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The EU-Russia relationship at a turning point

The Russian-Georgian War of summer 2008 and the Russian-Ukrainian gas crisis of early 2009 seem to open up a new chapter in the relations between Russia and the EU. Moscow is trying to implement its policy uncompromisingly without heeding European interests. The Russian leadership is reacting more and more sensitively especially to a pro-Western orientation of individual states within the post-Soviet area and draws a red line for those states who want to integrate into NATO. This steers Moscow also into conflict with the EU Neighborhood Policy. At the same time, the role of the EU has also changed with the two current conflicts, as it is being pushed into a new position of a conflict mediator. It is against this conflict-laden backdrop that the DGAP Russia/Eurasia Center in cooperation with the Moscow Institute of Contemporary Development, close to President Dmitry Medvedev, invited politicians and experts from Russia and the EU for the EU-Russia Forum to Berlin, regularly conducted since 1999.

The Russian-Ukrainian gas conflict

Over the past years, the EU-Russia relations were characterized by a growing crisis of trust. As compared to the 1990s, both sides seem to know less and less about one another and understand the position of the other less and less. The gas crisis represents a new critical climax within the relationship between the EU and Russia as well as between Russia and Ukraine: Moscow and Kiev have proved to be little reliable partners, by escalating their dispute right up to closing down gas deliveries, without considering the EU countries. For the first time, Russia interrupted its gas deliveries to Europe for a longer period of time. At the same time, Ukraine instrumentalized its transit monopoly for Russian gas supplies with regard to the deliveries from East to West for its own interests. Within the EU, this crisis sparked a debate about greater diversification and less dependence on the energy supply from Russia and the Ukraine. Instead of Russia, Central Asia could now rise to become the preferred energy partner of the EU. The growing European interest in the alternative pipeline Nabucco could be interpreted as a direct

consequence of the Georgia War and the gas crisis. The German side combines this with the demand for clear rules governing the transit of raw materials to be included in the new Partnership and Cooperation Agreement with Russia. Furthermore, a clear message is to be sent out to Ukraine signaling that their non-transparent behavior in the gas conflict was not conducive for a NATO or EU membership.

The Eastern Partnership of the EU

The Eastern Partnership of the EU, initiated by Poland and Sweden, is a central subject of the Czech Council Presidency during the first half of 2009. The aim is to strengthen regional cooperation with the five Eastern EU neighbor states—Armenia, Azerbaijan, Georgia, Moldova, Ukraine—and to establish at least a technical cooperation with Belarus. Both Prague as well as the initiators of this strategy want to embrace a more multilateral approach and move away from the previous bilateralism with the Eastern neighbors. In order to achieve this goal, the areas of security, good gover-

nance and economic reforms are to be supported with further funds in the years to come. It is stressed, by way of principle, that the Eastern Partnership is not directed against Russia. This concept is rather a reaction to the deficits of the previous European Neighborhood Policy (ENP), which lacked the incentives for progress in the reform process without automatic prospects of membership. The Eastern Partnership is not to represent a back door way into accession, however, further incentives for integration and reforms could be provided. The gas crisis has shown how important the normalization of EU relations with Ukraine and Belarus is. At the same time, Russia has to be included in this policy, so that no geo-political competition starts to develop. German politicians demand an improvement in the collaboration within the Organization of Black Sea Economic Cooperation, as an integral part of the future Eastern Partnership of the EU, for instance, on energy issues.

The Russian side put forward the argument that the Georgia War, in particular, was a good example for the cooperation between Russia and the EU. Despite this war, the good relations in the areas of the economy, energy, education and the sciences have not been damaged. The Russian leadership is planning to put forward concrete proposals for the new Partnership and Cooperation Agreement at the coming EU-Russia summit. On the other hand, the Eastern Partnership is regarded by Moscow as a project that is aimed directly against Russia. In order to eliminate irritations, the Russian government would wish to be invited to the EU negotiations with the post-Soviet countries. Had Russia been included in these negotiations from the very beginning, a critical position would never have developed. The EU side emphasizes that the Eastern Partnership is still at a fledgling stage. Had one included Russia from the outset, a further development would have become difficult. Russia had not have invited the EU as an observer for the constitution of the Eurasian Economic Community either. In the further process, the Czech Presidency aims to include Russia into the Neighborhood Policy, however. “Thematic Platforms” are to be developed as a multilateral policy, into which Russia could also be integrated. Russia is

planning to hold so-called “regional forums”, for instance, with the Baltic states on the subject of strategic neighborhood.

Chances for a strategic partnership with Russia

For Russia, there is a fundamental interest in a strategic cooperation with the EU. The EU was the “natural partner” of Russia, still, Moscow could often not fully comprehend the European decision-making processes. Disagreement within the Union on the issue of Russia policy encumbered any cooperation. Moscow regards the communication with 27 member states as an obstacle to constructive dialogue. The Russian leadership would prefer a simpler and less controversial mechanism in its relations with the EU. In principle, the EU-Russia relationship needed an intellectual push to emerge from the crisis. Even though the relations were characterized by stability over the past years, this was regarded as a given situation and was not developed any further. A way out of the sluggish negotiating process for a new Partnership and Cooperation Agreement could be a brief general document each side could quickly agree on. This document could be followed up by sectoral agreements, which could be attached to the general agreement as protocols. This would circumvent the problems of achieving agreement in all areas, including the problematic ones, before the agreement is signed. The EU should develop a Russia policy of its own, independent of the US. It cannot be a bridge between Russia and the US, as it is conducting totally different discourses with either state. Even though there might be common goals between Moscow and Brussels for the direct neighborhood, however, there are also contradictory ideas about the development of this area. Above all, the EU should differentiate between shared values and shared interests. It is a European illusion to believe that geopolitics is an outdated concept. This is a concept that continues to determine state cooperation in Europe for Russia.

Russia and the EU—partners in the financial crisis

The financial crisis has hit Russia especially severely. The consequences are the enormous inflation of the rouble, a decline in state revenues due to the drop in the price of raw materials as well as dwindling production, especially in growth sectors as the automotive industry. The rate of unemployment is rising rapidly in the country. However, there is the danger in Russia that too much regulation might be introduced together with the state salvaging packages and thus thwart growth in the future. There are two extreme scenarios for the Russian government for 2009: in case of a positive development, there might be a growth rate of 3 percent. On the other hand, the most negative assumption predicts a decline of growth to -10 percent. The Russian leadership is preparing for both scenarios. Russia's problem is to be seen in a lack of crisis management and a state that was too directive already before the crisis. The Russian side regards the financial crisis also as a chance for closer cooperation with the EU, as it needs the Europeans all the more as partners for modernization.

Backed up with the third largest international currency reserves, the Russian leadership could partly cushion the negative consequences of the financial crisis with the right decisions. EU participants criticized that the main problem of the past years has been the prevention of many foreign investments due to state intervention. The enormous currency reserves could only develop a short-term effect due to the structural deficits. In the long term, these measures would peter out as there was no competitive industry and, above all, the infrastructure would have to be modernized comprehensively.

EU-Russia—What lies ahead?

Generally, there are three questions to be addressed currently in the relations between Russia and the EU:

- 1) Will the financial crisis deepen the trenches between Russia and the EU further, or, on the contrary, strengthen the partnership?
- 2) What role will the new US-President Barack Obama play in the relations of the West with Russia?
- 3) What are the common strategic goals pursued by Russia and the EU?

Representatives of the German economy stress that European banks are not planning a withdrawal from Russia, despite the financial crisis. However, the Russian state should not take over control of the entire banking system. Transparency was decisive for future cooperation. In order to leave stagnation behind, new structures needed to be created for dialogue. The only right strategy for the EU with regard to Russia can be dialogue and not containment. Leading politicians of the German government are demanding a new mechanism of communication with Russia. Six countries especially interested in the relations with Russia—among others apart from France and Germany also Poland—should be included.

Russia accepted the EU as a mediator in the Georgia conflict and the gas crisis. Especially energy policy could become a strategic instrument of cooperation between Moscow and Brussels. If it is possible to create trust in this area, then it will be possible to do so also in other areas. Close cooperation in energy policy would require amended investment rules, state influence on the economy, control of the pipeline system as well as common environmental and climate demands. At the same time, the Russian proposal for a new European security system should be discussed more seriously, as the most recent conflicts showed up many deficits in communication. Both the Georgia crisis and the gas conflict were predictable without the possibility of a solution being available for the prevention of the conflicts beforehand. For the future one should find multilateral mechanisms for the prevention of conflicts or for avoiding escalation. This calls in the same way both on the EU and Russia.

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“Russia and the EU”
Conference within the framework of the DGAP EU-Russia
Forum
19th January 2009, 9.30 a.m. to 4.30 p.m.

Organiser: DGAP Russia/Eurasia Center,
Institute of Contemporary Development, Moscow.