



THE EU'S NEW RUSSIA POLICY STARTS AT HOME

By Katinka Barysch

- ★ The EU is about to negotiate a new treaty with Russia. Some European governments are keen on a quick deal, to send a positive signal to Russia's new president and resolve disputes over energy and trade. However, the Europeans would be well advised not to rush.
- ★ A legal document is unlikely to bring about improvements in the EU's difficult relationship with Moscow. But Russia may well become an easier negotiating partner in a couple of years, should it decide that the EU can help with mounting internal challenges. Moreover, for the new agreement to have substance, Russia must first join the WTO and the EU needs a more coherent energy policy.
- ★ The EU needs to rethink its Russia policy in the medium term. Any consistent and effective strategy towards Russia starts at home, with the EU healing internal divisions and defining its own interests more clearly.

After 18 months of internal wrangling, the EU is finally ready to start negotiating with Russia on a new bilateral treaty on political relations, trade, energy and much else. Official talks are likely to be kicked off at the next EU-Russia summit in Siberia on June 26th-27th. The current Partnership and Co-operation Agreement (PCA) came to the end of its initial ten-year lifespan in 2007. And although it gets prolonged automatically on an annual basis, both the EU and Russia agree that some of its provisions are out of date, and that they do not properly reflect the relationship between an enlarged EU and a resurgent Russia. Some EU governments want to wrap up the talks on the new PCA (the treaty's name has yet to be fixed) as soon as possible. Germans, Italians and others want to send a positive signal that the EU can do business with Russia's new president, Dimitry Medvedev. Some also hope that the new treaty could resolve disputes over energy, visas, commerce and the common neighbourhood that plague EU-Russia relations. France's prime minister, Francois Fillon, has even suggested that a deal could be done before the end of the French EU presidency in December 2008.

But the Europeans should not rush. The current PCA, while undoubtedly out of date in some areas, has not prevented the EU and Russia from moving into new areas (for example co-operation on justice and home affairs), launching major new initiatives (such as the 'four spaces') or setting up new institutions (more flexible minister-level meetings, for instance). On the other hand, many of the PCA clauses have not been fully implemented, which shows that a legal document alone cannot determine the quality of EU-Russia.

Since Russia itself is in no discernible hurry to sign another treaty, an overly keen EU would be in a weak negotiating position. That matters because Brussels and Moscow have very different ideas about the new PCA. The EU wants a detailed, comprehensive text with wide-ranging legal obligations, pretty much like the old PCA, or even going beyond it. Russia wants a broad, basic agreement, primarily aimed at creating "real equality" between the partners. The Russians say that the old PCA was negotiated at a time when Russia was weak and confused. The new one should reflect the reality of Russia's re-emergence. Details on

energy, transport, visas and so forth should be left to sectoral agreements, to be concluded at a later stage. The Europeans fear that an empty framework agreement would make it hard for them to link different policy areas, as a way of gaining leverage over Russia.

Another predictable disagreement will be over the ‘common values’ that the EU once put at the heart of its relationship with Russia. Although the EU’s policy is still officially based on values, few Brussels officials and EU politicians now think that lecturing Russians on democracy and human rights has a positive impact on the country. However, some member-state parliaments (and perhaps the European Parliament too) could refuse to ratify a treaty without solid language on values. Russia, on the other hand, would be reluctant to accept strong language on democracy and human rights in the new PCA.

Given the strained nature of EU-Russia relations, the PCA talks are unlikely to be a quick fix for current disputes in EU-Russia relations. Instead, they could become a battlefield for quasi-ideological differences that have no other outlet.

Will Russia mellow?

A realistic assessment of the gap between the EU’s and Russia’s position is only one reason why the EU should take its time with the talks. There are other – and perhaps more important – reasons. The first is that the atmospherics in EU-Russia relations could start improving in the not too distant future. Better overall relations would surely allow the two sides to reach a better, more mutually advantageous deal.

At the moment, the atmosphere between the EU and Russia is usually frosty, sometimes bitter. Many Europeans are still disappointed that their initial hopes for a democratic, open and pro-western Russia have not been fulfilled. In the new member-states, historical grievances still often determine people’s views. Russians, meanwhile, are smarting from what they see as the humiliations of the 1990s, when the Soviet Union collapsed, and haphazard attempts to move towards democracy and capitalism ended in political chaos and economic hardship. But the Europeans increasingly accept that they have to deal with Russia as it is, not as they want it to be. And in Russia, the memories of the 1990s will start fading. As Roderic Lyne, a former British ambassador in Moscow, has put it: “The bile will pass through the system.”

Vladimir Putin’s project as president was to restore order within Russia and regain respect for his country abroad. It is open to question how much real respect Russia has around the world (of which more below). But it is certainly a country to be reckoned with. Now that Russia has achieved this, it will perhaps start defining its national interest in a less emotional fashion. Rather than seeking to gain ‘respect’ through being assertive and sometimes obstructive, Russia may prioritise sustainable development at home and responsible action abroad. For both objectives, closer and more constructive ties with the EU would be helpful.

Russia has few genuine friends around the world. Its much trumpeted rapprochement with China may well be near its peak. Russia and China may engage in good-natured summit diplomacy and demonstrate unity in the Shanghai Co-operation Organisation. But the CER’s Bobo Lo (author of a forthcoming book on Sino-Russia relations) argues that deep suspicion and real tensions, for example over Central Asia, will prevent further improvements. Russia’s relations with the US, meanwhile, could become more testing. There has been a wide-ranging re-assessment of Russia across America’s political spectrum. This shift has been hidden to much of the outside world by George W Bush’s efforts to keep relations with Putin sweet, perhaps wanting to avoid yet another policy reversal. His successor, whoever he will be, will make formulating a new Russia policy a priority. John McCain says he wants to throw Russia out of the G8 and build a new ‘league of democracies’ to isolate recalcitrant autocracies (although neither is likely to happen). Barack Obama may sound less tough on Russia but he may not necessarily be an easier partner for Moscow. A Democratic administration may be more critical of the Kremlin’s human rights record and strongly supportive of Georgia and Ukraine.

Russia may find the Europeans more attractive, not only because they are the least threatening and assertive, but also because the close ties that Russia has with the EU could be useful for mastering domestic tasks.

When Vladimir Putin took over the presidency in 2000, Russians wanted two things first and foremost: stability and better living standards. Thanks to Putin, they are now becoming accustomed to both. Russians’ expectations towards their government are becoming more ambitious and diverse. Many will want to see better education, well-functioning infrastructure, reliable healthcare, secure property rights and less meddling by corrupt bureaucrats. Medvedev and Putin, now as prime minister, will have to work very hard to deliver such things. Russia now has the cash to make improvements, thanks to half a decade of steeply

rising oil prices and sound macro-economic management. But even the best-planned programmes will be difficult to implement with an ineffective and often self-serving public administration.

Medvedev has promised to launch an ambitious reform programme for the country in order to diversify the economy away from oil and gas, make life easier for small businesses and improve social services. He talks about focusing on “four Is”: innovation, infrastructure, investment and institutions. Putin made similar promises when he came to power. But rising oil prices have allowed him to put many difficult reforms on ice. Russians nevertheless revere Putin for having made Russia strong again. This will no longer be enough. If a strong and seemingly willing Kremlin cannot deliver what the people really need, Russia’s ambitious younger generation may end up disappointed. Support for the government could suffer – which is a real worry for a regime that has few sources of democratic legitimacy.

Faced with signs of discontent, the government could either try to deflect attention by growling ever more angrily at the West and turning nationalism into a quasi-ideology for an increasingly autocratic regime; or it could pull up its sleeves and deliver real improvements as best it can. It may try to use its links with other countries to help with modernisation. In this case, the EU would emerge as Russia’s natural partner.

In the 1990s, Russians talked about their relationship with the EU as a “modernisation device”. Such talk resurfaced in May, when Germany’s foreign minister, Frank Walter Steinmeier, offered Russia a “modernisation alliance”. It would be much better to pursue such an alliance at the EU level. More than half of Russia’s trade takes place with the EU, most of its foreign investment comes from there, thousands of young Russians study in EU countries, and Russian companies increasingly invest in EU countries or list on stock markets in London and Frankfurt. Access to the EU’s huge single market and foreign direct investment by European companies will help Russia to diversify its economy away from oil and gas and thus put growth onto a more sustainable footing.

The EU could help in other, more direct ways, too. The many dialogues that the EU and Russia have – on issues ranging from banking to judicial reforms – have not been working well, partly because Russia publicly refuses to adapt to EU rules. But Moscow may yet decide that the EU’s expertise and advice, in areas from competition policy to energy savings, could be helpful for its domestic reforms. Given that President Medvedev has pledged to strengthen the rule of law in Russia, this could also be an important part of the EU-Russia modernisation alliance. However, bringing the rule of law to Russia will be a very difficult and long-term task that needs to be accomplished mainly by the Russians themselves. And it is not clear whether the EU’s definition of the rule of law – which involves a degree of political accountability, a strict separation of powers and so on – is what Medvedev and Putin have in mind. So the EU should think carefully before it puts the rule of law at the heart of its redefined relationship with Russia, lest it raises unrealistic expectations and reverts to lecturing.

A grand bargain of energy and trade

Another reason why the EU should not rush into the new PCA is that in its core subjects – energy and trade – there is too much unfinished business. Brussels negotiators hope that the new agreement will be built around a ‘grand bargain’ in which Russia agrees to open up its energy market (at least a bit) and in return the EU offers deeper economic integration through a free trade agreement (FTA). For such a bargain to work, two things need to happen first: Russia needs to join the World Trade Organisation (WTO); and the EU needs to make some progress with its own emerging energy policy. Otherwise, the PCA will contain little more than vague statements. That might be fine for Russia: officials say their country does not want the PCA talks to get bogged down in energy disputes; and they question whether their country would gain much from an FTA, given that Russia mostly exports oil, gas, metals and other basic commodities that are hardly affected by trade barriers. But if trade was not a major item in the PCA talks, the EU would lose one of its main bargaining tools and may end up empty-handed in energy.

Russia has been negotiating for WTO membership for 15 years, although real progress only became possible after Putin made accession a political priority in 2000. Moscow has completed bilateral talks with all interested WTO members (the EU one dates back to 2004). However, Georgia has re-opened talks, and newly acceded Ukraine could also make life difficult for the Russians. Moreover, disagreements over farm subsidies, export tariffs and energy prices are still holding up the final, multilateral deal. Officially, Moscow is still keen on joining the WTO as quickly as possible. But trade experts say that Russia’s trade policy is becoming more erratic and unilateral (in May 2008, it imposed yet another import ban on meat from various EU countries). And Russia’s declared industrial policy aims include protecting key economic sector from international competition. The fact that both the EU and the US will change their top trade negotiators in 2009 may lead to further delays.

Brussels trade officials say that the EU and Russia cannot get going on an FTA before WTO accession is sealed, partly because of the complexities of overlapping talks and partly because Russia could demand EU concessions for reforms that it would in any case have to undertake for WTO membership. The FTA would then go beyond the WTO deal, by including elements of regulatory convergence to get rid of non-tariff barriers.

On energy, meanwhile, the EU wants to use the PCA talks to coax Russia to loosen its pipeline monopoly and allow more European investment in its energy sector. Around 30 per cent of EU oil imports and 45 per cent of gas imports come from Russia. So the Europeans worry about the fact that Russia's oil and gas output is currently flat despite record-high prices. Many in the EU blame the Kremlin's tightening grip on the energy sector for underinvestment. They hope that a better investment climate could yet alleviate (if no longer prevent) a looming 'gas gap', in which Russia can no longer satisfy both rising domestic demand and its existing export commitments. The EU also wants its companies to be able to buy gas directly from alternative producers in Central Asia, and ship it through Russia's pipeline system. Gazprom's export monopoly means that all Turkmen or Uzbek gas that enters its pipelines turns into Russian gas.

The EU has all but given up trying to persuade Russia to ratify the Energy Charter Treaty, a multilateral agreement on investment and trade in energy that Moscow signed in 1994. The treaty would have required Russia to improve the investment environment and create a transit regime that would allow foreign companies to ship Central Asian gas through its pipelines. Now the EU hopes to transfer some of these principles on investment and energy transit into the PCA – where it could 'trade' them against concessions in other areas. Although Russia plays it cool on the EU's FTA offer, it should reconsider since such a trade deal may support Russia's strategy of diversifying away from oil and gas.

What would really strengthen the EU's hands in the energy negotiations, however, is a more coherent EU energy policy. Russians snigger at the EU's squabbles about energy market liberalisation and at its unsuccessful attempts to diversify sources of supply. They get annoyed that vague and changing policy targets for renewables, energy savings and CO₂ emissions add to uncertainty about the EU's long-term gas demand. And Gazprom manages to strike bilateral deals with Europe's largest energy companies while EU governments proclaim 'energy solidarity'. If the EU made some tangible progress towards clarifying its strategy and meeting its objectives, Russia would have to take the EU more seriously as a negotiating partner in energy.

Market and muscle

The EU's energy policy in its current form dates back only to 2005, when EU leaders agreed to three main objectives at their informal Hampton Court summit: market liberalisation, energy security and fighting climate change. Initially, the Commission argued that opening up European markets for gas and electricity would be the best way to achieve the other two objectives. But it now concedes that the market alone will not be enough to deliver lower carbon emissions and secure supplies from outside the EU.

In its next strategic energy review, due in November 2008, the Commission will include some ideas for strengthening the EU's role in energy security. Its emerging strategy could be summed up as 'market at home and muscle abroad'. Inside the EU, the Commission still hopes to achieve full unbundling (splitting the production and import of energy from transport and sales). In early June, EU energy ministers agreed a compromise that will allow European energy companies to hold on to their power grids and pipelines, provided they run them as separate businesses under strict supervision. But they also agreed to review the policy two years after the new directive comes into force to see whether full ownership unbundling is needed to create real competition. The Commission argues, rightly, that full liberalisation would contribute to energy security in at least two ways. If pipeline operators were independent from gas suppliers, they would have more incentives to build connections between national markets. Energy could then flow more freely around the EU, giving those countries that are predominantly reliant on one outside supplier a greater sense of security. And by creating a de facto convergence of interests within the EU, energy market liberalisation could in due course make it easier to formulate a coherent external energy policy that would allow access to new sources of supply.

As part of such a policy, the EU could provide more financial support for strategic infrastructure, such as the Nabucco pipeline (this project is designed to deliver Azerbaijani, Turkmen and perhaps one day also Iranian and Iraqi gas through Turkey and the Balkans and into Western Europe). Another idea is that the EU – rather than individual energy companies – could conclude long-term supply agreements with gas-producing countries. Russia may not be too keen on this since Gazprom already has 30-year deals with most of Europe's big utilities. And it quite likes the divisive impact this bilateralism has on EU energy policy. But

a country like Turkmenistan – which is more used to dealing with foreign governments than private energy companies – may well be interested in such large-volume contracts for the whole EU. Many questions remain to be tackled before the EU can assume a role in securing supplies (How would the EU distribute the purchased volumes to various member-states and companies? Who would pay the penalties if the EU cannot take all the contracted gas? Who should invest in the pipelines to bring new gas into the EU? Which part of the Brussels machinery would take the lead in such talks?). But it is encouraging that the EU is thinking about adding some muscle to its declared objective of having an external energy policy. Any progress on this front would change the balance in negotiations with Russia.

The Gazprom clause

Some Brussels officials think that the Union could gain additional leverage by restricting Russian investment in the EU market. Gazprom is particularly keen to get access to gas end-users in Europe because profits from selling gas are higher (and quicker to achieve) than profits from developing new gas fields. Through its bilateral deals with the likes of E.On, Gaz de France and ENI, Gazprom can already sell some gas directly in most of the EU's big (and many of its smaller) gas markets. But it has not succeeded in buying significant transmission infrastructure, including in the traditionally liberal UK where its alleged bid for gas distributor Centrica – although not officially rebuffed – triggered a debate about the potential political and commercial implications.

At present, there are no EU-wide rules that would restrict Russian (or other non-EU investment) in strategic energy infrastructure in the EU. But this may be about to change. “We need to arm in order to disarm”, says one EU official, hoping that Russia will agree to liberalise its investment regime in return. The EU's main tool is the ‘third party clause’ enshrined in the draft directive on unbundling. This clause says that non-EU companies can only buy pipelines and grids within the EU if they are a) themselves unbundled to some degree and b) come from countries with which the EU has concluded a bilateral deal on such investment.

Whether the third party, or ‘Gazprom’, clause would allow the EU to prise open the Russian energy market is doubtful, however. The EU's own commitments in the WTO prevent it from discriminating against non-EU investors. So any new investment rules would have to be applied in a non-discriminatory manner to all non-EU energy companies, whether Norwegian, Algerian or Russian. And they would have to be based on reasons accepted by the WTO, such as national security (although any new restrictions could still be challenged through the WTO dispute settlement mechanism).

Under the complex compromise that EU energy ministers struck in June, the third party clause may have lost much of its bite. Since the EU is not (yet) moving to full unbundling internally, it can hardly expect non-EU companies from going further than what is expected from French or Italian companies. Presumably, Gazprom will be allowed to invest in gas pipelines in the EU, provided it complies with the same regulatory requirements that apply to EU companies. Even if the EU moved to full unbundling in a few years, it may not gain significant leverage over Russian energy policy. Privately, EU officials concede that they would only expect Gazprom to unbundle its operations within the EU market. Asking Russia to break up Gazprom at home may be simply unrealistic, given the strategic importance of the company.

If this kind of ‘reciprocity’ does not work, the third party clause may become pretty superfluous. Under full unbundling, no gas supplier would be allowed to own pipelines in the EU, whether that company is German, French, Russian or Norwegian. However, that neat solution appears to be off the table for at least another couple of years.

The EU still has a long way to go before it has an effective and coherent energy strategy. But things are moving. For example, two big German energy companies, E.On and RWE, have agreed to sell their transmission infrastructure, despite their government's continued opposition to full unbundling. If German companies unbundled, they would lobby Berlin to demand the same from those in France and elsewhere. Meanwhile, the EU has concluded a first (albeit vague) memorandum with Turkmenistan for the sale of 10 billion cubic meters of gas annually. And the EU is exploring alternative pipeline options. In a few years, the contours of a European energy policy will have become clearer. And Russia may have entered the WTO. The preconditions for a meaningful grand bargain would then be place.

Divided and clueless

Perhaps the most important reason why the EU is not ready for a quick deal on the PCA is that the member-states do not agree among themselves on how to deal with Russia. The story of the PCA itself illustrates the problem. In 2006, the EU countries agreed on the PCA negotiating mandate. But Poland – then under the

government of Jaroslaw Kaczynski – vetoed the start of the negotiations, requesting EU solidarity over a Russian ban on Polish meat imports. While Kaczynski's successor, Donald Tusk, struck a deal with Moscow in early 2008, Lithuania then blocked the PCA talks, putting forward a rather more ambitious list of requests. Most notably, it insisted that PCA talks could only start once the EU had persuaded Russia to resume oil shipments through Lithuania's Druzhba pipeline and let the Europeans play a stronger role in resolving the 'frozen' conflicts in Moldova and Georgia. The stand-off was resolved in May, when the other EU governments agreed to add a total of five annexes to the original negotiating mandate, to take account of various special interests and concerns. However, the EU governments continue to squabble over the meaning of these annexes: are they tying the Commission's hands or are they purely declaratory? Lithuania and some other new member countries have made it clear that they are not in a hurry to get a new treaty. They are happy to wait years, if need be, to get a 'worthwhile' deal in which Russia makes real concessions.

It is not only governments that disagree over how to proceed. Different bits of the Brussels machinery also have their own ideas on the PCA. And there are squabbles within the Commission over which directorate-general takes the lead in negotiations over trade, energy and so on. It looks likely that the PCA negotiations will initially mainly take place within the EU.

Perhaps this is the most positive aspect of the forthcoming PCA talks: they may finally force the member countries to have a more explicit and realistic debate about what the EU can and should expect from its relationship with Russia. Although this relationship is crucial for the EU's security, its energy supplies and the credibility of its common foreign and security policy, there is not enough strategic and constructive debate among the member-states and the EU institutions. Various bodies – from the odd informal meeting of EU foreign ministers to the regular working groups of member-state embassies in Brussels – talk about Russia. But if this was enough for all EU countries to align their views, the EU would not look as divided as it does. And a country like Lithuania would probably not feel the need to resort to vetoing the entire PCA process to get its points across. When the British House of Lords recently examined EU-Russia relations, it was more than mildly surprised to find that there is not a single forum in the Council (or anywhere else in the EU) that conducts a regular, forward-looking debate on Russia policy. The EU governments and institutions may also need more informal talks on Russia to increase trust among the member-states.

The big EU countries have always preferred to deal with Russia directly, to get favourable deals for their energy companies and to rub shoulders with the rulers of big, important countries. There is nothing wrong with bilateral ties as long as governments reinforce, rather than contradict, an agreed EU line. Sadly that has not always been the case in the past.

At present, the divisions among the big countries are a little less pronounced, which is partly the result of policy shifts, such as Angela Merkel's more critical stance on Russia. But the semblance of unity mainly stems from the fact that EU-Russia relations are pretty much frozen. The only urgent item on the agenda has been the PCA, and all large EU members could agree that they wanted the talks to start. Now that they are about to do so, the Kremlin will probably try to divide and rule, as it has done so successfully in the past. Already, Prime Minister Putin and President Medvedev have travelled to Paris, Berlin and Rome to strengthen bilateral ties, and they received warm welcomes in all three places. Relations with the UK remain tense, although both sides are making conciliatory noises. If the old divisions among the big members return, and individual EU countries once again go against agreed EU lines, the Commission will find it almost impossible to stand up to Russia in the PCA negotiations.

Real divisions still exist between the old and the new member-states. People in the Baltic states and elsewhere in Eastern Europe have watched with horror as tensions between Russia and Georgia have escalated, fearing that they may be the next victims of Russian bullying tactics. They also worry about Russian investment in their countries, not because of its possible adverse impact on competition (there is none in a country that imports 100 per cent of its gas from Russia), but because of the risk that Russia could use its control over assets for political pressure. These fears are not unfounded. Within Russia, cash and corporate control all too easily translate into political influence, and vice versa. And Russia has at various times interfered in the politics of neighbouring countries. Unless and until the new members are reassured that the big EU countries understand their concerns, and are willing to act on them if needed, they will continue to use whatever leverage they have to influence the EU's Russia policy. The PCA negotiations provide such leverage.

EU unity is a necessary but not sufficient precondition for an effective Russia policy. The EU is ineffective vis-à-vis Russia not only because it is divided, but also because it simply has no idea on how to deal with this sometimes angry and awkward partner. If the EU was united now, it would only be united in its cluelessness. It will take the EU a while to work out a new Russia policy that all the member-states can live with.

Pragmatism and real partnership

Meanwhile, the EU and Russia are certainly not short of things to do. They are still officially engaged in building the four common spaces – EU jargon for more co-operation and integration in economics and energy; foreign and security policy; internal security and justice; and education and culture. Progress has been piecemeal since the programme was launched but there have been small successes. For example, the EU and Russia have managed to sign a deal on re-admission of illegal immigrants and visa facilitation (although the immediate result appears to have been to make visa procedures more onerous, not less). In economics, although Russia still officially balks at the idea that it should adopt any EU rules, it has quietly aligned some of its laws with the EU *acquis*. In foreign policy, Russia has agreed to send a couple of helicopters to support the EU's mission in Chad. And in the neighbourhood, Moscow appears to have become a little more open to the idea that the EU could contribute to the resolution of the frozen conflicts, at least in Transdnistria.

It would be a shame if such progress now ceased because both sides are digging their heels in for a PCA negotiating marathon. If the EU made it clear from the start that such negotiations will take at least a couple of years, Russia may be more willing to compromise in the meantime. The underlying idea of the four spaces remains valid, namely that the EU should work with Russia wherever possible, to foster trust and encourage economic interdependence.

Such pragmatism is a good basis for EU policy for the time being. But the EU will need to work out a more coherent and long-term policy eventually. Within Brussels, officials are discussing the idea of 'selective integration' as a new basis for EU-Russia relations. Although this idea is as yet vague, it seems to do little more than acknowledge the status quo, namely that Russia wants to work with the EU only in those areas that suit Moscow. Other Brussels officials (and many European politicians) insist that the EU should not give up on the idea of building a strategic partnership with Russia. The fact that the idea is ambitious does not necessarily make it wrong. But the original plan for building such a partnership on the basis of 'common values' has not worked. So the EU needs to come up with something else.

EU policy towards Russia has often been strikingly reactive. Russia is nice to us? Let's move towards integration as far as possible. Moscow is in a bad mood? Maybe we need a policy of neo-containment. Now some West European politicians say that the EU should not talk about its new Russia policy until it has become clear what the new Russian president can and wants to do. This is odd. The Kremlin does not wait to define its policies until the EU has ratified the Lisbon treaty or appointed a new high representative for foreign policy. Any coherent and sustainable Russia policy must start within the EU, with a much clearer definition of where the EU's interests lie, what its red lines are and how to proceed under different scenarios.

★ **The common neighbourhood.** The EU needs to acknowledge that Russia has strong and justified interests in what it calls its 'near abroad'. But that does not mean accepting any kind of *droit de regard*. What happens in Belarus, Ukraine, Moldova and Georgia matters just as much for the EU. So the EU is right to do whatever it can to help make these countries more stable, democratic and prosperous. It needs a stronger European neighbourhood policy. The initiative by the Swedish and Polish governments in May to strengthen the ENP and add a stronger regional dimension is therefore welcome. The Czech government has also said that it wants to focus on eastern policy when it runs the EU's presidency in the first half of 2009. The fact that Russia may disagree with EU policy is simply a reason for more open dialogue between the two sides. Similarly, the EU is right to take the lead in trying to foster stability and economic development in the Balkans, through the accession perspective, aid, regional initiatives, peacekeeping and the new rule-of-law mission in Kosovo. The EU should invite Russia to work with it towards these objective but make it clear that simply blocking EU initiatives is counterproductive.

★ **Energy security.** Russia is and will remain the EU's single most important external energy supplier. That does not need to be a problem. The dependence is mutual since 90 per cent of Russian oil and gas exports go to the EU. The proceeds from these sales fuel Russian income growth and allow the Kremlin to increase social and investment spending. The Europeans must stop having a panicky debate about whether Russia is a reliable supplier – it has little choice for the foreseeable future. Russia is certainly a big factor in European energy security but by no means the only one. As argued above, the EU-Russia energy relationship will continue to be skewed in Russia's favour until the EU has built a more coherent energy policy. Here, as in so many other areas, good Russia policy starts within the EU.

★ **European values.** The EU may not be able to transfer its values to Russia (although it can make a difference in individual cases). However, the EU cannot compromise on things such as transparency, accountability and the rule of law when it deals with Russia. And it certainly cannot allow Russia to

undermine what Europeans hold dear within the EU. The EU's challenge is to find a way of dealing with Russia without compromising its own principles. The EU has done well in showing solidarity with those countries that have had run-ins with Russia in the recent past, for example with the UK over the Litvinenko murder and with Estonia when Russia over-reacted to the removal of a war memorial. The EU needs to be firm whenever Russia behaves aggressively towards one of its members. If such shows of solidarity are timid and tardy, they risk sending the wrong signal to Russia, namely that falling out with individual countries is an easy way to divide the EU.

- ★ **Global challenges.** Today, most of the EU's big challenges are external, ranging from climate change to fighting international terrorism and coping with the rise of China. Russia is crucial for finding sustainable solutions to many global issues: it is the world's biggest energy exporter, a major emitter of greenhouse gases, the world's second biggest nuclear power and it holds a permanent seat on the UN Security Council. Russia has shown that it can work constructively with the EU (and the US) where their interests coincide, for example preventing Iran from building nuclear bombs or moving towards peace in the Middle East. But to get Russia's co-operation in other global issues will be one of the big challenges for EU foreign policy for years to come. The EU needs to accept that Russia will expect rewards for its co-operation. It needs to discuss where viable trade-offs may be found.

Russian politicians often accuse the EU of being intrusive and arrogant because it lectures them on what to do instead of showing respect. So far, Russia has, more often than not, sought to gain the EU's respect by making categorical statements, blocking previously agreed initiatives and acting as a spoiler on the international scene. This kind of behaviour does not necessarily benefit a great power. The EU must be prepared to take Russian needs and interests more seriously and stop working on the assumption that it always knows best. Russia, in turn, should become more constructive in its dealings with the EU and more responsible in its global action. Most importantly, however, the EU cannot expect Russia to take it seriously as long as it looks divided and dithering. The EU can only have a proper partnership with Russia if it devises more effective strategies and policies at home first. Once the EU and Russia have found a better way of dealing with each other, they will also find it a lot easier and rewarding to talk about a new treaty.



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