

Partnership with Russia in Europe

Notes from the 4th roundtable

Katinka Barysch
Chief Economist
Centre for European Reform (CER), London

Topics

Scenarios for a future Partnership and Cooperation Agreement
Energy Security in Europe
Approaches for the solution of European regional conflicts

Overall impression

Participants from both Russia and the EU countries stressed that the continuity provided by this series of roundtables offered a rare opportunity for genuine dialogue. They thought that by bringing the same (or a very similar) group of experts together on a regular basis, the roundtables helped to foster trust and open discussion.

However, given that most of the participants know each other – and each others' arguments – quite well by now, some also expressed frustration about the lack of real progress in the discussion. Some Russian participants were puzzled that their EU counterparts still did not take on board their arguments. Some of the Europeans, on the other hand, complained about provocative rhetoric on the Russian side, and the seeming lack of willingness to engage in a more constructive debate.

Some participants thought that the meeting mirrored the overall state of EU-Russia relations in the second half of 2006, as Russia and the EU are getting ready to negotiate a new treaty to succeed the Partnership and Cooperation Agreement (PCA).

For a number of reasons, good relations with Russia are of increasing importance for the EU. First, after eastward enlargement in 2004, the EU and Russia share a common neighbourhood that harbours a number of potential problems, such as separatism or organised crime. Second, with oil prices at record highs and following the Ukrainian gas crisis in January 2006, Europeans are more than ever aware of their dependence on Russian energy. Third, as the EU's role as a foreign policy actor grows, it will need Russian cooperation to address international challenges ranging from a nuclear Iran to a post-Kyoto treaty on climate change.

Europeans feel that they have made Russia a number of attractive offers, including visa facilitation, the 'four spaces' and support in addressing the 'frozen conflicts' in the post-Soviet space. Russia, however, appears to have concentrated on the problems involved rather than pushing these initiatives forward. The EU hopes that the forthcoming negotiations on the PCA will be an opportunity to resolve some of these issues and move cooperation forward. They also hope that the talks will be a forum to raise their concerns about democratic standards in Russia.

For Russia too, the EU and its members are very important partners, not least since US-Russia relations are getting more difficult. The EU remains Russia's largest market for energy and other exports. And on many global issues, Russia's position is close to the European one.

However, Russians often feel that the Europeans "hear but don't listen". The Europeans seem to think that they know what is best for Russia. They still insist that bilateral cooperation and mutual integration has to be based on the EU's rules and regulations, rather than a convergence of norms and policies. Russia's situation, however, has changed fundamentally since it first signed the PCA with the EU in 1994. Today, the Russian political scene is stable, its economy is growing at around 7% a year, it has paid off most of its external debt and it has amassed more than US\$ 300 billion from energy sales in its stabilisation fund and on the central bank's balance sheet.

Moreover, the changing global context means that the EU is no longer the "natural" point of reference for Russia's development. Today, Russia is part of a group of emerging powers often referred to as BRICs (Brazil, Russia, India, China). Rather than being "the only game in town", the EU today is one partner among several. For Russia, therefore, the PCA negotiations are a chance to redress the imbalances and put its relationship with the EU on a more equal footing.

1. Scenarios for a future PCA

The background: where are we now?

In November 2007, the PCA comes to the end of its initial 10-year life span. Under article 106, the treaty is automatically prolonged, unless either the EU or Russia gives notice for abrogation. Both sides have already agreed that they will leave the PCA in place until a new agreement is signed, so as not to create a "legal vacuum".

After some discussion, the EU and Russia have also agreed that they will start talks on a new agreement as early as 2007. In September 2006, at the time of the conference, the European Commission was working on a draft negotiating mandate. The Finnish government hopes to achieve a consensus on the mandate among the member-states before the end of its EU presidency in December 2006. The German government, which takes over the EU's rotating presidency in the first half of 2007, has already indicated that it would like to see some progress in the negotiations. This would tally well with the German government's other priorities for the Common Foreign and Security Policy, namely a stronger European Neighbourhood Policy and the

formulation of a draft EU strategy towards Central Asia. Both would have significant implications for the EU's relationship with Russia.

The Finnish and German presidencies are seen as an opportunity because both countries have particularly close relations with Russia. Nevertheless, it appears highly unlikely that the negotiations could be concluded before the end of the German presidency: first, the PCA terminates only in November 2007, during the Portuguese presidency. Second, Russia is still focussed on obtaining a final agreement on its accession to the World Trade Organisation (WTO). Third, Russia is heading for presidential elections in early 2008.

Do we need a new treaty?

Participants differed in their assessments in how far the PCA has been a success. An EC-participant pointed out that it had provided the EU and Russia with a broad and flexible framework for their evolving cooperation over the last decade. The bi-annual summits foreseen under the PCA have driven the relationship forward. The PCA had not prevented the two sides from launching new initiatives if and when needed, such as the energy dialogue in 2000.

A high ranking Russian official reminded us that within the framework of the PCA the EU and Russia had continued to make progress in various areas. For example, they have set up new Permanent Partnership Councils in transport, agriculture and justice and home affairs; they are about to launch a Euro-College within MGIMO, Moscow's prestigious diplomatic academy; they have signed eight or nine sectoral agreements, with several others being in the pipeline; and they have agreed on measures to make it easier for citizens from both sides to obtain visas.

A German expert argued that the PCA should be seen as an example of EU conditionality. The Agreement was supposed to be a tool for shaping the economic and political transformation of Russia, with the help of the EU. In some areas, the EU has been successful, in particular where concrete initiatives were backed up by TACIS funding. At the broader political level, however, the PCA has had only minimal impact on Russian developments. And this impact was diminishing further as Russia has grown stronger, richer and more stable over recent years. As one EU parliamentarian admitted: "The PCA was an attempt to apply the Copenhagen criteria to Russia. But Russia does not want to join, or even get much closer to the EU. Today we need relations based not on conditionality but on reciprocity."

Most participants agreed that the PCA – signed in 1994 and in force since 1997 – is out of date. It does not cover some of the areas of cooperation between the EU and Russia, such as the security dialogue. New EU-Russia initiatives, such as the common spaces, have created overlap with the PCA and left mutual responsibilities somewhat unclear. Parts of its institutional set-up are defunct, for example, the sub-committees have not met in years. And once Russia has joined the WTO, the clauses on trade, which make up a large part of the Agreement, will become obsolete. As one official put it: "After WTO entry, we will have to make so many changes, we may as well write a completely new agreement."

Nevertheless, there was no consensus on whether the EU and Russia should start talks on a new agreement now, or leave the PCA in place on the basis of article 106.

Participants from both sides expressed concern that by starting negotiations now the EU and Russia would re-open many of the controversial but ultimately fruitless debates about “shared values”. Today, EU-Russia relations suffer from a lack of trust and mutual understanding. Participants from both sides expressed concern about the use of “Cold War rhetoric” and the prevalence of “zero sum thinking” in the current EU-Russia relationship. Another fundamental debate about objectives, principles and values, participants felt, could further widen the gap between the EU and Russia. Moreover, by raising expectations that the EU and Russia may not be able to fulfil, the post-PCA negotiations could create a sense of disappointment on both sides.

The EU and Russia have only recently agreed on the ‘road maps’ for the implementation of the four common spaces. Progress with the many cooperation projects foreseen in these roadmaps could help to foster trust and understanding. Once the atmosphere in bilateral relations has improved, the EU and Russia could revisit the issue of a more fundamental agreement.

A German expert argued that it was exactly because the PCA has been little successful as an instrument of conditionality that the EU should now go slow on a new agreement. Since the PCA did not do much to encourage a consolidation of liberal democracy in Russia, the two sides were still separated by a “values gap” and the EU retained little influence over Russian political developments. Therefore, a pragmatic approach that highlights practical cooperation rather than a fundamental debate over values and objectives appears to be the only one feasible for now.

One Russian official also pointed to the risk that some member-states may seek to use the negotiations to advance national objectives. Governments from the new member-states, for example, could demand a tougher EU policy with regard to Russian democracy and human rights. Other governments could seek to link progress in the post-PCA negotiations to demands to open up the Russian energy market and grant third-party access to Russian pipelines. He dismissed such attempts of “political creativity” as futile, even counterproductive.

Participants from the EU side did not agree that the post-PCA negotiations could become a vehicle for narrowly defined national interests, although EU governments and parliamentarians may insist that the new agreement should not only reflect past achievements, but also set-backs such as Russia’s restrictive NGO law. Some participants cautioned that differences in member-states’ aspirations entail the risk that the new agreement may not be easily ratified in all 25 (soon 27) member-states. The negotiations were unlikely to be a smooth, technical process. They could bring to the fore historical grievances, not only between individual EU members and Russia but also within EU countries.

Other participants pointed out that the timing for post-PCA negotiations was unfortunate because both Russia and the EU were currently in a period of transition. Russia is finally putting the years of post-Communist chaos and the perceived humiliation of losing its status as super-power behind it. On the basis of new-found

internal political stability and oil-fuelled wealth it is seeking to re-establish itself as a great power.

Similarly, the EU is in a state of flux, following eastward enlargement and the rejection of its constitutional treaty in the Dutch and French referenda in mid-2005. With so much uncertainty on both sides, there may be little point in trying to set bilateral relations in stone now.

The risk, as a Russian expert pointed out, was that the new agreement would be out of date as soon as it came into force. Any agreement forged between the two sides now would invariably be of short duration. It would probably last no longer than five years. Would it be worth expending the administrative resources and political capital to work out what would invariably be a transitory agreement?

Other participants disagreed. They said that the PCA was no longer adequate as a basis for making progress with the four common spaces. They explained that the four spaces were tools to achieve joint EU-Russian objectives but that they could not replace attempts to define such objectives. “The common spaces are just a laundry list of possible joint projects”, in the words of one Russian expert.

A German politician argued that to shy away from post-PCA negotiations would amount for the EU and Russia admitting that their strategic partnership has failed. No-one disputed that the negotiations would raise some tricky issues. But they would also represent a valuable opportunity to revive and re-launch the bilateral relationship. As he put it: “The negotiations to the new agreement would allow us to discuss what our relationship actually should look like.” An EC-official even called on both sides to “define a joint vision for the continent for the next 20 years”. A Russian expert added that although the negotiations may highlight areas of disagreement, they were also needed to establish those areas where Russia and the EU agreed.

What could a new treaty look like?

The various options for a new treaty have by now been extensively discussed among experts¹. Most participants agreed that the new agreement would have to take account of past achievements, including the agreement on the establishment of four common spaces. It would also have to set out the joint objectives of the bilateral relations for the future.

A high ranking Russian official listed the points of reference on which his government and the EU had already reached broad agreement, namely that the new agreement should be:

- legally binding (some experts had suggested that a non-binding political declaration may suffice);
- valid for a long time (10-25 years);

¹ See for an overview Iris Kempe and Hanna Smith: *A Decade of Partnership and Cooperation in the Russia-EU Relations. Perceptions, Perspectives and Progress – Possibilities for the Next Decade*, Centre for Applied Policy Research (CAP), Munich, 2006.

- concentrate on the broad principles and objectives of the relationship, leaving detailed policy plans to separate agreements, such as the common spaces;
- contain a section on “common values”.

When it comes to incorporating past achievements, EU officials warned that the post-PCA negotiations should not re-open debates about issues on which the EU and Russia had already reached an agreement. For example, the EU and Russia may want to add references to the energy dialogue and the four spaces. But they should not seek to renegotiate their content. Instead, the new agreement could usefully be supplemented by sectoral agreements, covering things such as metals export quotas or energy relations.

More controversial was the forward-looking part of the agreement, or what a participant from the European Commission referred to as “the level of ambition”. Given that EU-Russia relations are partly problematic at present, and that both the EU and Russia are faced with considerable uncertainty, it appeared impossible or at least imprudent to formulate bilateral objectives for the next decade or two. A Russian discussant argued that the main problem was that the EU was not sure what it wanted from Russia.

Given prevailing uncertainties, the two sides should therefore leave the “level of ambition” open to be raised in the future. There would, however, have to be a minimum level that is above what the EU and Russia have already agreed on in the past. Participants from both sides were adamant that there was no point in working out a new agreement that represented a step back on the way to a strategic partnership.

One point that is likely to be contentious in the debate is the basis on which the EU and Russia should proceed with their cooperation efforts. The assumption underlying not only the PCA but also subsequent initiatives such as the common spaces is that Russia should converge towards EU norms and standards. Many Russian participants argued that this assumption could not underlie the new agreement. Convergence, they pointed out, could not be a one-sided process. In future, the EU and Russia would have to reach mutual agreements on norms and standards, such as international law or the trade and investment rules of the WTO.

The role of energy is also likely to prove controversial in the new agreement. The European Commission has suggested to include the possibility of a “deep free trade area” in the negotiating mandate for the post-PCA treaty. Some observers have suggested that it may want to link the offer of improved access to the EU single market with demands for Russia to ratify the Energy Charter Treaty and undertake other steps towards opening its energy market. A Russian discussant, however, disputed that any link existed between bilateral discussions on energy and those on the new treaty. Conversely, EU participants cautioned about focusing too much on energy in the forthcoming negotiations. Although President Putin has stressed the Russia does not see itself as an “energy superpower”, Russia now often seeks to use its natural resource wealth as a trump card in its dealings with the EU (and other countries). However, an EC-participant pointed out that although energy exports were one of the main drivers of Russia’s economic boom, they could not sustain the country’s growth given the size of its population. The proceeds from energy sales

amount to only €60 a month for each Russian citizens, the equivalent of “two trips to McDonalds”. Therefore, Russia should grasp the new agreement as an opportunity to improve its business environment and diversify its economy away from oil and gas.

One area that participants did not dwell on was the title of the new agreement. Several have been suggested, for example “Treaty of Strategic Partnership” or “Treaty of Association”. Participants considered it premature to discuss the appropriate title. As one participant put it: “There is no point deciding on the packaging before we know the contents.”

The values gap

A high ranking Russian official confirmed that the chapter on values would be an “extremely important” part of the new agreement, although he admitted that its content remained yet to be defined. So far the EU has always insisted that its relationship with Russia should be based on “shared values”, and Russia has not officially disputed this assumption. However, the nature of these shared values has never been exhaustively defined and has become more controversial over the years. Russians have become increasingly sensitive to what they perceive as EU attempts to “impose” their norms and values on their country.

Another Russian speaker thought that Russians had become increasingly cynical about democracy and individual rights, following the aberrations they experienced in the 1990s. Russian participants explained that their country had entered a new era of “realpolitik” and rethinking. The debate about “sovereign democracy” was evidence of Russia seeking to define a political system best suited to its present needs.

Yet another Russian discussant thought that the values gap between the EU and Russia was not as wide as many people believe. The values of both the EU and Russia were rooted in Christianity. The real difference lay in the two sides’ political cultures. Similarly, other Russian participants argued that current developments in Russia had to be assessed in historical context and with Russia’s special situation in mind.

While participants from the EU side expressed concern about the hollowing out of democratic institutions and the disregard for civil liberties in Russia, Russian participants thought that the strengthening of state power was a precondition for building a sustainable democratic system. A Russian participant explained that the collapse of public authority and the economic deprivations of the 1990s had undermined the very basis for successful democracy. The rebuilding of state institutions and rising incomes (as a basis for political legitimacy) would recreate that basis. In his view, Russian democracy was getting stronger. Only when Russia was strong and stable again could it usefully engage in a debate about common values with the EU. The West’s criticism of Russian democratic standards implied that what the country experienced in the 1990s was “real democracy”. As such, it would contribute to Russians’ growing cynicism of democracy.

Russian participants also pointed out that the EU was in a poor position to lecture Russia on democracy and human rights as long as it tolerated undemocratic practices, extremism and human rights abuses in its member-states. Russian participants referred in particular to the alleged mistreatment of Russian minorities in the Baltic

countries, as well as to rising intolerance towards foreigners in the Netherlands. EU participants responded that the EU's awareness of its own shortcomings should not prevent it from constructive criticism of partners such as Russia.

A German politician argued that any attempts to remove values from bilateral relations would leave the EU and Russia with an extremely limited relationship that would consist purely of trade and energy matters. Like other participants too, he stressed that values infused almost every area of cooperation between the EU and Russia. Russia should stop suspecting that the EU was following some kind of ideological agenda. "We do not insist on our principles and norms for their own sake", said he, "but because we cannot do anything without them." Economics was cited as one example. In its trade and investment relations with Russia, the EU insisted on upholding principles such as the rule of law, secure property rights and transparency.

Another German discussant added that common values were a process, not something that is either on or off. This process was driven by day-to-day cooperation and growing integration. "Values are not abstract", he elaborated, "but something that shapes our dealings every day." A basic agreement on common values was needed to make cooperation possible in the first place. If Russia and the EU did not agree on underlying principles, even the most straightforward joint project could degenerate into debates about first principles. Progress would invariably remain slow and frustration would mount on both sides.

EU participants argued that a well-functioning democracy needed more than strong institutions and economic growth. It also needed an engaged and free civil society. However, the latter was increasingly under threat in Russia, following the entry into force of a restrictive law on NGOs earlier in the year. For example, the activities of the German political foundations (of which this conference was one) were at risk since the terms of their activities under the new legal basis had still not been clarified a few weeks before it was to become invalid under the new law. If NGOs from EU countries had to leave Russia someday after the October 18th deadline, public opinion in EU countries would be outraged, warned EU politicians. Voters would hardly understand why their governments were working so hard to strengthen relations with a country where Western NGOs and human rights organisations could not function freely and effectively. Russian participants suggested that the current uncertainty was not the result of ill intent on the part of the Russian authorities. In Western European countries, civil society had grown organically over decades if not centuries, and with it the states' relationship vis-à-vis NGOs. Russian efforts to regulate the activities of civil society actors were only three years old. With 500,000-600,000 NGOs currently in operation, it would naturally take the Russian authorities some time to define the legal basis for the operations of different types of them.

2. Energy security in Europe

2006 – the year of energy

Energy has moved to the top of the international agenda, and has become much more prominent in bilateral relations between the EU and Russia. Among the reasons are:

- Record-high energy prices. Oil prices have been driven up by a combination of past underinvestment in exploration and refining, rapidly growing demand (in large part from emerging Asia) and uncertainty over supplies from the volatile Middle East and other oil producing region. Since in Europe gas supply contracts tend to be linked to oil prices, gas prices have also been rising fast.
- High oil prices have rekindled an interest in alternative sources of energy. Some countries have revived their programmes for nuclear energy, and there is also growing interest in clean coal and renewable sources of energy.
- The temporary shut-down of Russian gas deliveries to Ukraine in January 2006, which has made Europeans more acutely aware of their energy dependence on Russia.
- Russian energy giants making the headlines, most notably Gazprom becoming one of the world's biggest companies by market valuation after its acquisition of Sibneft and the abolition of the "ring fence" in late 2005; and Rosneft's floatation on the London stock exchange;
- Delays and problems in European attempts to build an integrated EU energy market, for example national opposition to cross-border mergers and acquisitions of energy companies.
- The Commission's Green Paper on a new EU energy policy, published in March 2006.

The EU-Russia energy dialogue

A Russian official argued that the real cooperation between the EU and Russia started in 2000, when the two sides had overcome differences over the fallout from the second Chechen war and NATO's bombing of Serbia. It is perhaps no coincidence that 2000 was also the year in which the EU and Russia launched their bilateral "energy dialogue".

One participant, who has represented the EU in this dialogue for many years, described the initiative as "extremely successful". He reported that unlike in other areas of EU-Russia cooperation, the energy dialogue was usually conducted in a "good atmosphere" and with the constructive involvement of both governments, the European Commission and energy companies. Among the dialogue's achievements, he listed:

- recognition on both sides of the importance of long-term contracts;
- exploration of the possibility of linking Russia's electricity grid to that of the EU;
- the establishment of an energy technology centre;
- cooperation on increasing the safety of maritime transport in the framework of IMO;
- progress with infrastructure projects of common interests.

Not all participants agreed that the energy dialogue has lived up to expectations. Some pointed out that on many big issues – EU investment in the Russian energy sector, Russia's unwillingness to ratify the Energy Charter Treaty or the threatening "supply gap" – the dialogue had produced few results. The fact that the EU and Russia did not manage to avert the Ukrainian gas crisis in January 2006 could be seen as another failure of the energy dialogue.

The Ukrainian gas crisis

On January 1st 2006 Russia cut gas supplies to Ukraine, which acts as a transit route for 70-80% of Russian gas exports. Gas pressure in several EU countries dropped as a result. Following vocal protests from the EU, Russia restored full gas supplies the following day. However, the TV images of a Gazprom official turning off the tap stuck in the minds of the European public.

EU participants agreed with their Russian counterparts that the Ukrainian gas crisis could not and should not be fully blamed on Gazprom or the Russian authorities. It resulted from a combination of political blunders and bad communication on all sides.

Russian participants claimed that they had alerted the EU months in advance that there were disagreements with Ukraine over unpaid gas debts, the price for future gas deliveries and over transit fees. But the EU had not reacted, nor had it responded to later proposals from the Kremlin that it should step in and help finance the gas price increase that Russia was demanding at the end of 2005. This increase, explained one Russian participant, was only natural given the changing nature of Russian-Ukrainian relations. Russian energy subsidies to its CIS neighbours were "political". When the Yushchenko government turned westward and went cold on the idea of a "single economic space" with Russia, Belarus and Kazakhstan, the rationale for these subsidies vanished.

Russian observers claimed that in the subsequent negotiations over new supply contracts, the Ukrainian side had acted in an unprofessional and unconstructive manner, for example by appointing a nationalist politician as the CEO of Naftogaz (the Ukrainian gas utility) or by being unavailable for talks when the responsible Russian minister travelled to Kiev. EU experts agreed that Kiev had at times played a game of brinkmanship, for instance by seeking to directly negotiating gas supply contracts with Turkmenistan ("a regime that is even less reliable than that of North Korea" as one EU expert put it). A representative of the Russian energy sector suggested that the EU's real worry should not be security of supply but "security of transit". This is why Gazprom was now building new pipelines that bypassed Ukraine.

The damage that the crisis did to Russia's reputation as a reliable energy supplier was compounded by the very poor PR on the part of the Russian side. Few Europeans would dispute that Russia was entitled to demand more for its gas deliveries to its neighbours. However, the manner in which this was done left Russia open to charges of trying to use energy as a tool to punish pro-Western governments in the CIS. "A company that has been a reliable supplier for 30 years managed to destroy its reputation in a couple of days, although it actually stayed reliable", said one EU expert.

Future energy cooperation

An EC-official also elaborated on the future agenda for the energy dialogue. He explained that the energy policy challenges of the EU and Russia were related but not necessarily identical. The EU, he said, must concentrate on the creation of more competitive and open internal energy markets and the diversification of sources of supply. Russia, meanwhile, needs to invest more since its existing production and transport capacities are already stretched to the limits.

According to Commission forecasts, the EU will need another 200 billion cubic metres of gas a year from Russia by 2020. Russia's energy strategy on the other hand foresees additional exports to the EU of only 50 billion cbm. Gazprom's output has been almost flat for years. Its big West Siberian fields are maturing and it is not investing enough in new fields. Independent energy companies do not exploit their gas deposits commercially since Gazprom does not grant them access to pipelines. Economics Minister German Gref warned in September 2006 that Russian consumers could face shortages in gas supply in the same way they regularly suffer from electricity cuts. Nevertheless, Gazprom management, backed by the Kremlin, has indicated that it wants to increasingly divert gas sales to the fast-growing Asian market.

Experts from the EU side did not appear overly concerned about Russian promises to sell more gas to China. The infrastructure for doing so is not yet in place while Russia had invested billions of dollars to build pipelines towards Western Europe and is in the process of adding more, for example the Northern pipeline under the Baltic Sea. "Russia is not going to let these pipes stand idle", said one expert from an EU country. It was a myth, he added, that the EU was overly dependent on Russian energy: "The dependence is mutual". The EU was also in the lucky position of being strategically close to other major gas producers in the Caspian, Northern Africa and the Middle East.

Experts also suggested that Russia could make more energy available for export if it improved the energy efficiency of its own economy. Some two-thirds of the gas that Russia produces are used domestically but a large share of this is wasted through transmission losses, inefficient factories and power plants, and badly insulated buildings. "The biggest sources of Russian energy are not in Siberia", explained one EC-expert, "but Moscow and St Petersburg." Nevertheless, the fact remains that Gazprom needs to invest more in exploration and production. But of Gazprom's US\$10 billion annual investment in recent years, US\$ 3 billion have gone into upstream investments (such as distribution networks) and much of the rest into non-core businesses. Gazprom invests more to defend its monopoly position than to increase its output or become more efficient.

This is one of the reasons why the EU has been pushing Russia to allow more competition in its gas sector, and to let third parties (independent Russian producers as well as neighbouring gas producing countries) have access to Gazprom's pipeline network. In particular, the EU hopes to persuade Russia to ratify the Energy Charter Treaty and accept the attached transit protocol. Russia has been reluctant to do this, partly because – as one EU participant speculated – Gazprom's pipeline monopoly gives it considerable political leverage over neighbouring CIS countries.

Turkmenistan, for example, has no other outlet for its gas than selling it to Russia, usually at a big discount. A German analyst argued that, like the Kyoto Protocol, the Energy Charter would have largely symbolic value for Russia. It would not result in an immediate opening of the energy market since the Kremlin would most likely negotiate generous transitional arrangements. But it would show Russia's support for multilateral legal agreements in the energy sector.

Russian participants stressed that any progress in the energy dialogue would have to be based on reciprocity. If the EU wanted the Russian energy sector to become more open, it would have to allow Gazprom to acquire energy companies in Western Europe. Gazprom already owns energy assets in some of the new member-states but it has recently expressed an interest in bigger acquisitions in Western Europe. It has agreed an "asset swap" with Germany's BASF (under which BASF gained exploration rights in a Russian gas field while Gazprom received a share in Germany's gas distribution network). Gazprom has also expressed an interest in buying Centrica, the UK's biggest gas distributor, as well as other West European companies. Direct control over national energy assets could add to Russia's "security of demand" at a time when the EU is trying to phase out the restrictive long-term supply contracts that Gazprom has traditionally signed with the EU's national energy champions. A Russian energy expert explained that as long as EU attempts to build a single internal energy market remained uncertain, Russia would focus its external energy policy on individual member-states rather than the EU as a whole. However, other Russians claimed that EU governments were "protectionist" in their attempts to prevent Gazprom from taking over national energy assets.

An EC-participant explained that the reason for this may be a growing mismatch between the EU's and Russia's energy policy. The EU is trying to build an open, competitive internal market for energy. Russia is going into the opposite direction, by strengthening the role of the state in the energy sector and consolidating the position of Gazprom as the monopoly in the gas sector. In July 2006, for example, the Duma passed a new law that formalises Gazprom's gas export monopoly. "We try to abolish EU energy monopolies", he explained "so we cannot at the same time proceed with asset swaps with a Russian state monopoly." A German expert disputed whether Gazprom would act in the interest of the Kremlin. Instead Kremlin policy was increasingly shaped by the interests of Gazprom. An EU politician added that even if Gazprom was considered a private company rather than an adjunct of the Russian state, the EU may not want to sell its distribution assets. He explained that there was a broader debate on whether distribution should be controlled by private companies, which mainly seek to maximise shareholder value. In places such as California this has led to underinvestment and blackouts.

3. Approaches for solving European regional conflicts

The Caucasus and the Balkans – different perspectives, different principles?

Participants questioned whether it was a good idea to discuss the Balkans and the Caucasus in the same session. An EU politician explained that the situation in the two areas was fundamentally different. The EU has promised the countries of the Western Balkans that they could in principle join the Union if and when they have fulfilled the

requisite accession criteria. He said there was a strong “EU logic” for this: once Bulgaria and Romania have joined the EU, the Western Balkans will be entirely surrounded by EU members. Moreover, the EU has a special responsibility for the Western Balkans, not least because to the role that EU countries have played in the area in the past. The case of Croatia – which started accession talks in 2005 – shows that fast progress towards EU membership is possible, although countries such as Albania or Bosnia would obviously take much longer.

The situation was entirely different for the countries along the EU’s new eastern border, explained an EU politician. Here the EU’s European Neighbourhood Policy (ENP) applies. Countries such as Ukraine and Georgia that have expressed an interest in joining the EU one day raise the question of how far the EU can stretch. At present, even pro-enlargement policymakers are not prepared to back further expansion unless there is thorough reform of the EU’s institutions and financing mechanisms. So these countries may not be given a “membership perspective” in the foreseeable future.

That is why the ENP is important. It is based on mutually agreed “action plans” and executed through the Common Foreign and Security Policy. For the eastern neighbours, the ENP is not very attractive exactly because it does not offer a membership perspective. However, the EU needs to explain to Ukraine, Moldova and Georgia that they are far from being ready to join the EU and that the EU is far from ready to admit them. So both sides should concentrate on what can be done to foster reform and stability in the neighbouring countries in the meantime, and bring them closer to the EU.

Georgia needs better relations with Russia but the EU also needs an internal dialogue. The EU and Russia should work together to establish better dialogue to address frozen conflict (also in Azerbaijan). The EU can provide mediators and finance but the EU absolutely needs Russia on board.

A Russian analyst suggested that the real difference between the Caucasus and the Balkans may be another one. It goes back to the two fundamental, but conflicting, principles of international law: the right to territorial integrity and the right to self-determination. He argued that the international community was pursuing the latter right in the Balkans while insisting on the former in the Caucasus. In the former Yugoslavia, the international community was prepared to accept the “second wave of fragmentation” while in the South Caucasus it held the right of territorial integrity absolute. However, the analyst argued that South Ossetians and Abkhazians had no more desire to stay in Georgia than the Kosovars had to stay with Serbia. He warned the fact that the two principles were often applied selectively created the impression of double standards. He reminded the other participants that Putin had repeatedly indicated that Russia will regard Kosovo as a precedent for what happens in other countries. If the EU accepted Kosovo’s and Montenegro’s wish for independence, Russia would honour the outcome of the referenda in Transdnistria and South Ossetia.

One Russian participant explained that, just like the former Yugoslavia, many of the Soviet Republics were artificial entities. To maintain their territorial integrity after the disintegration of the Soviet Union may not be feasible or desirable. One participant speculated whether the international community was really concerned about was not

the independence of Transdnistria and South Ossetia but their possible union with Russia.

Other participants argued that neither the right to territorial integrity nor the right to self-determination were absolute. In today's world, the right to self-determination was mainly used to protect minorities within existing states, rather than to split up these states. Although some EU participants argued that the independence of Kosovo was now inevitable, others insisted that a high degree of autonomy within Serbia was still the preferred outcome of the status negotiations. With regard to the South Caucasus, participants also argued that legal principles alone would not produce sustainable solutions: political and military realities on the ground would be equally important.

A Russian expert pointed out that there was another difference between the developments in the Balkans and those in the South Caucasus and Moldova. The Montenegro referendum was held on the basis of a 2002 agreement on the "state union" with Serbia that had been accepted by all sides. Kosovo's status was being determined by negotiations with Serbia under the auspices of the international community. In the Caucasus, however, there were no such previous arrangements to help guarantee a peaceful divorce. Instead, the people of Transdnistria and South Ossetia decided unilaterally to hold referenda on their independence from Moldova and Georgia respectively.

EU-Russia cooperation and the frozen conflicts

Participants from both sides agreed that the so-called frozen conflicts in the CIS were becoming an increasingly important topic for the EU-Russia strategic partnership. However, there was no consensus in how far EU-Russia cooperation was possible or desirable. Russian experts said that the EU should respect the efforts of the existing mediation frameworks, such as that involving the OSCE.

Some EU participants called for more EU involvement in the mediation efforts in Moldova (but also in Georgia and Azerbaijan). Other EU experts expressed doubts whether the EU and Russia could work together constructively as long as the two sides had such vastly differing interpretations of the situation. These differences were particularly marked when it comes to assessing the situation in Georgia. Many Russian participants tended to put the blame for the intractable situation in South Ossetia and Abkhazia squarely on the Georgian government, and its unwillingness to grant minorities sufficient autonomy. EU participants warned that Russia should not try to use the frozen conflicts in the area to further its own interests and maintain influence in its immediate neighbourhood. In Moldova, EU attempts to play a bigger role have so far not been very successful, although the EU did send personnel to help control the border between Transdnistria and Ukraine. Although there was no narrowing of the positions from the EU and Russian side, both sides warned that the EU and Russia must avoid descending into rivalry in their common neighbourhood.

The common external space for security: What are the next steps?

A Russian politician explained what the EU and Russia had already agreed upon within the framework of the common space on external security, namely:

- strengthening of the dialogue in multilateral organisations such as the UN or the Council of Europe;
- cooperation in fighting international terrorism and the proliferation of weapons of mass destruction;
- joint action to prevent or respond to natural disasters.

However, he cautioned that the EU and Russia now needed to take the all-important step from discussion common challenges to joint action. The conflict between Lebanon and Israel, the Iranian problem or drug trafficking in Afghanistan were all good opportunities for testing the potential for cooperation. However, there are currently no mechanisms for the EU and Russia to work together on the ground, for example through EU forces taking part in Russian missions, or vice versa, or joint missions.

Participants discussed – inconclusively - in how far it would be possible for Russian troops to join the EU mission in Congo or for EU military to support Russian missions in Moldova or Georgia. Both EU and Russian experts also pointed to some of the broader problems that afflict the political and security cooperation between the EU and Russia. The special nature of the Common Foreign and Security Policy – which is based on seeking consensus among the 25 member-states and execution through both Director General for External Relations and Javier Solana, the High Representative – make EU decision-making very slow. Moreover, the different EU member-states do not in all cases agree on the best way forward, leaving Russia both impatient and puzzled.

The fourth roundtable ended with an invitation of the organizers to meet for a fifth round during the EU Presidency of Germany in the first half of 2007.