EU-Russia: overcoming stagnation

by Nicu Popescu

For the best part of the last two decades, EU-Russia summits have alternated between being upbeat events where new grand integration initiatives were launched – the creation of four common spaces in 2005, the partnership for modernisation in 2010 – and rather unfriendly encounters where success was seemingly measured on how impolite the partners could be to one another.

In recent years, summits turned less mercurial and became mainly box-ticking affairs. This is arguably a sign of the emergence of a more mature relationship based on ever higher levels of interaction in the fields of energy, tourism, business, and education. But it is also a sign of mutual disenchantment and reduced expectations, to the extent that the relationship is now practically stagnating. As a result, no *grand projet* is likely to help re-launch the partnership. The latest such initiative – the partnership for modernisation – is now being undermined by a conservative backlash in Russian domestic politics. Despite this relative gloom, however, the relationship can still move forward and there is progress to be made on specific initiatives.

Still trading a lot – but less

Although the EU-Russia *economic* partnership rests on solid foundations, it has lost its momentum. The EU is Russia's single biggest trading partner, with 41% of Russia's total external trade (and 45% of its exports) going to the EU in 2012, far ahead of China (9.8%) and Ukraine (3.7%), in second and third place respectively. In contrast, Russia is the EU's third biggest trading partner – after the US and China – accounting for 9.7% of the EU's external trade.

Such impressive figures mask the fact that Russian trade dependence on the EU has been steadily declining since the onset of the economic crisis, which has led to a decrease in the Union's share of Russian exports (from 57% in 2008 to 45% in 2012). It appears that certain policymakers in Russia now take this economic partnership somewhat for granted, and are of the belief that while this relationship has matured and possibly already peaked, future opportunities for growth now lie primarily in the Asia-Pacific region.

The EU and Russia formally agreed to create a Common Economic Space in 2003, and in 2007 talks were launched on a new enhanced agreement that was supposed to provide the legal basis for, *inter alia*, closer economic integration. These talks have since remained stuck, with Russia focusing instead on the creation of a Customs Union with Belarus and Kazakhstan. In an attempt to bolster the legitimacy of this new body as an international organisation, Moscow is now seeking to shift its trade talks with the EU towards a common track between the EU and its Customs Union.

Energy: from tense to less intense

A few years ago, EU-Russia *energy* links seemed to be growing stronger, with new plans for pipelines, new upstream and downstream deals, and new contracts on long-term deliveries of Russian gas to EU consumers. This increased interconnectivity was accompanied by an equally fast-growing concern in the EU over an excessive reliance on Russian gas, which could be exploited to extract monopolistic rents or used as a means to exert diplomatic pressure. And Russian use of gas as a foreign policy tool in third countries, such as the gas-related rows with Ukraine in 2006 and 2009, illustrated the extent to which even third country disputes can have direct adverse effects on EU consumers – as the citizens of Slovakia and Bulgaria discovered much to their discomfort.

Episodes such as these prompted the EU to search for solutions in order to limit Russia's ability to employ energy as a political or monopolistic lever. Regulatory changes and investments in energy interconnectors between EU member states have since dramatically boosted the Union's resilience to possible gas supply disruptions. The introduction of the 3rd energy liberalisation package was a turning point in efforts to loosen Gazprom's grip on the EU market. This attempt to roll back Russia's clout culminated in a large-scale anti-trust investigation against Gazprom which may still result in a huge fine and a further curtailing of its anti-competition practices. In late 2013, the European Commission also announced that Gazprom contracts with six EU member states (plus Serbia) are in breach of EU law and must be renegotiated.

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Gazprom's position in the EU was further weakened by a drop in EU energy consumption (and subsequent imports of Russian energy) as a result of the economic downturn. With the advent of the financial crisis, many EU companies switched to coal or alternative gas suppliers with more flexible pricing formulas than the rigid long-term 'take-or-pay' deals offered by Gazprom. The shale gas revolution in the US reinforced these trends, and in 2013 Norway overtook Russia to become the single biggest gas supplier to the EU. Several joint projects between Gazprom and EU energy giants (such as Shtokman) have been put on ice, and E.ON, once the biggest foreign holder of Gazprom shares (6.4% of shares in 2003 and 2.5% in 2010) has sold off its stake in the company.

Russia is – and will remain – the EU's top energy partner. But the scope of that partnership is now very different to that of several years ago. Gazprom now struggles to find opportunities for further expansion inside the EU, let alone wield its resources for political purposes. For its part, the EU is much more assertive in the pursuit of its energy interests, and, due to concentrated efforts, is now much less at risk of falling victim to monopolistic or political rents.

Security cooperation?

Although cooperation on security issues had always been low on the EU-Russia agenda, it is now even less substantial than before. Medvedev's 2009 proposal to develop a new joint security architecture has evaporated, as have the EU's hopes that Russia could play a more constructive role in reaching a settlement over the breakaway region of Transnistria, long considered to be one of the most solvable post-Soviet 'frozen' conflicts. Russian policy towards Transnistria is hardening, with Moscow defying earlier international obligations to fully withdraw its troops and choosing instead to modernise and upgrade its military presence in the region.

In the South Caucasus, despite the change of government in Georgia, Russia's stance on the secessionist regions is as uncompromising as ever. In 2013, Russia began the process of the so-called 'borderisation' of Abkhazia and South Ossetia, whereby fences and barricades were erected along the administrative boundaries of the disputed territories. Although the act of building fences was in itself perhaps not surprising, it does further exacerbate existing tensions.

To make matters worse, Russia is also set to deploy tactical ballistic missiles (capable of carrying nuclear warheads) in Kaliningrad in response to the deployment of elements of US anti-missile systems in eastern Europe.

Visa liberalisation

Perhaps the one area where most progress has been made is the facilitating of travel between Russia and the EU. Russia submits more applications for EU visas than any other country, and the number of Schengen visas issued annually in Russia almost doubled between 2009 and 2012, from 3.2 million to 6 million. Recently, Moscow and Brussels agreed on a further relaxation of visa policies – but the most important development is the so-called 'mutual steps' process that should eventually lead to the mutual abolition of visa requirements.

Both the EU and Russia stand to benefit from switching to visa-free travel (and the presumed resulting increase in business, tourism or civil society contacts). But much depends on Russia fulfilling certain conditions set by the EU as well as a measure of goodwill by European leaders to see the process through.

Some of the EU's key conditions for the abolition of visas for third country nationals aim at eliminating the push factor for migration. What the EU certainly does not want at this point in time is to experience a wave of citizens from visa-free countries claiming asylum. That is why the EU usually demands reforms designed to improve domestic political conditions and thereby minimise the number of people who could claim asylum for fleeing political persecution or discrimination based on religious belief or sexual orientation.

This is where certain domestic political trends in Russia also complicate progress on visa-free travel. Asylum seekers originating from Russia have consistently constituted one of the biggest groups of asylum seekers in Europe. In 2010-2011, Russian citizens, numbering 18,000 per year, were the second largest group (after Afghanis and ahead of Iraqis, Pakistanis, and Somalis) claiming asylum in the EU. But a wave of state-sponsored anti-LGBT propaganda in Russia – as well as recent legislation that could be interpreted as a form of persecution – has increased the chances that a new category of Russian citizens – real or bogus – might attempt to claim asylum in the EU, thus further driving up the numbers. Moreover, the European Court of Justice recently issued a ruling in November 2013 which stated that being persecuted on grounds of sexual orientation is a legitimate reason for being granted asylum in the EU.

Such political and technical problems would be easier to overcome if the overall bilateral political relationship was in better shape. Yet the conditions that must be met in order for Russia to obtain visa-free travel are already much simpler than those set for Ukraine, Moldova or Kosovo. The list of conditions is shorter and selected sensitive ones – such as adopting anti-discrimination laws – have been diluted. If Russia had played its (already decent) hand better, it could have been much closer to a visa-free regime than it is now.

Eastern Partnership vs. Eurasian Union

The latest spat between Russia and the EU is, once again, over their mutual neighbours. Tempers recently flared to the extent that Putin's advisor for Eurasian integration even compared the attempted European integration of Ukraine through the Eastern Partnership to a 'fascist occupation'.

The game (great or not) between the two partners is indeed 'zero-sum' – at least in part – but not because of the EU. For post-Soviet states, creating a free trade area with the EU is wholly compatible with maintaining free trade agreements with other post-Soviet states, including Russia, or with establishing new free trade areas with any other country in the world. However, the Russian-led Customs Union is crafted at the expense of other trade partnerships: any state joining a customs union renounces its right to enter into bilateral free trade arrangements with third countries. And in the case of WTO members like Armenia, Kyrgyzstan, or Ukraine, joining the Customs Union would lead to an increase in duties imposed on most imports from the EU or China, which, in turn, would lead to the worsening of already existing trade arrangements with other countries.

This is particularly problematic since the Customs Union is built upon some rather shaky economic foundations. For no post-Soviet state (except Belarus) does trade with Russia account for more than 23% of its external trade balance, and the biggest trading partner in most cases is usually the EU or China. The first tangible effects of the Customs Union have not been particularly encouraging, either: according to data from the Eurasian Economic Commission, between January-October 2013, trade between Russia, Kazakhstan, and Belarus fell by 7%, while exports to the EU continued to grow.

In this context, Ukraine plays a crucial role. Despite the criticism directed at President Yanukovich for pursuing his own personal interests at the expense of his country's, Kiev's predicament goes beyond the erratic behaviour of a non-visionary leader. Ukraine's inability to choose between the Russian-led Customs Union and the EU is structural, as 33% of its total external trade (imports and exports) in 2012 was with the EU, and 29% with the Customs Union. When it comes to exports, 25% of Ukrainian exports go to the EU and 30% to the Customs Union. Given that the EU market is several times bigger than that of the Customs Union, this is a sign of an insufficiently strong EU-Ukraine trade relationship.

Commonwealth of Independent States (CIS) country	Top trading partners in 2012 (excluding Russia)	Trade with Russia (% of foreign trade) for 2012
Armenia	EU- 29% China - 7.6%	Russia - 23%
Azerbaijan	EU - 46% Turkey - 7.1%	Russia - 6.3%
Belarus	EU - 29% Ukraine 8.5%	Russia - 47%
Georgia	EU - 28% Turkey - 12% Azerbaijan - 8%	Russia - 6.7%
Moldova	EU -54% Ukraine - 15%	Russia - 11.8%
Kazakhstan	EU - 32% China - 23%	Russia - 19%
Kyrgyzstan	China - 51% Kazakhstan - 7% EU - 5.5%	Russia - 17%
Tajikistan	China - 36% Turkey - 10%	Russia - 14%
Turkmenistan	China - 45% EU-12% Turkey - 9%	Russia - 6.8%
Ukraine	EU - 33% China - 7%	Russia - 21%
Uzbekistan	US- 14% China - 12%	Russia - 9.7%

As long as Russia attempts to (re)create a sphere of influence, which runs counter to the EU's interests, diplomatic tensions are unavoidable. The question is how to manage these tensions in such a way that allows the EU to pursue its interests in both the Eastern Partnership countries and in Russia.

Ways out – and forward

The EU is confronted with a difficult situation. It is not well placed to play 'geopolitical' games: its decision-making process is consensual and thus slow, rules-based and not equipped for quick tactical twists and turns. By contrast, Russia shines when it pulls off quick, highly visible diplomatic offensives – but what it actually offers is often neither attractive nor credible.

The EU-Russia relationship is by its very nature bound to be cooperative in some areas and competitive in others. The EU may thus need to continue pushing for deeper cooperation where possible – primarily on trade and visa liberalisation. Re-energising the creation of a Common Economic Space with Russia, even if this implies dealing with the Customs/Eurasian Union, may be one option – but only if it leads to mutual trade liberalisation, not just the creation of another talking shop.

As for the Eastern Partnership states, the EU is being called upon to help them shield themselves from Russian pressure in the short term. Diplomatic support from EU member state capitals is one way to offer such help. But no less important is the potential of accelerating preparations for signing the Association Agreements with Georgia and Moldova – as well as delivering on existing plans for visa liberalisation.

The existing stagnation in EU-Russia relations appears hard to overcome given the current political climate, but progressing on trade and mobility issues with both Russia and the EU's eastern neighbours would continue to deepen relations (well beyond the governmental level) even in the absence of *grands projets*.

As the EU knows from its own history, when grand visions cannot be realised overnight, continuing practical cooperation wherever possible is a good second best.

Nicu Popescu is a Senior Analyst at the EUISS.