, using the third pillar of the programme envisaging third parties' participation. Although Russia's concerns about the EaP are unfounded, the only way to deal with Russia's (as well as its neighbours') fears is through dialogue. Russia-critical observers point out that more often the problem is not that the EU does not want to overcome obstacles together with Russia, but that Russia refuses to do so. Still, experts agree that the EU needs to seek cooperation with the Russian government on the EaP.

The Baltic Sea Strategy and Russia

Despite its initial scepticism of the Baltic Sea strategy (BSS), the EU has come to favour it as a way towards a uniform pattern of regionalisation in the Union. The Baltic Sea has been singled out as the most important model, and the EU Commission is serious about making sure the BSS becomes a showcase of regional integration.

Despite its aim – to make the cooperation in the Baltic Sea Region more effective – the Baltic Sea Strategy is seen by pessimists as a 'Christmas tree' of options without sufficient funding or power to influence the participating states' decisions, e.g. streamline the national ambitions for nuclear power plant building. Although the BSS still lacks clear priorities and may not achieve success in some areas, it is important and is still work in progress. The main idea behind BSS was the quality of life (the region hosts some of the world's most competitive countries). The EU would be wise to remember this and try to bring the Strategy closer to people and businesses in the region.

Vis-a-vis Russia, which fears being marginalised and excluded from international networks, the Baltic Sea region presents a special opportunity for involvement. It has mul-

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tiple regional institutions where Russia is in and has an opportunity – sometimes missed by the Russian diplomacy – to participate actively. The Finnish idea that the BSS should be an internal, and the renewed Northern Dimension policy an external pillar for the region, may be promising. The institutions of the region are non-political, but achievements on technical issues can, as the EU's own history demonstrates, give an important spill over to high politics. A positive experience in the Baltic region would have a benign influence on the EU–Russia relations in general.

The Russian Ladoga manoeuvres that were conducted in 2009 were aimed at training the defence of Nord Stream. There is a fear that such actions, as well as the recent statement by the Russian government that protecting the Nord Stream would be the new role for Russia's Baltic fleet, could lead to further militarisation of the region.

Scholars adhering to a constructivist school of thought offer a theoretical perspective on the issue, maintaining that security is always a choice. Some states, they argue, willingly resort to security arguments. Energy is being securitised by the Baltic countries, Poland and Russia for reasons outside energy area itself. Securitising energy, including the Nord Stream project, is a way to gain self-awareness. This constructivist argument suggests that the vicious circle of securitisation can be overcome. The public opinion in many countries is sceptical of Nord Stream and there is need for confidence building measures to show that the pipeline is a civilian, and not a security matter.

The EU–Russia Relations: Cooperation and Challenges on the Baltic Region's Energy Agenda

The discussion about EU–Russia energy relations should be seen in the context of global trends and challenges. The effects of climate change are already notable today. There are food crises in parts of the world, while critical resources such as water and uranium are diminishing. The scarcity of resources is already causing movement of people on a large scale. The Arctic, with its huge resources becoming available, is going to become increasingly important. Other developments, such as the advancement of

LNG technology and the rising purchasing power of China, are going to change the geography of energy supplies.

There is an excessive demand for energy and neither Nord Stream, nor any other project alone is going to be enough to satisfy it. To make optimal use of all available sources, there is need for more investment in research and development of next generation energy sources and technologies that provide new opportunities. The EU must not only focus on energy solidarity, but also trust in markets and create the necessary infrastructure to make them function. The EU should also do more to further decrease the energy intensity of its production.

In the last couple of years, progress has been made towards a coordinated energy policy in the Union. In 2008, the third package on liberalisation of energy markets was approved. Funds have been allocated to secure possibility of reversal regime for gas pipelines, to support the Nabucco pipeline and energy storage facilities.

There is a broad consensus on the necessity of diversification of supplies and transit routes as well as liberalisation of the energy markets. The EU should be more active in the CIS countries. With Kazakhstan's huge resources, Azerbaijan fast developing and Turkmenistan's real potential unknown, these countries could double their production capacity.

The EU has reassessed its priorities and now wants to speak in one voice to its energy suppliers. It is staking on a single energy market; this will demand much investment, but is possible, political will provided. The Lisbon treaty is potentially an important mechanism in this respect as it offers a legal mechanism for dealing with external suppliers, including Russia.

All of this sets the context for the EU–Russia energy dialogue which has been on for ten years and involves gas supplies as well as other topics, such as investment in new supply routes, the issue of monopolies, etc. An early warning system has been agreed on. Russia's gas fields have an enormous potential and Russia could provide all of Europe with gas; there are business opportunities for European companies in Russia

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and there is place for cooperation on energy efficiency – an issue that presents a challenge for Russia itself. Reliability of transit countries is an element of common interest in the EU–Russia energy relations.

There are differences of interest between Russia and the EU, as well. Russia wants to own part of the profitable downstream business in Europe; the Europeans want a liberalised and open gas relationship, while Russians prefer a long-term bilateral monopolistic market relationship.

Presently, there is not a single European point of view on EU–Russia energy relations. Different interests and perspectives are at play within the Union. Thus, Germany believes it has enough market power to ensure that Russia acts as a reliable supplier, but the country is also diversifying its gas sources, with only 40 to 50 per cent of its gas coming from Russia. In the German calculation, storage facilities are crucial and, assuming that interdependence means ‘mutual ability to hurt each other’, Germany can go for weeks without Russian gas. Even for countries that are 100 per cent dependent on Russian gas supplies, the matter of risks related to dependency of Russian gas is open to discussion. For example, Estonia which is 100 per cent dependent on Russian gas supplies and whose gas company is owned by Gazprom, has experienced neither disruptions in supplies, nor threats to the effect – not even during the Bronze Soldier crisis of 2007. Estonia, however, is not a transit country; it pays a high price for gas and produces its own electricity. Deliberate disruptions of gas supply would make no sense. All countries involved do not feel as confident as Germany, and more coherence on the issue within the EU is called for.

Experts note that the energy interdependence between Russia and the EU is asymmetrical. Russia may be more dependent on European gas demand than the EU is on Russian supplies: 70 to 80 per cent of the Russian gas is consumed by the European Union. The Eastern markets take up about six per cent. Although this share may grow as the East-Siberian pipeline enables Russia to become a swing producer and divert more of its gas to China, the EU will still remain the dominant customer, if nothing else than because it offers a much better

price (China currently offers to buy gas at 70 USD/m³; Europe at 450 USD/m³). This is particularly important because energy is the major provider of revenue to the Russian state; gas alone stands for 20 per cent of the country’s budget.

Despite its great potential, Russia’s energy production faces serious challenges. Gazprom’s situation has grown problematic. It could be further influenced by the ‘shale gas fever’ – a rapidly developing technology that opens new competitive sources of gas. As Gazprom is not investing enough in new technologies, its production is falling by approximately one per cent each year, and the company has accumulated a huge debt. A shift away from Russian gas to other sources, as well as liberalisation of the European gas market, could further deteriorate Gazprom’s difficult financial situation.

The Shtokman gas field has vast resources, but these can only be put to use under certain preconditions, such as a high level of gas prices (the development is expensive) and availability of technology for deep sea drilling. By 2020 Russia will need to invest 500-800 billion USD in its gas infrastructure. Europe is the prime candidate for undertaking such investment in infrastructure and technology, but the potential European partners are not rushing to help because of lack of security and negative experiences with previous investments.

Russia’s oil production has fallen since 1990-s and the country can only fulfil its European commitments by expanding the share of export in its oil production. This share, however, is already close to 70 per cent and cannot increase much further. As with gas, depletion of the old fields goes ahead of deployment of new resources with a significant time lag.

Baltic Security Concerns over the EU–Russia Energy Relations

While Russia’s use of gas supplies as a pressure tool is obvious, opinions vary on economic versus political motivation behind it. One explanation for Russia’s actions is that it lacks soft power and feels the need to rely on other means; another is related to the identity building process. During the last two decades Russia has been searching for identity and the idea of energy super-

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power can be seen as an element in how Russia sees its place in the world.

At the same time, energy is, whether justifiably or not, perceived as a security issue in the Baltic States, as illustrated by Lithuania's multiple sales of Mazeikiu nafta. In purely economic terms, the sale of the Mazeikiu refinery to Russia would be in Lithuania's interest, but from the security perspective, the conclusion made is the opposite.

De-securing Russian energy would be preferable, but the last episodes of supply cuts make this implausible so far. Still, promoting cooperation on issues below the level of high politics would help reduce the tension. Cooperation on energy efficiency is one such issue.

The Nord Stream project, despite its supposedly commercial nature, has raised a significant amount of public concern. While Germany believes that Nord Stream will promote interdependence with Russia, the Baltic countries, on the opposite, fear an increased dependency on Russia.

The three Baltic States' approaches to the Nord Stream differ. Latvia's position in the recent years has been: 'if it is not possible to stop it, let's take advantage of it'. This approach, however, was put in doubt by the 2008 Georgia crisis. Estonia has no commercial interest in the Nord Stream and, although it has voiced environmental concerns, after Denmark, Sweden and Finland granted environmental permits to Nord Stream in 2009, the country is likely to follow suit.

Although few would agree with the opinion that the Nord Stream puts the Baltic States in 'a Molotov-Ribbentrop situation', some experts warn that the joining the project would pose soft security risks to vulnerable democracies such as Latvia. While in a consolidated democracy the state would be controlling the pipeline, they claim, there are fears that in Latvia's case the pipeline and the business elites around it would be controlling the state. This could lead to importation of undesirable business practices and political cultures, while the economy would risk imbalances because of disproportional investment in the oil and gas sector.

In many ways, the answer to the energy security challenges faced by the Baltic States lies primarily in a much better cooperation between the countries themselves. The Baltic States are often seen as an energy island poorly connected to the rest of the EU's energy flows and dependent on Russian supplies. The Baltic States and Poland need to agree and work together on several crucial energy policy issues, but have so far failed to do so. Thus, Lithuania, which still lacks energy links to western Europe, could connect to the Swedish and/or Polish power grid and secure other Baltic states as well, but there are numerous disagreements between the stakeholders. Similarly, every country in the Baltic Regions seems to want their own LNG, although this makes no sense. A common Baltic nuclear reactor in Ignalina could have become the greatest example of Baltic cooperation, but the intention has so far failed.

Some countries have failed to promote diversification of energy sources – another important element of energy security. Thus, in Latvia, despite much talk and consensus on the need to develop renewable energy sources, the taxation system remains hostile to investment in this area.

Conclusions

(1) The EU–Russia relations will remain challenging as long as Russia has not implemented democratic standards, but at the moment, the choice is between doing nothing and doing something. In its balancing act, the EU should cooperate with Russia on modernisation and engage with it, but it should also hold to its values and issues, such as anti-corruption measures and safety of Russian human rights activists. Three principles are suggested for the EU's policy towards Russia: mutuality, solidarity, values.

(2) To make the EaP more effective, the EU needs to rely on country-specific, strong and verified performance-based conditionality. European credit should be given in exchange for Europeanising reform. Moreover, the next EU budget should address the criticism that the EaP is 'ambitious beyond the money' and allocate more resources for its purposes.

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(3) The EaP should not be used to 'shield off' Russia. In contrary, Russian participation in certain areas is possible, but while it would make sense in some cases (e.g. Ukraine); in other cases, such as Georgia, it would not be realistic. Specific ideas for Russian contribution to the EaP should be discussed together with the six EaP countries. One area where the EaP should find a way to involve Russia is the Civil Society Forum that successfully took off in 2009. The Russian NGOs should be invited to join. Also within the EaP framework, the Baltic countries could be helpful, e.g. by hosting meetings between Georgian and Russian NGOs, helping them to restore the links cut in the last years.

(4) Regarding energy, the EU needs a more consolidated policy. In energy area, the idea of a common European energy Union, meaning that the Union, rather than the member states individually, would be buying gas from outside supplies, has been voiced. Moreover, the EU's external service could support EU-based companies investing in Russia's energy infrastructure.

(5) As the reliability of transit countries is an element of common interest in the EU-Russia energy relations the EU should pay more attention to Ukraine's strategic position as a transit country and participate in

the improvement of its transit infrastructure. Modernisation of Ukrainian gas network should become a common project for the EU and Russia, thus building confidence where it is sorely missed.

(6) The EU should promote and encourage regional cooperation among the Baltic States regarding securing energy resources and, moreover, investing in energy efficiency.

** The summary is based on a seminar held by the Konrad Adenauer Foundation on February 24-25, 2010, in Cadenabbia (Italy). It reflects the ideas and opinions expressed under the Chatham House rules by its participants – experts, NGO representatives and politicians from the countries of the Baltic Sea Region. The summary was completed on April 23, 2010, by Viktor Makarov (Director of the Riga based Policy Centre EuroCivitas) and Andreas M. Klein (Head of the regional office of the Konrad Adenauer Foundation for the Baltic and Nordic States).*