

# A Power Audit of EU-Russia Relations

**Mark Leonard & Nicu Popescu**  
**POLICY PAPER**



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**Mark Leonard**  
Executive Director  
[mark.leonard@ecfr.eu](mailto:mark.leonard@ecfr.eu)

**Hans Wolters**  
Deputy Director  
[hans.wolters@ecfr.eu](mailto:hans.wolters@ecfr.eu)

**Ulrike Guérôt**  
Senior Policy Fellow  
Head of Berlin Office  
[ulrike.guerot@ecfr.eu](mailto:ulrike.guerot@ecfr.eu)

**José Ignacio Torreblanca**  
Senior Policy Fellow  
Head of Madrid Office  
[jitorreblanca@ecfr.eu](mailto:jitorreblanca@ecfr.eu)

**Thomas Klau**  
Editorial Director  
Head of Paris Office  
[thomas.klau@ecfr.eu](mailto:thomas.klau@ecfr.eu)

**Ognyan Minchev**  
Senior Policy Fellow  
Head of Sofia Office  
[ognyan.minchev@ecfr.eu](mailto:ognyan.minchev@ecfr.eu)

**Cvetelina Buncheva**  
Program Assistant  
[cvetelina.buncheva@ecfr.eu](mailto:cvetelina.buncheva@ecfr.eu)

**Anthony Dworkin**  
Senior Policy Fellow  
[anthony.dworkin@ecfr.eu](mailto:anthony.dworkin@ecfr.eu)

**John Fox**  
Senior Policy Fellow  
[john.fox@ecfr.eu](mailto:john.fox@ecfr.eu)

**François Godement**  
Senior Policy Fellow  
[francois.godement@ecfr.eu](mailto:francois.godement@ecfr.eu)

**Richard Gowan**  
Policy Fellow  
[richard.gowan@ecfr.eu](mailto:richard.gowan@ecfr.eu)

**Daniel Korski**  
Senior Policy Fellow  
[daniel.korski@ecfr.eu](mailto:daniel.korski@ecfr.eu)

**Alba Lamberti**  
Advocacy  
[alba.lamberti@ecfr.eu](mailto:alba.lamberti@ecfr.eu)

**Pierre Noel**  
Policy Fellow  
[pierre.noel@ecfr.eu](mailto:pierre.noel@ecfr.eu)

**Katherine Parkes**  
PA to Executive Director  
[katherine.parkes@ecfr.eu](mailto:katherine.parkes@ecfr.eu)

**Nicu Popescu**  
Policy Fellow  
[nicu.popescu@ecfr.eu](mailto:nicu.popescu@ecfr.eu)

**Zsafia Szilagy**  
Communication  
and Media Relations  
[zsafia.szilagy@ecfr.eu](mailto:zsafia.szilagy@ecfr.eu)

**Andrew Wilson**  
Senior Policy Fellow  
[andrew.wilson@ecfr.eu](mailto:andrew.wilson@ecfr.eu)

**Nick Witney**  
Senior Policy Fellow  
[nick.witney@ecfr.eu](mailto:nick.witney@ecfr.eu)

**Stephanie Yates**  
Program Assistant  
[stephanie.yates@ecfr.eu](mailto:stephanie.yates@ecfr.eu)



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# **A POWER AUDIT OF EU-RUSSIA RELATIONS**

Mark Leonard  
& Nicu Popescu

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[london@ecfr.eu](mailto:london@ecfr.eu)

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## **PREFACE**

The European Council on Foreign Relations was founded with a statement that calls on the European Union to develop a foreign policy ‘informed by our shared values, dedicated to the pursuit of our common European interests, and sustained by European power.’

The order of the sentence reflects the fact that EU tends to be at its most comfortable discussing its shared values; it sometimes struggles to define common interests, while it seems almost ashamed to talk about its power. It is for that reason that we decided to make our first report an audit of the power that the Union wields over its most important neighbour, Russia.

There have been many papers produced on EU-Russia relations, analysing the policies that the EU should adopt to advance its agenda, but we feel that the main challenge for the Union is its own disunity. The Union urgently needs to develop a new paradigm to manage its relationship with a resurgent and consolidated Russian state. This first ECFR report sets out some initial ideas and analysis which we hope will help spur a debate in national capitals. It will be followed up with more detailed work at policy level.

In this project, we have tried to implement some practices which will guide our future activities as the ECFR takes its work into new policy areas.

First, we have tried to look at several dimensions of European power. We have explored how Moscow sees the EU and uses its power to influence it; how each member state relates to Russia; as well as the links between Moscow and EU institutions. This report draws on data gathered by a team of researchers from all 27 EU member states. Each conducted a survey of their country’s economic, political and military relations with Russia.

Secondly, we have tried to avoid the euphemistic phrases and diplomatic practices that cloak tensions within the EU and between the EU and third countries. In order to promote a common European approach, we have illustrated some of the areas where the policies of individual member states have undercut common European objectives. The goal is not to stigmatise particular countries. Future reports on European foreign policy issues will put the spotlight on the policies of other states.

Thirdly, we have done our best to understand the issues from the perspective of policymakers. A senior EU official complained to one of the authors about the propensity of outside observers to simplify complex issues and to imply that the only thing standing in the way of a successful EU foreign policy is the stupidity of officials. We have tried to heed this plea and have not offered any easy, ready-made solutions. We are grateful to the many officials who have provided us with useful guidance at every step of the research process, in particular those who took part in a round-table discussion of the interim findings, attended by officials from all EU institutions and a majority of EU member states.

## **EXECUTIVE SUMMARY**

Russia has emerged as the most divisive issue in the European Union since Donald Rumsfeld split the European club into 'new' and 'old' member states. In the 1990s, EU members found it easy to agree on a common approach to Moscow. They coalesced around a strategy of democratising and westernising a weak and indebted Russia. That strategy is now in tatters. Soaring oil and gas prices have made Russia more powerful, less cooperative and above all less interested in joining the west.

Although the EU has failed to change Russia during the Putin era, Russia has had a big impact on the EU. On energy, it is picking off individual EU member states and signing long-term deals which undermine the core principles of the EU's common strategy. On Kosovo, it is blocking progress at the United Nations. In the Caucasus and Central Asia, Russian efforts have effectively shut the EU out of an area where it wanted to promote political reform, resolve conflicts and forge energy partnerships. And in Ukraine and Moldova, Moscow has worked hard, with some success, to blunt the appeal of the European system.

Russia's new challenge to the EU runs deeper than the threat of energy cut-offs or blockages in the UN. It is setting itself up as an ideological alternative to the EU, with a different approach to sovereignty, power and world order. Where the European project is founded on the rule of law, Moscow believes that laws are mere expressions of power – and that when the balance of power changes, laws should be changed to reflect it. Russia today is trying to revise the terms of commercial deals with western oil companies, military agreements such as the Conventional Forces in Europe Treaty, and diplomatic codes of conduct like the Vienna Convention. And it is trying to establish a relationship of 'asymmetric interdependence' with the EU. While EU leaders believe that peace and stability are built through interdependence, Russia's leaders are working to create a situation where the EU needs Russia more than Russia needs the EU, particularly in the energy sector.

*The fragmentation of European power*

In order to help improve the quality of European debate, the ECFR has conducted a power audit of the EU-Russia relationship, examining the resources available to each side, as well as their respective ability to realise their policy objectives. Although the EU is a far bigger power than Russia in conventional terms – its population is three and a half times the size of Russia's, its military spending ten times bigger, its economy 15 times the size of Russia's – Europeans are squandering their most powerful source of leverage: their unity. Contrary to a widespread perception, the divisions between them are much more complex than a split between new and old member states. We have identified five distinct policy approaches to Russia shared by old and new members alike: **'Trojan Horses'** (Cyprus and Greece) who often defend Russian interests in the EU system, and are willing to veto common EU positions; **'Strategic Partners'** (France, Germany, Italy and Spain) who enjoy a 'special relationship' with Russia which occasionally undermines common EU policies; **'Friendly Pragmatists'** (Austria, Belgium, Bulgaria, Finland, Hungary, Luxembourg, Malta, Portugal, Slovakia and Slovenia) who maintain a close relationship with Russia and tend to put their business interests above political goals; **'Frosty Pragmatists'** (Czech Republic, Denmark, Estonia, Ireland, Latvia, the Netherlands, Romania, Sweden and the United Kingdom) who also focus on business interests but are less afraid than others to speak out against Russian behaviour on human rights or other issues; and **'New Cold Warriors'** (Lithuania and Poland) who have an overtly hostile relationship with Moscow and are willing to use the veto to block EU negotiations with Russia.

Broadly speaking, the EU is split between two approaches – and each of the five groups tends towards one of the main policy paradigms. At one end of the spectrum are those who view Russia as a potential partner that can be drawn into the EU's orbit through a process of 'creeping integration.' They favour involving Russia in as many institutions as possible and encouraging Russian investment in the EU's energy sector, even if Russia sometimes breaks the rules. At the other end are member states who see and treat Russia as a threat. According to them, Russian expansionism and contempt for democracy must be rolled back through a policy of 'soft containment' that involves excluding Russia from the G8, expanding NATO to include Georgia, supporting anti-Russian regimes in the neighbourhood, building missile shields, developing an 'Energy Nato' and excluding Russian investment from the European energy sector.



Neither of these approaches has replaced the 1990s model of ‘democratising Russia.’ Each has obvious drawbacks, making both unpalatable to a majority of EU member states. The first approach would give Russia access to all the benefits of co-operation with the EU without demanding that it abides by stable rules. The other approach - of open hostility - would make it hard for the EU to draw on Russia’s help to tackle a host of common problems in the European neighbourhood and beyond.

### *The Need for a New Paradigm: Promoting the Rule of Law*

Despite EU member states’ different interests, history and geography, there is a chance today to agree on a new and better approach, as it is increasingly clear that the status quo works against the interests of *all* five groups. To develop a new paradigm for the relationship, Europeans will need to rethink the goals, means and policies that define their relations with Russia.

While the long-term goal should be to have a liberal democratic Russia as a neighbour, a more realistic mid-term goal would be to encourage Russia to respect the rule of law, which would allow it to become a reliable partner. The rule of law is central to the European project, and its weakness in Russia is a concern for all Europeans working there. Russia’s selective application of the law affects businesses who worry about respect of contracts, diplomats who fear breaches of international treaties, human rights activists concerned about authoritarianism, and defence establishments who want to avoid military tensions. An approach based on the rule of law would also have positive echoes within Russian society, where even citizens who have become cynical about the language of democracy are concerned about corruption and the arbitrary exercise of power by the state.

If EU leaders manage to unite around such a common strategy, they will be able to use many points of leverage to reinforce it. This report sets out some of the areas where policymakers could rethink their approach in line with a ‘rule of law paradigm’:

- **Conditional Engagement with Russia.** Proponents of ‘soft containment’ and ‘creeping integration’ debate whether Russia should be excluded from the G8, and whether to block the negotiation of a new Partnership and Cooperation Agreement.

Under a ‘rule of law’ approach, the EU would keep Russia engaged in these institutions, but adjust the level of cooperation to Russia’s observance of the spirit and the letter of common rules and agreements. If Moscow drags its feet on G8 commitments and policies, more meetings should be organised on these topics at a junior level under a G7 format - excluding Russia. Similarly, the Union should not be afraid to use the EU-Russia summit and the negotiation of a new Partnership and Cooperation Agreement to highlight issues where Russia is being unhelpful, such as Kosovo and the conflicts in Georgia and Moldova.

- **Principled Bilateralism.** Proponents of ‘creeping integration’ see bilateral relations as a good way to reach out to Russia at a time of tension. Their opponents tend to see such contacts as a kind of betrayal (for example, Polish politicians have described the Nordstream deal as a new Molotov-Ribbentrop pact).

Under the ‘rule of law’ paradigm, the EU should aim for ‘principled bilateralism.’ The goal would be to ensure that bilateral contacts between Russia and individual EU member states reinforce rather than undermine common EU objectives. Equally, most member states would value an early warning system which would allow both upcoming crises and upcoming deals to be discussed internally in the Union.

- **Integrate the Neighbourhood.** Member states favouring ‘creeping integration’ want to avoid competition for influence with Russia in Europe’s neighbourhood. On the other hand, countries that favour ‘soft containment’ want the EU to increase its activities in countries such as Georgia, Ukraine, Moldova and Belarus in order to roll back Russian influence.

Under the approach we advocate, the EU would focus on encouraging these countries to adopt European norms and regulations and thus integrate them into the European project. The Union could also invest in electricity interconnections with some neighbouring countries, give them access to the Nabucco pipeline, extend the European Energy Community and seek the full application of the energy *acquis* in Turkey, Ukraine and Moldova. This could lead to the unbundling of energy companies in these states, greater transparency

in their energy sectors and, consequently, greater energy security for Europe and fewer possibilities for Russia to use energy as an instrument of foreign policy. Equally, the EU should explore the possibility of giving the Trade Commissioner a mandate to fast-track access to the EU market for selected products in the case of any more politically motivated Russian embargoes such as those imposed on Georgian and Moldovan wines.

- **Enforce the Law.** A ‘creeping integration’ approach focuses on signing agreements with Russia and promoting mutual investments and dialogue in the hope that this will transform the way Russian elites conduct their business and diplomacy. A ‘soft containment’ approach would seek to limit interaction with Russia as well as Russian influence inside the EU.

A ‘rule of law’ approach would promote mutual agreements and investments, but be much tougher on their implementation. For example, the European Commission should be given political support to apply competition policy in the energy sector, and to investigate some of the more dubious deals between Russian and EU companies. More generally, the EU should demand the enforcement of the growing number of agreements which have not been implemented – the PCA, the four Common Spaces and the European Energy Charter. Ignoring Russian foot-dragging undermines the very principle of a rules-based relationship with Russia.

- **Rebalance the Relationship.** The EU should neither try to minimise its contact with Russia as proponents of ‘soft containment’ have suggested, nor submit to a relationship skewed in Russia’s favour where dependence is weighted in one direction.

To rebalance the relationship, the EU needs to adopt an internal code of conduct on energy deals and guidelines on long-term contracts and forthcoming mergers. In order to avoid further monopolisation and partitioning of the EU energy market, the European Commission could be granted the right to pre-approve big energy deals on long-term contracts and pipelines concluded between EU and foreign energy companies. The practical goals should be open competition, the rule of law and an integrated and flexible gas market.

The biggest challenge will not be to devise new individual policies, but to strengthen the EU's most powerful tool for dealing with Russia: unity. The EU has a basic choice to make: either member states continue to pursue bilateral agendas, but ultimately all lose out. Or it can unite – which will require individual member states to make possibly painful concessions – and exercise real influence over the nature of the relationship with Russia.

In order to help achieve this level of unity, the EU could form pioneer groups of member states working out a common strategic assessment and joint action points on key issues such as Ukraine, Central Asia or foreign energy policy. The goal should be to seek, with the help of EU institutions, the widest possible consensus among EU member states for policies that strengthen the rule of law. This will require an effort of persuasion in the case of most member states.

If the EU wants to have Russia as a law-abiding, reliable, and eventually democratic neighbour on a continent where even the last shadows of the Iron Curtain have dispelled, it must build its partnership with Russia on the same foundations that made European integration a success – interdependence based on stable rules, transparency, symmetrical relations and consensus. These foundations will not build themselves. The Union must be much more determined about agreeing rules of engagement with Russia, and then defending them.

## **Introduction: The Asymmetrical Interdependence**

After 1991, European governments grew accustomed to Russian acquiescence. Moscow might have put up a struggle against European policies – from humanitarian intervention in Kosovo, NATO and EU enlargement, to visa arrangements for Kaliningrad and the Kyoto Protocol on climate change – but the Kremlin's bark always proved worse than its bite. The Russian government, crippled by massive debt, financial instability and the war in Chechnya, caved in each time because of its reliance on Western help.

Today it is Moscow that sets the pace for EU-Russia relations. The soaring prices of gas and oil have made energy-rich Russia more powerful, less cooperative and more intransigent. Oil money has boosted the state budget and has dramatically decreased the Russian state's dependence on foreign funding. Russia's hard currency reserves are the third largest in the world today; the country is running a huge current account surplus and paying off the last of the debts accumulated in the early 1990s. While in the 1990s everybody was talking about Russian dependence on Western credits, now everyone talks about Western dependence on Russian gas. Moscow has succeeded in regaining a greater level of control over the entire territory of the Federation. Chechnya is 'pacified' – at least for the time being – and President Vladimir Putin enjoys the support of more than 80 % of Russian citizens. Russia's influence in global politics has increased dramatically as well. It has managed to regain a strategic hold in Central Asia. Putin invested a lot of energy and political skills in building the Shanghai Cooperation Organization into a potential counter-weight to Western influence in the region. Russia's military budget has increased six-fold since the turn of the century and its intelligence network has penetrated all corners of Europe.

Russia's growing confidence has transformed the EU-Russia relationship. It is the Kremlin that puts issues on the agenda, pursues them in the face of European opposition and increasingly defines the rules of the game. On energy, Russia is picking off individual EU member states and signing long-term deals which undermine the core principles of the Union's common strategy. On Kosovo, Russia is blocking progress at the United Nations. In the Caucasus and Central Asia, Moscow has effectively shut the Union out of an area where it has an interest in promoting political reform, resolving conflicts and forging energy partnerships. And in Ukraine and Moldova, Moscow has worked hard, with some success, to blunt the appeal of the European system.

Russia's challenge to the EU runs deeper than energy dependency or blockages in the UN. Russia is emerging as an ideological alternative to the EU that offers a different approach to sovereignty, power and world order. Whereas the EU stands for an idea of order based on consensus, interdependence and the rule of law, Russian foreign policy is motivated by a quest for power, independence and control. The EU's main concern is to ensure that its neighbourhood is peaceful and well-governed. Russia wants to expand its sphere of influence and achieve control of economic interests and energy assets in neighbouring countries and the EU.

What makes Russia's ascendance so surprising is that on almost all indicators of power – soft and hard - the European Union continues to outrank Russia, by some measures even more than in the 1990s. The EU's combined economy is almost 15 times the size of Russia's. Even with all the oil wealth, Russia's GDP is barely as big as Belgium's and the Netherlands' combined.<sup>1</sup> The EU's population is three and a half times the size of Russia's; its military spending is seven times bigger<sup>2</sup>; the EU has five seats on the UN Security Council (of which two are permanent) to Russia's one. Trade figures tell a similar story. The EU buys 56% of Russia's exports and supplies 44% of its imports, while Russia buys only 6% of what the EU sells, and supplies just 10% of what the Union buys from abroad. Even in the energy sphere, interdependence defines the relationship as much as one-way dependency. Between 2000 and 2005, Russia's share of EU gas imports declined from 50% to 40%<sup>3</sup>, Russian gas represented only 25% of EU gas needs, while the Union accounted for 70% of Russia's sales. Russia may supply a large percentage of the EU's energy, but given the absence of pipelines to China, Russia - at least in the medium term - has no practical alternative to the EU market. Measured in 'soft power' terms, the EU's lead is even greater. An opinion poll for the BBC World Service in 33 countries showed that not one had a predominantly negative view of the European Union, while 23 saw the EU in a positive light. Russia, on the other hand, was seen negatively in 16 countries, while only two had a majority with a positive perception of Russia.<sup>4</sup>

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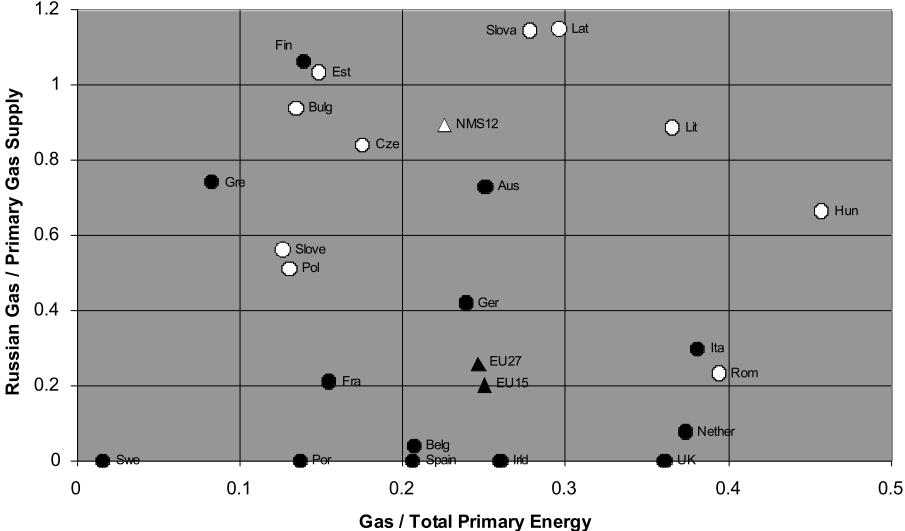
<sup>1</sup> World Bank, Key Development Data and Statistics, [www.worldbank.org](http://www.worldbank.org)

<sup>2</sup> Russian military spending in 2005 was \$34 billion.

<sup>3</sup> Pierre Noel "The EU-Russia natural gas relationship: Challenges and Policy Responses", Testimony at hearings on Energy security in the OSCE region, Commission on Security and Cooperation in Europe, Washington DC, 25 June 2007.

<sup>4</sup> BBC World Service Poll published on World Public Opinion, "Global Poll Finds Iran Viewed Negatively", 3 February 2006, [http://www.worldpublicopinion.org/pipa/articles/home\\_page/168.php?nid=&id=&pnt=168&lb=hmpg1](http://www.worldpublicopinion.org/pipa/articles/home_page/168.php?nid=&id=&pnt=168&lb=hmpg1)

**Dependence on Russia v Dependence on Gas.<sup>5</sup>**



<sup>5</sup> The authors would like to thank Pierre Noel for supplying us with this table.

While the EU holds the stronger hand, its game of late has been consistently weaker than Russia's. If one defines power as the ability to achieve objectives rather than as the resources a country commands, Russia is in the ascendant; and it frequently uses that power to weaken the Union. The EU tends to be most successful when it can pool the power of its 27 member states to deal with multiple issues and put together complex package deals. Yet the EU has allowed its relationship with Russia to be organised in a way that diminishes its own potential power and boosts Russia's. The relationship has become focused on a few small areas where Russia has big and visible sticks, such as energy and vetoes in the UN Security Council, and it is conducted largely through bilateral links rather than common channels. Because Russia today is a centralised state dealing with a grouping of states retaining autonomous foreign policies, it is much more adept at agreeing on objectives and marshalling its power behind it than the EU. This has allowed Russia to maximise its influence over the Union, while the EU has been less able to capitalise on its potential to influence Russia. In short, Russia has transformed its weakness into power, while Europe's power has been turned into weakness.



## **1: Turning Weakness into Power: Russia's Approach to the European Union**

From his garret office on the banks of the river Moskva, Gleb Pavlovsky has a ring-side view of the Kremlin. The architect of Vladimir Putin's two election victories has set up a telescope by his desk that points directly down towards his political master's power base. In the mid-1990s, Gleb Pavlovsky was part of a small group of political strategists, or 'technologists' as they are called in Moscow, who launched 'project successor' – an attempt to recruit a new leader to take over from the ailing and unpopular Boris Yeltsin. This group includes other key figures: high-level officials in the presidential administration like Vladislav Surkov and, until recently, Modest Kolerov<sup>6</sup>, and non-official strategists such as Sergei Markov and Vyacheslav Nikonov. Over the last decade, they have helped Putin to become the dominant political figure in 21st century Russia, reshaping in the process the country's domestic politics and, more recently, its international strategy.

Their goal has been to help the Kremlin to re-establish control of the Russian economy and society without losing the international respectability that comes from being a democracy. They have created a 'Sovereign Democracy' which has allowed Putin not just to fake political pluralism (by establishing state-controlled political parties, NGOs and media), but to fake a revival in Russia's power (by picking fights with external enemies), to fake its embrace of globalisation (by taking advantage of foreign markets and capital while insulating parts of Russia's own economy and politicising trade), and to trumpet its adherence to the rule of law (by selectively implementing legislation to serve political priorities)<sup>7</sup>. These political 'technologies', developed for use at home, have increasingly been used in international politics and economic policy. Russia's recent trade blockades, and its interruptions of the supplies of gas, oil and electricity to neighbouring countries, have been explained away on technical grounds. When Western businesses were deprived of energy assets in Russia, they were told that it was because they had not respected environmental standards.

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<sup>6</sup> Vladislav Surkov is deputy head of the presidential administration, and Modest Kolerov was head of the department for interregional and cultural ties with foreign countries in the presidential administration of the Russian Federation between March 2005 and October 2007.

<sup>7</sup> On 'selective law-enforcement' and the principle of 'suspended punishment' which allow the state to manipulate the laws against adversaries, see Alena V. Ledeneva, *How Russia Really Works*, Cornell University Press, 2006, pp. 48 and 85.

This is how ‘virtual politics’ can confuse European governments who find themselves in an ‘Alice in Wonderland’ world where laws and technical standards are manipulated to suit the interests of the state.<sup>8</sup>

Russians remark jokingly that when oil is at \$15 a barrel, Russia is an appendage to the world economy, whilst at \$70 a barrel, it is an energy superpower.<sup>9</sup> The redistribution of energy incomes and the spill-over of economic growth into other areas of the economy has allowed the ruling elite to build and retain public support. In Russia’s system of ‘Sovereign Democracy’, only one part of Abraham Lincoln’s famous definition of democracy really counts: the perception that government is ‘for the people’. Economic growth, security and social benefits matter far more than the institutions of liberal, representative democracy or the mechanisms to ensure that government is not only for the people, but selected by it. Within this logic, it is hardly shocking that opinion polls are seen as more important than elections. Gleb Pavlovsky explains that Putin’s popularity stems from his remarkable capacity to crystallise, express and even pre-empt the public’s expectations - a skill facilitated by the weekly polling and focus groups that are conducted by a ‘sociology-obsessed’ Kremlin.

Putin’s ideology of ‘Russia on the rise’ appeals to elites across the political spectrum – from free-market liberals to nostalgic communists and from pro-Europeans to Eurasianists. His first-term popularity was built on the foundation of a series of internal ‘victories’ – against terrorism in Chechnya, against the alleged danger of Russia’s disintegration and against the oligarchs. When he ran out of internal opponents, Putin’s attention shifted to the international stage – picking fights with the US, Georgia, Poland and Estonia. Political technologists compare Putin’s situation to riding a bicycle: unless he carries on peddling, he will fall over. Victories are seen as a survival strategy; as one technologist put it: “avenging the demise of the Soviet Union will keep us in power.”<sup>10</sup> This need helps to explain the profusion of bilateral problems in the EU-Russia relationship. The political imperative for national victories has made a famously calculating ruling class increasingly unpredictable.

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<sup>8</sup> See Andrew Wilson, *Virtual Politics: Faking Democracy in the Post-Soviet World*, New Haven, CT: Yale University Press, 2005.

<sup>9</sup> Georgi Derluguian, *The Fourth Russian Empire?*, PONARS Policy Memo 114, December 2006, Center for Strategic and International Studies, p.5.

<sup>10</sup> ECFR interview with a Russian expert, Moscow, 3 July 2007

Because Russia's quest for great power status must be fuelled by outbursts of theatricality, European policymakers are frequently confronted by unpragmatic behaviour from pragmatic Russian elites.

Russia's assertiveness is encouraged by a growing perception that Europe is weak and in decline. Russians think the EU has been politically incapacitated by the rejection of the constitutional treaty and the persistent internal divisions between new and old member states. Putin's special envoy on EU relations says that "many of the pillars of European integration are crumbling."<sup>11</sup> Economically, Russians see the EU as a "bureaucratic formation pursuing socialist economic policies that stifle economic growth."<sup>12</sup> Politically, the EU projects an image of weakness in the neighbourhood. Russia no longer fears that the European Neighbourhood Policy will erode its influence. Gleb Pavlovsky, who was humiliated when his Ukrainian client Viktor Yanukovich was ousted in the Orange Revolution, argues that: "The EU provoked and supported coloured revolutions but failed to manage the consequences. Just look at the mess in Serbia and Ukraine." Russians see the EU's culture of compromise as Europe's biggest weakness. Furthermore, they overestimate the EU's internal crisis, which encourages them to act ever more assertively in their relations with the Union.

Together, these perceptions inform the four elements of Russia's strategy towards the EU: bilateralising relations with most EU member states, strengthening Russian influence in the post-Soviet space, revising the political, legal and economic basis of relations with the Union, and promoting asymmetric interdependence with a divided EU.

### ***Divide and Rule***

European divisions over Russia originate in history and geography. However, they have been deliberately exacerbated by a Russian strategy of 'divide and rule'. Russia has sought to bilateralise both its deals and its disputes with EU member states, putting a strain on EU solidarity and making Russia the stronger power. This is not part of a master plan to dismember the EU.

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<sup>11</sup> Interview with Sergey Yastrzhembsky, Echo Moskvy, 17 November 2006.  
<http://www.echo.msk.ru/interview/47591/>

<sup>12</sup> Sergei Medvedev, EU-Russian Relations: Alternative Futures, The Finish Institute of International Affairs, 2006 p 5.

It is, after all, natural for Moscow to deal with individual EU member states because that is how it sees international politics – as a series of tête-à-têtes between great powers. It mounts charm offensives to seduce the political and economic leaders of big member states while coercing weaker neighbours with political and economic pressure. Konstantin Kosachev, the chair of the Duma’s international relations committee, neatly summed up the new perspective in an interview with the authors: “We are sick and tired of dealing with Brussels bureaucrats. In Germany, Italy, France, we can achieve much more. The EU is not an institution that contributes to our relationship, but an institution that slows down progress.”<sup>13</sup>

Russia has strengthened its political relationships by recruiting big business to act as a lobbyist for the Russian cause inside key EU countries. Its state-controlled companies have built partnerships with companies such as E.ON and BASF in Germany, ENI in Italy, GDF and - to a lesser extent - Total in France, and Gasunie in the Netherlands. Even in the context of deteriorating relations with the UK, Russia decided to buy out rather than expropriate Shell and BP in Sakhalin II and Kovykta, respectively. Gazprom forced Shell and BP to sell controlling stakes in the projects for less than their market price but retained these companies as minority partners.<sup>14</sup> Gazprom needed the technical expertise of these companies in order to be able to develop the gas fields. However, a Russian expert told us that Gazprom had also decided to keep BP and Shell as partners as part of a deliberate attempt to build up a pro-Russian lobby. It worked. Within weeks of the deal, BP’s chief executive Tony Hayward was publicly defending the Russian position.<sup>15</sup>

Russia’s charm offensive towards friendly member states is mirrored in the assertive stance taken towards less friendly ones. For example, Russia called for a boycott of Danish goods after the October 2002 Chechen Congress in Copenhagen; it interrupted oil supplies to Latvia in 2003 and Lithuania in 2006; it allowed a youth group called ‘Nashi’ with close ties to the Kremlin to harass the UK ambassador after he attended an opposition conference in 2006; and it allowed the same group to besiege the Estonian embassy in Moscow following a dispute over the moving of a war memorial in Tallinn in May 2007.

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<sup>13</sup> ECFR interview in Moscow, 4 July 2007.

<sup>14</sup> International Herald Tribune, ‘Shell cedes control of Sakhalin-2 to Gazprom’, 21 December 2006, and Moscow Times, ‘Gazprom Gets Kovykta on the Cheap’, 25 June 2007

<sup>15</sup> Tony Hayward, BP chairman, speech at Investing Prosperity Conference, Moscow 17 June 2007 <http://www.bp.com/genericarticle.do?categoryId=98&contentId=7034187>

Our research in the 27 EU member states reveals a systematic policy of coercive bilateralism that includes diplomatic pressure, trade embargoes, transport blockades and early renegotiation of gas or oil supply contracts. Moscow’s readiness to use coercion in foreign policy - especially when it comes to Central and Eastern European states - has shifted the terms of the debate. Set against an EU that is seen as weak and paralysed, fear of Russia has created incentives for a number of Central and Eastern European states – inside and outside the EU - to become increasingly accommodating towards Russia.

### Russian Bilateral Disputes with EU Member States under Putin’s Presidency

<b>BULGARIA</b>	Early renegotiation of gas contracts; threat of pork ban
<b>DENMARK</b>	Diplomatic pressures; harassment of Danish companies and NGOs
<b>ESTONIA</b>	Diplomatic pressures; cyber attacks; trade and transportation embargoes; discriminatory rail tariffs
<b>FINLAND</b>	Russian export taxes on timber
<b>GERMANY</b>	Oil supply cuts, Lufthansa cargo dispute
<b>LATVIA</b>	Discriminatory rail tariffs; trade sanctions (canned sprats)
<b>LITHUANIA</b>	Oil blockade; discriminatory rail tariffs
<b>NETHERLANDS</b>	Trade disputes (flowers, fruits and vegetables); renegotiation of gas contracts (Shell)
<b>POLAND</b>	Meat and vegetables embargo
<b>SWEDEN</b>	Russian export taxes on timber
<b>UK</b>	Diplomatic pressures; revision of contracts (BP and Shell); pressures on the British Council; murder of Litvinenko and refusal to extradite Lugovoi

As EU member states fail to coordinate their policies towards Russia, Moscow has not only gained influence over the EU, but also within the EU through its relations with key member states.<sup>16</sup> As the EU Commissioner for Trade, Peter Mandelson, has claimed: “No other country reveals our differences as does Russia. This is a failure of Europe as a whole, not any member state in particular.”<sup>17</sup> What is more, Moscow’s policy of divide and rule is self-reinforcing. EU member states tend to ‘Europeanise’ their disputes with Russia while they bilateralise their ‘sweet deals’. As a result, progress on the EU-Russia agenda has ground to a halt because of disputes around trade and access to energy. This pushes even more substantive cooperation on energy or political dialogue down bilateral channels between Russia and individual member states.

Bilateral agreements with Russia have undermined the EU’s ability to secure key policy goals. In the energy sphere, Russia’s deals with Italy, Austria, Hungary and Bulgaria about pipelines and gas storage facilities undermine the key Nabucco gas pipeline project aimed at diversifying gas supply routes. Similarly, France, Germany and Italy signed separate bilateral visa facilitation deals with Russia, which were deemed to breach Schengen rules and were thus suspended by the European Commission. This forced the entire EU to negotiate a visa facilitation deal with Russia, well ahead of negotiating similar agreements with countries such as Macedonia, Albania or Serbia. In the Eastern neighbourhood, many initiatives the EU might have undertaken to help resolve conflicts in Georgia and Moldova were blocked by member states concerned about Russia’s possible reaction. For example, Greece, in Spring 2007, stopped the EU from extending the mandate of the EU Border Support Team in Georgia to include the secessionist region of Abkhazia.

Russia has occasionally overplayed its hand. For example, its handling of the status of Kosovo, the US missile shield in the Czech Republic and Poland, and its growing use of energy policy as a foreign policy tool, have all pushed the EU to adopt a more unified stance on these issues. A senior European diplomat summed up the feelings of many governments when he admitted that “the Russians are right on the substance of missile defence, but they have behaved so badly that they have lost the argument. We cannot be seen as giving them a veto on these types of issues.”

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<sup>16</sup> ECFR interview with an EU official, Brussels, 1 June 2007.

<sup>17</sup> Speech by European Commissioner for trade, Peter Mandelson, The EU and Russia: Our Joint Political Challenge, Bologna, 20 April 2007.

## Neighbourhood Pushback

When ‘coloured revolutions’ swept through Georgia and Ukraine in 2003 and 2004, the Russian elite was plunged into deep depression about Russia’s declining influence in its ‘near abroad’. But the elite’s foreign policy failures toughened it for what it sees as a competitive struggle for influence in a hostile, Hobbesian world. In March 2005, Modest Kolerov, a close associate of Gleb Pavlovsky, was appointed head of a directorate in Putin’s presidential administration responsible for coordinating Russian policy towards post-Soviet states. His brief was to develop a new neighbourhood policy that could counter the EU’s magnetic pull.

Contrary to what many in Europe think, Russia’s neighbourhood policy is better developed, better coordinated and better implemented than the EU’s. Russia devotes more political, economic and even military resources to influencing its neighbourhood than the EU does. Indeed, Moscow has plenty of tasty carrots to offer its allies: cheap energy, access to a relatively open labour market, a growing market for goods, a visa-free regime, diplomatic protection in international fora, and – to some inhabitants of the secessionist regions of Abkhazia, South Ossetia and Transnistria – even Russian citizenship and pensions. Its sticks are also sharper than the EU’s: it can impose full-scale blockades, sudden increases in gas prices and infrastructure takeovers; it can also offer support for separatist entities, and even exert military pressures on states that refuse to yield to Russian demands.

In relatively open - but politically weak - states such as Ukraine and Moldova, Russia has exerted economic pressure and influenced domestic politics through Russian-supported media, NGOs, youth groups and political parties.<sup>18</sup> As a result of Russian pressure, President Viktor Yushchenko has accepted Gazprom’s inroads - via RosUkrEnergo - into Ukraine’s gas, oil and electricity infrastructure.<sup>19</sup> The divisions within Ukrainian society – so skilfully exploited by Russian proxies – have paralysed moves towards NATO membership. Moldova has recently moved closer to Russia, not least on the conflict in Transnistria. And the Kremlin has increased its leverage over allies such as Armenia and Belarus through takeovers of sensitive parts of their energy infrastructure.

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<sup>18</sup> Nicu Popescu, *Russia’s Soft Power Ambitions*, Policy Brief 115, Centre for European Policy Studies (CEPS), 27 October 2006.

<sup>19</sup> See Yulia Mostovaya, ‘Another story of a free lunch’, *Zerkalo Nedeli*, 10-16 February 2007, ‘New gas revelations’, *Zerkalo Nedeli*, 4-10 February 2006, <http://www.mv.ua/1000/1030/52513/>, and ‘RosUkrEnergo nachinaet i...’, *Zerkalo Nedeli* <http://www.zn.ua/1000/1550/55344/>

## Russia's Power in the Neighbourhood

**HARD POWER**

- Blockades of wine, vegetables, meat, dairy products
- Oil and gas embargoes
- Transport and communications blockades (railway, postal services, bank transfers)
- Different energy prices
- Infrastructure takeovers
- Secessionist conflicts
- Non-withdrawal of troops
- Arms at discount prices for allies

**SOFT POWER**

- Russian mass-media
- Financing NGOs
- Economic growth
- Visa free regime
- Open labour market
- Authoritarian capitalism
- Protection of authoritarian regimes
- Exporting 'sovereign democracy'
- Russian citizenship and pensions
- Military training

For governments in Central Asia, Russia's model of 'sovereign democracy' is attractive. A widespread fear of Western demands for reform, coupled with possibilities for shared rent-seeking between local post-Soviet and Russian elites, has helped to drive these regimes into Russia's embrace. These states have enabled Russia to boost its leverage over Europe by allowing Russia to become a monopoly gas supplier. In May 2007, Moscow reached an agreement with Turkmenistan, Kazakhstan and Uzbekistan on a new gas pipeline to Russia, effectively killing plans for a Transcaspian pipeline which would have delivered gas to Europe without passing through Russia. It also signed long-term contracts with Turkmenistan and Uzbekistan, allowing Russia control over gas which was available for export to Europe.<sup>20</sup> By securing a monopoly of gas exports from Kazakhstan, Turkmenistan and Uzbekistan, Gazprom hopes to be able to fulfil its growing gas export commitments to Europe, cover its own gas deficit, as well as strengthen Europe's dependence on Russian gas.<sup>21</sup>

<sup>20</sup> Martha Brill Olcott, International Gas Trade in Central Europe: Turkmenistan, Iran, Russia, and Afghanistan, Program on Energy and Sustainable Development, Stanford University May 2004, Page 26, [http://www.rice.edu/energy/publications/docs/GAS\\_InternationalGasTradeinCentralAsia.pdf](http://www.rice.edu/energy/publications/docs/GAS_InternationalGasTradeinCentralAsia.pdf); Vladimir Socor, 'Uzbek Gas Output, Export Set to Grow Under Russian Monopoly Control' Eurasia Daily Monitor, 22 February 2007; [http://www.jamestown.org/edm/article.php?article\\_id=2371933](http://www.jamestown.org/edm/article.php?article_id=2371933)

<sup>21</sup> Keith C. Smith, Russian Energy Pressure Fails to Unite Europe, Centre for Strategic and International Studies, January 2007, page 3.



Russian hard power has not always delivered results. In Georgia, Russia ended up increasing the popularity of the very government it had tried to undermine. And where Russia has used sanctions, it has diminished its future economic leverage by driving the targets of sanctions to diversify their economies. The countries that have best managed to withstand Russian pressure were those - such as Georgia and Azerbaijan - with access to alternative political and economic support. Azerbaijan could rely on its own energy resources, while Georgia benefited from US diplomatic support and access to Azerbaijani gas and oil.

### **Russia's Revisionism**

From Russia's perspective, the West has spent the last two decades rewriting the rules that govern their relationship. Russian objections were ignored when it came to NATO and EU enlargements, the withdrawal of the US from the ABM Treaty, plans for a partial anti-ballistic missiles shield in Europe, the establishment of new US military bases in Europe, and the Kosovo campaign. Russia was forced to accept these changes to the rules because it was weak and had been defeated in the Cold War.

Now Moscow is seeking to revise the post-Cold War settlement itself. It does not want to become part of the West anymore and it is challenging all the strategic, political and economic agreements that were signed in the 1990s.

In the military sphere, Russia is seeking to renegotiate the Conventional Forces in Europe Treaty (CFE) – an arms reduction treaty - and keep its troops in Georgia and Moldova, despite an explicit commitment to withdraw them. Russia had agreed at the November 1999 OSCE summit in Istanbul to a complete and unconditional withdrawal of its military troops in Georgia and Moldova by the end of 2001 and 2002 respectively.<sup>22</sup> As part of the same package, the West agreed to adapt the CFE to better suit post-Cold War realities and Russia's security worries. Now Russia seeks to renegotiate the package by having the adapted CFE ratified by EU member states and the US, while not complying with its commitments on troops withdrawal from Moldova and the Gudauta military base in Georgia.

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<sup>22</sup> Istanbul Document, Organisation for Security and Cooperation in Europe, 1999 Istanbul summit, [http://www.osce.org/documents/mcs/1999/11/4050\\_en.pdf](http://www.osce.org/documents/mcs/1999/11/4050_en.pdf)

In the areas of democracy, human rights and election monitoring, Russia has undermined the activities of the OSCE and its subsidiary, the Office for Democratic Institutions and Human Rights (ODIHR), by withholding support for the OSCE budget, extending the number of areas where member states have a veto, and seeking to weaken the OSCE election-monitoring mandate.<sup>23</sup> Russia also failed to implement its Council of Europe commitments – from the abolition of the death penalty (which is under a moratorium) to reform of the security services, freedom of speech and media pluralism.<sup>24</sup> Because Russia's law courts are so weak, the European Court of Human Rights has emerged as the most powerful guardian of rights within Russia. In 2006, over one in five of the cases filed in the court originated in Russia, and the state found itself on the losing side in 102 out of 106 petitions. However, although Russia has studiously paid all of its fines, it has failed to implement the legal changes that the court has demanded.

In the economic sphere, Russia has revised legal contracts with Western companies. Shell and BP were forced to cede control of the Sakhalin II and Kovykta gas fields by Gazprom, which also sought to renegotiate the value of an asset swap with E.ON Ruhrgas in May 2007, thus reneging on a deal made in July 2006.<sup>25</sup> In 2006, Gazprom pressured Bulgaria to renegotiate the gas supplies contracts which were only due to expire in 2010. In August 2007, oil supplies to Germany were halted to put pressure on a German intermediary to renegotiate its terms.<sup>26</sup> Russia's interruption of gas supplies to Ukraine and Moldova in January 2006 was part of the same pattern. Such tendencies are certainly part of a broader trend in energy rich countries from Kazakhstan to Bolivia, which seek to renegotiate the energy deals of the 1990s that were concluded in an era of low gas and oil prices. However, they clearly undermine some of the key principles on which the EU and Russia tried to build their partnership. The revision of legal contracts, for instance, has violated the principles of the Energy Charter Treaty. Though Russia has not yet ratified the Treaty, Article 45 states that "each signatory agrees to apply this Treaty provisionally pending its entry into force for such signatory."

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<sup>23</sup> See Jos Boonstra, OSCE Democracy Promotion: Grinding to a Halt? FRIDE, Working Paper 44, October 2007; and 'Rossia vyhodit iz-pod nabludenia', Kommersant, 27 October 2007.

<sup>24</sup> Honouring of Obligations and Commitments by the Russian Federation, Council of Europe Parliamentary Assembly 26 March 2002.

<sup>25</sup> Jan Hromadko, 'E.ON Ruhrgas says no problems in Gazprom gas field talks', Marketwatch 23 May 2007, and 'Eon's balance sheet', Financial Times May 28 2007.

<sup>26</sup> Vladimir Socor, 'Shortfalls In Russian Oil Deliveries To Germany', Eurasia Daily Monitor, 5 September 2007.

Russia has also introduced discriminatory rail tariffs on the Baltic states and export duties for wood (affecting Finland and Sweden) contrary to its previous agreements with the EU on accession to the WTO.

In the diplomatic realm, Russia breached the Vienna Convention on diplomatic relations by allowing the Kremlin-supported youth group 'Nashi' to harass the British, Estonian and Swedish ambassadors to Russia. 'Nashi' plagued the UK ambassador to Russia between July 2006 and January 2007 by constantly following him, blocking his car on the street, chasing his car at high speed, photographing his movements and intimidating him and his family in a restaurant. This behaviour stopped only after a *démarche* by all 27 EU member states and a publicised meeting between Russia's Foreign Minister Sergey Lavrov and the leaders of 'Nashi'.

Russia's treatment of Georgia over the last year showed a similar disregard for the rules of international conduct. The Russian government implemented a full-scale transportation, economic, political, visa and even postal blockade on Georgia, and expelled thousands of ethnic Georgians from Russia after four Russian spies were arrested in Georgia in September 2006.

### **Russia's Revisionism**

#### **GEOSTRATEGIC SPHERE**

- Revision of the CFE Treaty
- Non-respect of the Istanbul commitments on troop withdrawals from Moldova and Georgia

#### **POLITICAL SPHERE**

- Repudiation of OSCE and Helsinki Norms
- Disregard of Council of Europe commitments
- Breaches of Vienna Convention

#### **ECONOMIC SPHERE**

- Failure to respect contracts
- Challenging the Energy Charter Treaty
- Disregard for WTO norms

Russia's behaviour is particularly challenging to the EU because the European project is an attempt to create a world order governed by law. The EU's foundations are the Treaty of Rome and the estimated 95,000 pages of laws that European governments have implemented to bind them together. However, Putin's attitude to law is an extension of virtual politics. Rather than seeing the law as a limit to power politics, he sees it as a tool, and is skilled at invoking legal and technical excuses in order to put pressure on other countries.

Robert Larsson from the Swedish Defence Research Agency has identified 55 instances of energy cut-offs or threatened cut-offs by Russia between 1992 and 2006. While technical problems or accidents were offered by way of explanation for all of these cut-offs, Robert Larsson found that most happened at times when Russia wanted to achieve some political or economic objectives, such as influencing elections or obtaining control of energy infrastructure in countries such as the Baltic states, Belarus, Ukraine, Moldova and Georgia.<sup>27</sup>

Russia's legal revisionism allows it to benefit from agreements without being constrained by them. As a result, Russia can enjoy the prestige of sitting on the G8 without respecting its principles. It can obtain know-how, technology and energy assets in the EU without always respecting its own contracts with EU energy companies. It can switch off oil to Lithuania and electricity to Georgia on technical grounds while the Union debates whether this was deliberate or accidental.

The EU has often failed to challenge Russia's disregard for global rules. EU companies in particular - which turn in healthy profits in spite of their uneasy relations with the Russian state - have been loath to challenge businesses owned by the Russian state. As Lilia Shevtsova from the Carnegie Moscow Centre argues: "Western businesses and western politicians not only accept to play by Russian rules, but become lobbyists of the bureaucratic capitalism of Russia. It strengthens Russia's self-confidence and encourages the belief that the West can always be blackmailed or corrupted."<sup>28</sup>

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<sup>27</sup> Robert L. Larsson, Nord Stream, Sweden and Baltic Sea Security, FOI Swedish Defence Research Agency, March 2007, p 78-81, <http://www.foi.se/upload/english/reports/foir2251.pdf>

<sup>28</sup> Lilia Shevtsova 'Rossia pered novym politicheskim ziklom: paradoxy stabilnosti i petro-state', in Putins Empire, Stefan Batory Foundation, 2007, p.26

## Asymmetric Interdependence

In its quest for 'sovereign democracy' and a 'sovereign economy',<sup>29</sup> Russia is trying to insulate its politics from external influences, while maintaining the benefits of cooperation with the external world. As Ivan Krastev puts it: "Russia is opting for a world in which Kremlin-friendly oligarchs will own English soccer clubs and the Russian middle class will freely travel all over Europe but international companies will not be allowed to exploit Russian natural resources and the Kremlin's domestic critics will be expelled from European capitals."<sup>30</sup> Russia has tried to use its policies of bilateralism, neighbourhood pushback and legal revisionism to make the EU need Russia more than Russia needs the EU. Its goal is to create a relationship of 'asymmetric interdependence'.

One clear example of the build up of asymmetric interdependence is the way Russian energy companies have sought to swap assets with their EU counterparts. In these deals, Gazprom gets access to 'downstream' markets in EU member states, while EU companies such as E.ON, BASF, BP or ENI get 'upstream' access to gas fields in Russia. Such asset swaps can be profitable, but there is nothing symmetrical about the exchange. Since the Russian state has retained its monopoly of the domestic gas and oil pipelines - and a majority stake in the North Stream and South Stream pipelines from Russia to the EU - it will be able to decide whether and where gas can be exported, even if EU companies own gas fields in Russia. Indeed, the Russian state already restricts the sale of gas from the Sakhalin I project run by Exxon Mobil.

When Russia cut off its gas supplies to Ukraine and Moldova in early 2006, and oil supplies to Belarus in early 2007, it sent an unambiguous signal that it will use the supply of energy to achieve political goals. The situation has been exacerbated by Gazprom's decision not to invest in expanding upstream gas production. Fear of a gas shortage has driven EU companies to pay higher prices as they compete among themselves for gas deals with Russia.

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<sup>29</sup> See 'Ekonomicheskaya model suverennoi demokrati' (The economic model of sovereign democracy), report of the civic organisation 'Delovaya Rossiya', published on the website of Edinaya Rossiya party, 11 July 2006, <http://www.edinros.ru/news.html?id=114390>

<sup>30</sup> Ivan Krastev, 'Rossia kak drugaya Evropa' (Russia as the other Europe), Russia in Global Affairs, Issue 4, July-August 2007

The EU's vulnerability is exacerbated by the structure of its gas markets. As Dieter Helm argues: "European nations have failed to subsume their own national interests – and those of the national champions – for the greater European good. They have kept energy national, and as a result the costs of energy have been higher and security lower. There is no European grid, and no European storage. There is not much of a European energy market."<sup>31</sup> The contrast with the United States is dramatic. After Hurricane Katrina, for example, the gas shortage from the Gulf of Mexico was filled relatively quickly with gas from the Northern US and Canada because the US has an integrated and flexible market.<sup>32</sup> By contrast, the EU consists of a series of national energy markets connected by pipelines which are owned by national champions. There is thus no incentive for cross-border trade and competition that would threaten existing national monopolies.

For interdependence to be a recipe for stability, both parties must be willing to lock themselves into the straitjacket of common rules and norms which cannot be unilaterally revised. This is precisely what current Russian elites have refused to do. Gleb Pavlovsky argues that Russia needs to develop a new kind of engagement with Europe which will allow his country to modernise without submitting itself to the European model: "Russia will have to choose between a subordinated Europeanisation – implementation of all kinds of Brussels standards without the promise of membership of the EU – and the path of sovereign Europeanisation, where Russia decides on its own what its European choice means."<sup>33</sup> The idea of 'sovereign Europeanisation' challenges some of the central tenets of the European project: multilateralism, interdependence and the rule of law.

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<sup>31</sup> Dieter Helm, *The Russian Dimension and Europe's External Energy Policy*, University of Oxford, 03 September 2007, [http://www.dieterhelm.co.uk/publications/Russian\\_dimension.pdf](http://www.dieterhelm.co.uk/publications/Russian_dimension.pdf)

<sup>32</sup> Jeff D. Makholm, *Seeking Competition and Supply Security in Natural Gas: US Experience and European Challenges*, NERA Economic Consultant, 13 June 2007, [http://www.nera.com/image/PUB\\_CESSA\\_May2007.pdf](http://www.nera.com/image/PUB_CESSA_May2007.pdf)

<sup>33</sup> Interview with Gleb Pavlovsky, *Nezavisimaya Gazeta*, 8 April 2005.

## **2. Turning Power into Weakness: the European Union Approach to Russia**

In the last fifty years, the Western half of Europe has had two main strategies for dealing with the Eastern half: containment and integration. The first was embodied in NATO, a US-led institution designed to avert war by maintaining a balance of power with a potential aggressor. The second, represented by the EU, has sought to guarantee peace by replacing deterrence with deep economic and political interdependence between erstwhile rivals.

Since the end of the Cold War, the EU has tried to deal with Russia in the same way it had dealt with other Eastern neighbours: by developing a heavily institutionalised relationship designed to draw Russia into the EU way of doing things. Although the Union has not tried to recruit Russia as a potential member, it had hoped to persuade Russia to adopt the model that Europeans have developed to manage their own affairs. In the place of an EU-Russia relationship based on the balance of power, non-interference in each other's affairs and a clear separation of foreign and domestic policy, the EU hoped to bring Russia into the 'postmodern' world of the EU where security is achieved through transparency, a common legal framework, consensus and mutual interference in each other's internal affairs. As Robert Cooper argued in an influential essay, 1989 "marked not just the end of the Cold War, but also, and more significantly, the end of a state system in Europe which dated from the Thirty Years War."<sup>34</sup>

In order to pander to Russian pride, the EU and Russia agreed in 2005 to create four 'Common Spaces' – in economy, home affairs, external security and education - rather than openly integrating Russia into the EU's own system of rules. The goal has still been to bind Russia into a thick web of contacts: biennial EU-Russia summits between heads of state, monthly meetings between the Political and Security Committee (PSC) troika and the Russian ambassador to the Union, regular contact between the European Parliament and the Russian Duma, and dozens of working groups representing the European Commission and the Russian Government that look at everything from food standards to migration. The EU does not have such a dense network of contacts, formats and agreements with any other partner in the world.

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<sup>34</sup> Robert Cooper, 'The Breaking of Nations', *The Observer*, 07 April 2002.

The EU's seduction effort has failed. In recent years, Russia has not moved closer to the European mainstream. And in its attitude to sovereignty, power and international order, it has been moving in the opposite direction. As Konstantin Kosachev, the chair of the International Relations Committee in the Russian Duma, argued in an interview with the authors: "The EU uses the same language and the same arguments with Russia that it uses with Serbia, Moldova or Turkey. You say that you must behave and do what we say. For countries that want to be members, it's okay to violate their sovereignty. That cannot work with Russia. Russians think they are a great power and for a great power it is completely unacceptable to ask for something and not get it."

### **Russia as the new Rumsfeld**

The EU may not have succeeded in changing Russia, but Russia is certainly changing the EU. It has blocked European objectives in several policy areas, leading to acrimonious splits which have spilled over into other areas. European insecurity is not simply a product of dependence on Russian gas, it is also a recognition that Russia has exposed the limits of engaging a government that refuses to respect European norms. The EU's internal rules, values and its entire governing philosophy prevent it from using foreign policy tools in the way that Russia does. For example, it would be unimaginable for the EU to use oil embargoes, wine embargoes or transport and trade blockades in the way Russia has against Georgia and Moldova. And because the EU is not a centralised state, its interests are much more diffuse than those of Russia. Whereas Putin's bargaining chips are concentrated in a few highly politicised and visible areas, the EU's leverage on Russia is scattered around many policy fields, thus making it difficult for the EU to use these to change Russian behaviour. The EU's biggest problem, however, is its inability to agree on an analysis of the nature of the Russian government and to unite around a common strategy.

Russia has emerged as the most contentious issue for EU governments since Donald Rumsfeld and the Iraq War. It divides the EU into big and small states, energy dependent and energy independent states, friends of Russia and adversaries, and into states that under-react and over-react to the new Russian challenge. Many observers argue that enlargement has damaged the relationship with Russia – by importing a hostile bloc into the heart of the EU. In fact, EU divisions on Russia are more complex and surprising than a simple cleavage between old and new member states.



We have tried to map the EU member states' approaches to Russia based on an analysis by experts in all 27 EU member states, together with interviews with officials from EU institutions and member states.<sup>35</sup> We have examined how member states have dealt with some of the major issues in EU-Russia relations, such as energy policy, Russia's internal developments and its policies towards the Eastern neighbourhood. In addition to looking at the facts behind the relationships, we have also taken into account how each country is perceived by other EU member states and EU institutions. Our research has shown that, taken as a group, the new member states have the same variations of behaviour and strategy – or lack of it – as the old EU 15. We have identified five distinct policy groups within the EU. At both extremes are 'veto countries' who have been willing to block EU decisions in order to pursue their own agenda on Russia. While our picture is a snapshot which will alter following elections or shifts in Russian behaviour, it does help to explain some of the barriers to developing a common approach.

### *Trojan Horses*

"When the United States has concerns about European foreign policy," says a European diplomat based in Brussels, "you can usually expect the UK or the Netherlands to speak up. Now Russia is doing exactly the same – getting EU member states to represent its positions and read from a Russian script."<sup>36</sup> Russia can be stunningly open about this approach. Its ambassador to the EU Vladimir Chizhov once claimed that: "Bulgaria is in a good position to become our special partner, a sort of a Trojan horse in the EU."<sup>37</sup>

Although Bulgaria was singled out by the Russian ambassador, the views of two other member states have proved closest to Russia's in intra-EU discussions: Greece and Cyprus. Their connections with Russia have ancient cultural and more recent geopolitical and economic roots.

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<sup>35</sup> The authors would like to thank Marin Lessenski, from the Institute for Regional and International Studies and OSI-Sofia in Bulgaria for suggesting various criteria for categorising the EU member states' approaches to Russia. However, the authors have the sole responsibility for the way EU member states have been categorised.

<sup>36</sup> ECFR interview, Brussels, 1 June 2007.

<sup>37</sup> Interview with Vladimir Chizhov, Capital magazine, 10 November 2006, Sofia <http://www.capital.bg/show.php?storyid=293214>. A Greek expert, uses the same term to describe Greek-Russian relations, see Dimitris Apokis, 'Dangers and Strategic Mistakes from the Burgas – Alexandroupolis Agreement', Hudson Institute, 17 May 2007.

Over the years, Russia has provided Greece with useful support in its dealings with Turkey and a ready supply of military equipment. It also serves as an increasingly important partner in the energy sphere. European diplomats from other member states argue that, in exchange, Greece has sought to position itself as a 'promoter' of Russian positions within the EU on issues ranging from EU involvement in the Eastern neighbourhood to the regulation of energy markets.<sup>38</sup> One senior official from another member state claims that "every possible EU step in the eastern neighbourhood that might even theoretically upset the Russians has been opposed by Greece."<sup>39</sup> This pattern has applied to EU policy on Belarus, the Black Sea region and Georgia.<sup>40</sup> One recent example was a proposal in April 2007 from the EU's Special Representative for the South Caucasus to increase EU engagement in the breakaway Georgian regions of Abkhazia and South Ossetia by appointing liaison officers for border management. Greece was the only EU member state to veto it.

Greece also has an important energy relationship with Russia. Athens is participating in the construction of the first ever Russia-controlled oil pipeline in the EU: Burgas-Alexandroupolis which aims at reducing Greece's dependence on Middle Eastern oil.<sup>41</sup> Furthermore, Greece is an important partner in the projected Gazprom-ENI South Stream gas pipeline, which would bring gas under the Black sea bed, via Bulgaria and Greece into Italy. When the European Commission put forward proposals for 'unbundling' big energy companies into energy providers and transit companies, Greece was one of nine countries to oppose it. This was done for mainly domestic reasons, though such a position also coincided with Gazprom's opposition to reforms of the EU energy market, which could limit Gazprom's operations in the EU. Russia supplies some 75% of Greece's gas needs, though gas represents only 7% of the country's energy resources needs.<sup>42</sup>

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<sup>38</sup> ECFR interviews with EU and EU member states officials in Brussels on 1 June 2007, 16 July 2007 and 5 October 2007.

<sup>39</sup> ECFR interview with EU member state official in Brussels, 5 October 2007

<sup>40</sup> ECFR interview with an EU member state official in Brussels, 19 October 2007

<sup>41</sup> 'Russia agrees to speed up Balkan oil pipeline project', International Herald Tribune, 4 September 2006.

<sup>42</sup> European Commission, Greece-Energy Mix Fact Sheet, January 2007. [http://ec.europa.eu/energy/energy\\_policy/doc/factsheets/mix/mix\\_el\\_en.pdf](http://ec.europa.eu/energy/energy_policy/doc/factsheets/mix/mix_el_en.pdf)

# Trojan Horses

## Greece

### RELATIONS WITH RUSSIA

- Russia is an important arms supplier to Greece
- 75% of gas needs supplied by Russia
- Greece hopes to develop a strong energy partnership with Russia

### POLICIES ON RUSSIA

- Active in Gazprom-ENI's South Stream gas pipelines, and Burgas-Alexandroupolis oil pipeline
- Opposes full ownership unbundling of energy companies in the EU
- Blocked the appointment of EU border liaison officers to Abkhazia and South Ossetia in Georgia

## Cyprus

### RELATIONS WITH RUSSIA

- The most important hub for Russian offshore companies
- Russia supports the Republic of Cyprus over North Cyprus
- Cyprus is formally the biggest investor in Russia

### POLICIES ON RUSSIA

- Opposes full ownership unbundling of energy companies in the EU
- Wary of greater engagement in the Eastern neighbourhood

Cyprus generally follows the Greek approach to Russia, in part because of the protection that Moscow has offered it in international bodies such as the United Nations. Russia has been a firm supporter of the Cypriot position in the conflict over North Cyprus - support which even extended to vetoing a UN resolution condemning the Republic of Cyprus for its rejection of the Annan peace plan in 2004.<sup>43</sup> This long-standing political relationship has been enhanced by an important economic base: Cyprus has become the most important haven for Russian capital in the EU. In 2006, Cyprus was formally the biggest investor in Russia - providing almost a fifth of total foreign investments in Russia (\$9.8 billion), ahead of the United Kingdom (\$7 billion) and the Netherlands (\$6.5 billion).<sup>44</sup> This is because Cyprus is used by Russian big business to create offshore firms. Within the European Union, Cyprus has opposed proposals for energy unbundling and blocked proposals for increasing European involvement in the post-Soviet space. For example, in February 2006, Cyprus joined up with eight other member states to oppose a possible contribution to a peace support operation in Moldova.

Greece and Cyprus often take the lead in defending Russia's position on issues such as energy or the Eastern neighbourhood (allowing other EU member states to hide behind them), but they are careful not to become isolated inside the EU. In spite of the irritation caused to other member states, the overall effect of the Greek and Cypriot positions policy has been limited. As one EU official said: "Greece's pro-Russian positions do not amount to much on their own. Their position is quite declaratory. They can certainly block some things, but they cannot advance policies on their own policies. Co-operation with other states, especially the big ones, is crucial."<sup>45</sup>

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<sup>43</sup> 'Russia Veto for Cyprus' The Scotsman, 22 April 2004.  
<http://news.scotsman.com/topics.cfm?tid=778&id=453672004>

<sup>44</sup> State Federal Service for Statistics (Goskomstat) of the Russian Federation, Information on foreign investments in Russia in 2006, [http://www.gks.ru/free\\_doc/2007/bo7\\_11/23-12.htm](http://www.gks.ru/free_doc/2007/bo7_11/23-12.htm)

<sup>45</sup> ECFR phone interview with EU official, 8 October 2007.

## *Strategic Partners*

The members of the group with the most influence on EU policy are Russia's 'strategic partners' in the EU: Germany, France, Italy and Spain. Aside from Spain, all have strong political and economic bilateral relationships with Russia. They have all been wooed by Vladimir Putin, who shows them the respect one great power owes another.

For several decades, France's approach to Russia has been essentially motivated by a wish to strengthen its own position in international relations. As a fellow nuclear power and permanent member of the UN Security Council, Russia has occasionally been a useful ally in the French opposition to US hegemony. The political relationship does not have much of an economic foundation. With just €14 billion of trade in 2006,<sup>46</sup> France is only Russia's ninth trading partner – coming behind such countries as Belarus, South Korea and Japan - while Russia represented only 0.9% of French external trade. Although links are growing in the energy sphere (GDF has been a long-term partner of Gazprom, and Total recently signed a deal with Gazprom to develop the Shtokman gas field), France's access to nuclear energy and Norwegian, Algerian and Dutch gas means that it is not dependent on Russia. France's new President Nicolas Sarkozy has suggested that he will shift French priorities towards a warmer relationship with the US, and in a style inconceivable during the Chirac era, Sarkozy chided Russia for "making somewhat brutal use of its assets, especially oil and gas."<sup>47</sup> However, it is too early to say how French policy on Russia will evolve in practice. Sarkozy's first encounters with Putin were marked by mutual protestations of goodwill rather than forthright criticism. At the same time, France's opposition to further EU enlargement makes it wary of an overly proactive EU policy on the Eastern neighbourhood.

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<sup>46</sup> Eurostat news release, 'A EU 27 trade deficit of nearly 70 bn euro with Russia in 2006', STAT/07/145, 25 October 2007.

<sup>47</sup> Allocution de M. Nicolas SARKOZY, Président de la République, à l'occasion de la conférence des Ambassadeurs. 27 August 2007 (Speech by Nicolae Sarkozy, President of the French Republic, at the occasion of the ambassadors' conference, 27 August 2007); [http://www.elysee.fr/elysee/elysee.fr/francais/interventions/2007/aout/allocution\\_a\\_l\\_occasion\\_de\\_la\\_conference\\_des\\_ambassadeurs.79272.html](http://www.elysee.fr/elysee/elysee.fr/francais/interventions/2007/aout/allocution_a_l_occasion_de_la_conference_des_ambassadeurs.79272.html)

Germany's relationship with Russia is more complex, combining economic calculations with the legacies of the Second World War and of Soviet domination of communist East Germany. Germany is seen in Russia as the gateway to Europe. The roots of the economic relationship are deep: Germany was Russia's biggest trading partner before the First World War, throughout the inter-war period, and again after the Cold War. Even during the Cold War, Germany was the USSR's biggest Western economic partner.<sup>48</sup> In 2005, Germany's trade with Russia amounted to an impressive €38.9 billion. Russia also supplies 42% of German gas needs, making Germany Russia's most important gas market. German energy companies are central to the German-Russia partnership, to the extent that the only foreigner on Gazprom's board of directors is a representative of Germany's E.ON. Germany and Russia are also building the Nord Stream pipeline under the Baltic seabed together, and ex-Chancellor Gerhard Schröder is chair of the project's management committee. Although Angela Merkel has been more vocal in her criticism of Russia's political set-backs and its energy policies than her Social Democratic predecessor, the political partnership with Russia continues to be strong. The Social Democratic Foreign Minister Frank-Walter Steinmeier, who was Schröder's chief of staff, provides a degree of continuity from the last government.

Russian trade with Italy was €21.2 billion in 2006, making Italy Russia's third biggest trading partner after Germany and China. Italy is also the second biggest importer of Russian gas, which accounted for 32% of the Italian market in 2006. Under Silvio Berlusconi, the strong economic links were lubricated by an extremely warm personal relationship with Putin, which even extended to a public defence by the Italian Prime Minister of the conduct of the war in Chechnya.<sup>49</sup> Romano Prodi has ended this personalised love-in, but he has pushed to deepen trade and energy links.<sup>50</sup> For example, in June 2007 Italy's energy giant ENI agreed with Gazprom to build a €10 billion gas pipeline under the Black Sea called South Stream.<sup>51</sup>

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<sup>48</sup> Robert Mark Spaulding Jr. *German Trade Policy in Eastern Europe, 1890-1990: Preconditions for applying international trade leverage*, International Organization, Vol .45:3, 1991, pp. 343-368.

<sup>49</sup> 'EU dismay at Berlusconi comments', BBC News, 7 November 2003; <http://news.bbc.co.uk/1/hi/world/europe/3251705.stm>

<sup>50</sup> 'Russia-Italy economic ties strong ahead of Putin trip', RIA Novosti, 12 March 2007; 'Italy's Prodi to talk trade, energy with Putin', Reuters, 22 January 2007.

<sup>51</sup> 'Energy: Is Gazprom's Investment Drive Feasible?', RFE/RL, 9 July 2007.

Moreover, Prodi has been less critical of Russia as Prime Minister of Italy than he was as President of the European Commission, when he publicly criticised Russian behaviour in Chechnya and over the Yukos case.<sup>52</sup>

Among large EU member states, Spain has the least developed relations with Russia, although Putin has been careful to treat Madrid with the respect it generally accords to big states. Russia and Spain both account for approximately 1% of each other's trade. Russia supplies approximately 13% of Spain's oil needs but no gas. Spain's approach to Russia is driven by economic priorities and a desire to avoid irritating the Kremlin. For example, in October 2006 Spain sought to weaken the EU Council Conclusions on the Russian blockade against Georgia.<sup>53</sup> In August 2007, after Georgia had blamed Russia for initiating a missile attack in Gori, the OSCE's Spanish chairman-in-office opened an inquiry, but his official spokesman studiously avoided pointing the finger at Moscow.<sup>54</sup> Maybe because it is less dependent on Russian gas, Spain supports full ownership unbundling of EU energy companies – a measure opposed by most other Russian partners in the EU including Germany, France, Greece, Cyprus, Bulgaria, Slovakia and Austria.<sup>55</sup>

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<sup>52</sup> Ibid.

<sup>53</sup> Council Conclusions on Georgia-Russian Federation relations, 2756th EXTERNAL RELATIONS Council meeting, Luxembourg, 16-17 October 2006; <http://www.delgeo.ec.europa.eu/en/press/1617oct2006.pdf>

<sup>54</sup> 'OSCE Says Would Like 'Accommodation' On CFE Treaty', Radio Free Europe/Radio Liberty, 30 August 2007.

<sup>55</sup> 'France and Germany lead unbundling opposition', European Voice, 2 August 2007.

# Strategic Partners

## France

### RELATIONS WITH RUSSIA

- Cooperation on global issues – Iran, Iraq, multipolarity etc.
- Weaker economic links with Russia than other big EU states

### POLICIES ON RUSSIA

- Sarkozy has stressed cooperation with Putin after initial criticism
- GDF is a long-term Gazprom partner; Total starts a partnership with Gazprom on the development of Shtokman gas field

## Germany

### RELATIONS WITH RUSSIA

- Russia's biggest trading partner
- Most important market for Russian gas
- Fifth biggest investor in Russia in 2006 (\$5 billion)
- Strong political partnership and credibility in Moscow

### POLICIES ON RUSSIA

- 342,575 Russian visitors to Germany in 2006
- Leading advocate of integration with Russia
- Opposes full ownership unbundling of EU energy companies
- Russia-first policy on the Eastern neighbourhood
- Merkel's approach to Russia is constrained by coalition with SPD
- Building Nord Stream pipeline



# Italy

## RELATIONS WITH RUSSIA

- Russia's third biggest trading partner
- Second biggest market for Russian gas
- 32% of gas imports from Russia. Expected to rise to 40% by 2010

## POLICIES ON RUSSIA

- PM Romano Prodi met Putin four times - but George Bush only once – during his first year in office
- ENI is Gazprom's key partner in Blue Stream II and South Stream projects
- ENI-Gazprom long-term supply contract until 2035

# Spain

## RELATIONS WITH RUSSIA

- Prioritises economic cooperation, but limited economic exchanges
- Second most attractive tourist destinations for Russians (after Turkey)

## POLICIES ON RUSSIA

- Avoids raising sensitive political issues with Russia
- Wary of engagement in the Eastern neighbourhood
- Supports full ownership unbundling.

Support from these big states, particularly France and Germany, is crucial for any coherent EU policy on Russia. For the last few years, the big EU member states have focused on economic cooperation and big power dialogue with Russia while neglecting other EU foreign policy concerns such as domestic developments in Russia and the Eastern neighbourhood. For example, France, Germany, Italy and Spain (as well as Cyprus, Finland, Slovakia, Greece and Portugal) were instrumental in stopping the EU from even discussing a possible EU peace support mission in Moldova in February 2006, adopting the Russian point of view that such a mission could only happen when there is a formal solution to the conflict.<sup>56</sup> They have also been wary of greater EU engagement in Ukraine or Georgia for fear of irritating Russia. And, apart from Spain, they have blocked the European Commission's plans for energy liberalisation.

### *Friendly Pragmatists*

The 'friendly pragmatists' are the biggest group of EU states. They include Austria, Belgium, Bulgaria, Finland, Hungary, Luxembourg, Malta, Slovakia, Slovenia and Portugal. These middle-ranking and small states rarely try to set the EU agenda, preferring to follow the mainstream policy which is largely shaped by big member states such as Germany and France. While they are not active promoters of Russian interests within the EU system, they tend to oppose actions which they fear might irritate Moscow. They take full advantage of the opportunities offered by Russia's economic growth. Half of them – Austria, Bulgaria, Belgium, Luxembourg and Hungary - hope to become gas hubs for Gazprom in the EU.

The motives behind their approach to Russia are various. Belgium, Luxembourg, Malta and Portugal have a rather limited agenda for cooperation with Russia. For them, Russia is not a foreign policy priority. Austria and Finland, on the other hand, are very interested in cooperation and are on friendlier terms with Moscow. What unites all these states is a focus on advancing pragmatic business interests, and a reluctance to confront Russia on politically sensitive issues.

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<sup>56</sup> Hungary, Poland, Latvia, Netherlands, Lithuania, Romania, Estonia, UK, Czech Republic, Ireland and Sweden supported such a potential mission.

Austria has deep economic links with Moscow. It has signed long-term deals with Russia on gas supplies and the construction of gas storage facilities at Baumgarten.<sup>57</sup> Its Raiffeisen Bank (on behalf of unspecified clients) together with Gazprom controls RosUkrEnergo, the murky monopolist importer of gas into Ukraine. Austria has also been known to speak up for Russian interests within the EU. For example, in late September 2007, it used an informal meeting of EU defence ministers to criticise Poland and the Czech Republic for hosting the US missile defence shield.

Belgium and Luxembourg have also sought gas deals with Russia,<sup>58</sup> and Luxembourg has emerged alongside Cyprus as a haven for Russian capital. It is now the fourth biggest foreign investor in Russia, with \$5.9 billion, ahead of Germany (\$5 billion) and France (\$3 billion) - though a substantial fraction of this money is admittedly of Russian origin anyway.<sup>59</sup>

Finland, with its post-war history of avoiding tensions with its big Eastern neighbour, is set to replace Germany with Russia as its biggest trading partner. A quarter of all Russian imports transit through Finland.

Bulgaria, Slovakia and Hungary form a special sub-group. Bulgaria has an increasingly important economic relationship with Russia, which is Bulgaria's second most important trade partner after Germany. Moreover, the Russian company Lukoil is one of the biggest companies operating in Bulgaria. It generated more than 5% of Bulgaria's GDP and around 25% of the country's tax revenues in 2003. Besides hosting the future Burgas-Alexandroupolis pipeline, Bulgaria is a key state for Russia's plan to build the so-called South Stream gas pipeline under the Black Sea. This would effectively undermine the EU policy of gaining access to alternative gas sources and routes via the Nabucco pipeline linking the Union to the Caspian region through Turkey. However, Bulgaria's strategic importance has not shielded it from Russian pressure. In 2006, Gazprom allegedly pressed Bulgaria to renegotiate its gas supplies on less favourable terms, even though the agreement was only due to expire in 2010.

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<sup>57</sup> Vladimir Socor, 'Gazprom Achieves An Anschluss of Austria', Eurasia Daily Monitor, 29 May 2007.

<sup>58</sup> Vladimir Socor, 'Belgium - Gazprom's Next 'Hub' In Europe?', Eurasia Daily Monitor, 6 March 2007

<sup>59</sup> Information from Goskomstat, [http://www.gks.ru/free\\_doc/2007/bo7\\_11/23-12.htm](http://www.gks.ru/free_doc/2007/bo7_11/23-12.htm)

While Hungary's economic relationship with Russia is not as close as Bulgaria's, its energy partnership with Moscow has helped undermine the possibility of a common European approach to energy security.<sup>60</sup> A Russian deal with Hungary on the possible extension of the Blue Stream gas pipeline into Europe was the first of a series of Russian actions to undermine the Nabucco gas pipeline (although the Hungarian Prime Minister Ferenc Gyurcsany recently changed his position on the issue when Russia agreed to build gas storage facilities in Austria rather than Hungary).

Slovakia is influenced by its almost total dependence on Russian raw materials: Russia supplies 100% of its gas and 97% of its oil needs. Slovakia has been known to support at times the Russian point of view within the EU. For example, Slovakia is opposed to full ownership unbundling of the EU energy companies. It was also the only new EU member state (apart from Cyprus) which opposed a discussion on an EU peacekeeping role in Moldova in February 2006.

Bulgaria, Hungary and Slovakia have been close to Russia on issues like the energy policy. They claim that in the absence of a common EU energy policy they have no option but to strike bilateral energy deals with Russia. However, unlike some of the other 'friendly pragmatists', Bulgaria, Hungary and Slovakia tend to support a stronger political role for the EU in the Eastern neighbourhood.

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<sup>60</sup> Katinka Barysch, Russia, realism and EU unity, Policy Brief, Centre for European Reform, July, 2007, pages 6-7, [http://www.cer.org.uk/pdf/policybrief\\_russia\\_FINAL\\_20july07.pdf](http://www.cer.org.uk/pdf/policybrief_russia_FINAL_20july07.pdf); see also Vladimir Socor, "Hungary's Prime Minister In Moscow Gives Nabucco Another Chance", Eurasia Daily Monitor, 26 March 2007 and "Putin-Gyurcsany Meeting Steers Hungary's Government On The 'Third Path'", Eurasia Daily Monitor, 21 September 2006

# Friendly Pragmatists

## Austria

### RELATIONS WITH RUSSIA

- Austria hopes to become a regional hub for Russian gas
- Austrian banks are active in Russia

### POLICIES ON RUSSIA

- Gazprom-OMV partnership
- Raiffeisenbank controls 50% of RosUkrEnergo, a Gazprom subsidiary selling gas to Ukraine
- Russia-first policy on the Eastern neighbourhood

## Belgium

### RELATIONS WITH RUSSIA

- Diversified oil and gas supplies
- Only 4.9% of gas needs from Russia

### POLICIES ON RUSSIA

- Supports full ownership unbundling of energy giants
- Willing to become a gas distribution hub for Gazprom

## Bulgaria

### RELATIONS WITH RUSSIA

- Russia is second biggest trading partner
- Lukoil is one of Bulgaria's biggest tax payers
- 218,194 Russians visited Bulgaria in 2006

### POLICIES ON RUSSIA

- Bulgaria is a keen partner in Gazprom's planned South Stream gas pipeline and Burgas-Alexandroupolis oil pipelines

# Finland

## RELATIONS WITH RUSSIA

- 100% gas needs supplied by Russia
- Russia is second biggest trade partner
- Issued 505,000 visas to Russians (2006).

## POLICIES ON RUSSIA

- Supports full ownership unbundling of energy giants

# Hungary

## RELATIONS WITH RUSSIA

- 92% of gas needs come from Russia
- Russia offered to make Hungary a gas distribution hub

## POLICIES ON RUSSIA

- Hungary favoured Gazprom's Blue Stream II gas project over the EU-backed Nabucco pipeline
- Tried to protect some of its companies from Russian takeovers
- Active on the Eastern neighbourhood

# Luxembourg

## RELATIONS WITH RUSSIA

- Fourth biggest formal foreign investor in Russia (\$5.9 billion) due to offshore mechanisms

## POLICIES ON RUSSIA

- Opposes full ownership unbundling in energy sector
- Long-term contracts with Gazprom

# Malta

## RELATIONS WITH RUSSIA

- Imports no gas or oil from Russia
- Interested in attracting Russian tourists

## POLICIES ON RUSSIA

- The only known Maltese investment is a hotel in Russia

# Portugal

## RELATIONS WITH RUSSIA

- Russia is Portugal's 30th biggest trading partner.
- No Russian gas imported
- Russo-Algerian gas relations are watched in Portugal

## POLICIES ON RUSSIA

- Avoid disputes with Russia
- Focus on a 'nice' EU-Russia summit under Portuguese presidency
- Russia was not one of the priorities of the Portuguese EU presidency

# Slovakia

## RELATIONS WITH RUSSIA

- 100% of gas and 97% of oil needs supplied by Russia
- Shares Russia's position on Kosovo

## POLICIES ON RUSSIA

- Against full ownership unbundling of EU energy giants
- The only Central European EU state against EU peacekeeping mission in Moldova

# Slovenia

## RELATIONS WITH RUSSIA

- 60% of gas needs from Russia (40% from Algeria)
- Not part of the CFE

## POLICIES ON RUSSIA

- Focus on business relations
- Focus on preparing the Slovenian EU presidency

*Frosty Pragmatists*

The fourth group is made up of the Czech Republic, Denmark, Estonia, Ireland, Latvia, the Netherlands, Romania, Sweden and the United Kingdom. While these countries tend to be pragmatic and oriented towards business interests, they do consistently raise concerns about democracy and human rights, and are willing to challenge Russia when it violates their commercial interests as well as diplomatic norms.

Among these countries, the UK holds a special position. Until just a few years ago, it was seen in Moscow as a 'strategic partner'. Former prime minister Tony Blair was the first EU leader to build a strong partnership with Vladimir Putin, using trips to Moscow to woo him before he had even been elected President. However, when UK courts refused to extradite the oligarch Boris Berezovsky and one of the Chechen leaders Akhmed Zakaev in 2003, the relationship deteriorated. The UK's relatively outspoken stance on the state of democracy in Russia, the subsequent harassment of the British Council and later of the UK ambassador in Russia, and the disputes over BP and Shell's stakes in the Sakhalin II and Kovykta gas fields have all contributed to increasingly frosty relations. The murder of Alexandr Litvinenko, a Russian émigré in London, in November 2006 only made things worse. After Russia refused to extradite the chief suspect for the murder in the summer of 2007, the two sides even expelled each other's diplomats and imposed visa restrictions on travelling officials. The UK-Russia relationship has gone from 'strategic partnership' to open diplomatic tension and mistrust. This has led the UK to seek a more unified EU position on Russia in the hope of attracting support from other member states.



# Czech Republic

## RELATIONS WITH RUSSIA

- 75% of gas needs from Russia (24% from Norway)
- 230,000 Russian visitors in 2006
- Disputes over the US missile shield

## POLICIES ON RUSSIA

- Active in raising democracy and human rights issues at the EU
- Supports active EU in the Eastern neighbourhood

# Denmark

## RELATIONS WITH RUSSIA

- Denmark is a net exporter of gas and oil
- Only 1.71% of Danish trade is with Russia

## POLICIES ON RUSSIA

- The Chechen congress in 2002 was held in Copenhagen
- Refused to extradite Akhmed Zakaev
- Supports full energy unbundling of energy companies

# Estonia

## RELATIONS WITH RUSSIA

- 100% of gas needs supplied by Russia
- Not part of the CFE
- Soviet war memorial dispute
- Russian cyber-attacks on Estonia

## POLICIES ON RUSSIA

- Blocked construction on Nord Stream in Estonian waters
- 'Nashi' activist subject to Estonian visa ban
- Supports active EU in the Eastern neighbourhood

# Ireland

## RELATIONS WITH RUSSIA

- UK is the major source of oil and gas for Ireland
- Less trade with Russia than with the Philippines

## POLICIES ON RUSSIA

- Raises Russian human rights issues at the UN, OSCE, EU
- Supports active ENP in South Caucasus

# Latvia

## RELATIONS WITH RUSSIA

- Russia supplies 100% of gas needs
- Big Russian minority
- Not part of the CFE
- Border treaty ratified by Russia
- Oil blockade on Latvia

## POLICIES ON RUSSIA

- Opposes full ownership unbundling of energy giants
- Dissociates itself from Estonia and Lithuania
- Wants to be connected to Nord Stream
- Supports active ENP in the East

# Netherlands

## RELATIONS WITH RUSSIA

- Second biggest cumulative investments in Russia
- An important, but declining, gas exporter in Europe

## POLICIES ON RUSSIA

- Raises human rights
- Supports active ENP in the East

# Sweden

## RELATIONS WITH RUSSIA

- Almost all Swedish gas comes from Denmark
- IKEA is the biggest non-energy investor in Russia

## POLICIES ON RUSSIA

- Critical of developments in Russia
- Raises environmental concerns on the building of the Nord Stream pipeline
- Supports full ownership unbundling
- Supports active ENP

# Romania

## RELATIONS WITH RUSSIA

- 30% of gas from Russia; but 70% is domestic production
- Big Russian investments in heavy industry

## POLICIES ON RUSSIA

- A consistent supporter of Nabucco
- Supports full energy unbundling
- Criticises Russian role in Moldova
- Supports active ENP

# United Kingdom

## RELATIONS WITH RUSSIA

- An estimated 200,000 Russians live in London
- BP and Shell were forced to sell control of energy projects
- Second biggest investor in Russia in 2006
- Favourite destination for Russian IPOs

## POLICIES ON RUSSIA

- Refuses to extradite Russian political asylum seekers
- Introduced travel restrictions on Russian officials in the Litvinenko case
- Increasingly seeks a more unified EU approach to Russia
- Supports full energy unbundling
- Supports active ENP

Most of the frosty pragmatists have had bilateral disputes with Russia. Denmark was the first EU member state since Putin came to power to have a serious bilateral dispute with Russia after the holding of the 2002 Chechen congress in Copenhagen. Denmark arrested but refused to extradite the Chechen leader Akhmed Zakaev (who later moved to the UK).

The Czech Republic has been at the heart of a row over the building of a US missile defence shield, after it agreed to host a radar facility. Russia has compared the proposed development to the Cuban Missile Crisis, and threatened to point missiles at Prague.

In 2007, Estonia found itself at the forefront of a dispute with Russia after it decided to change the location of a war memorial to Soviet soldiers. The result was a major diplomatic row, with Russian economic pressure on Estonia and riots in Tallinn in May 2007. In response, Estonia has introduced a travel ban against a number of pro-Kremlin activists from the 'Nashi' group who were involved in provoking riots. Once Estonia joins the Schengen area in January 2008, Estonia's visa black list will be uploaded to the Schengen database, bringing a number of Nashi leaders under a de facto EU travel ban (the UK also has a number of Nashi activists on a 'visa-awareness list').

Latvia has increasingly sought a more moderate tone in its relations with Russia. In 2005, it was the only Baltic state to attend the Russian celebrations marking the 60th anniversary of WWII Victory Day. In fact, Russia tends to cultivate good relations with at least one of the three Baltic states at any given moment. The result is that Russia has ratified its border agreement with Latvia (but not with Estonia). One should not, however, exaggerate the special treatment accorded to Latvia, which has also had its oil supplies cut off, and been exposed to political pressures.

The Netherlands has a very strong economic relationship with Moscow. It has the biggest cumulative investments in Russia after Cyprus.<sup>61</sup> The Netherlands is also - formally - the most important destination for Russian exports (though this is partly due to the 'Rotterdam effect' when goods destined for other EU states enter the EU through the port of Rotterdam). In purely economic terms, the importance of Dutch-Russian relations approaches the importance of Germany-Russia or UK-Russia economic relations. However, the Netherlands does not put Russian concerns above a common EU Eastern neighbourhood policy, and it tends to raise human rights issues in relation to Russia - although not strongly enough to endanger trade and economic relations.

Romania has been an outspoken critic of Russian energy policies and involvement in Moldova. Sweden has been quite a vocal critic of what it sees as negative developments in Russian domestic and foreign policies. Stockholm has also raised concerns about the Nord Stream pipeline. Ireland is probably the country least interested in Russia in this group. However, it actively supports a values-based approach on Russia, as well as stronger EU engagement with the Eastern neighbourhood.

The frosty pragmatists' approach to Russia is consistent with their values, but is in many ways passive. These countries show outbursts of activism on Russia when their interests are at stake. But they have not really attempted to mount a proactive and sustained effort to shape EU policy on Russia.

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<sup>61</sup> Website of the Russian embassy to the Netherlands, [http://www.netherlands.mid.ru/tor\\_econ\\_03.html](http://www.netherlands.mid.ru/tor_econ_03.html)

*The New Cold-Warriors*

The last group of states consists of Poland and Lithuania - two countries that have suspected Russia of waging a new cold war against the EU. They have actively sought to shape a more critical EU line towards Russia, using means like critical non-papers, diplomatic footwork and even vetoing negotiations about a new EU agreement with Russia. Motivated by Russian pressures, but also by unresolved historical grievances, they have missed few opportunities to criticise Russia in public. They have frosty political relations with Russia, and this often spills over into the economic field. The long list of bilateral gripes with Russia includes oil supply cuts to Lithuania, discriminatory railway tariffs for goods transiting the Baltic states, disagreements over access to Kaliningrad, and disputes over phytosanitary norms.

# Lithuania

## RELATIONS WITH RUSSIA

- 100% of gas and 90% of oil is from Russia
- Russia blocked oil supplies
- Not part of the CFE
- Crucial for Russian transit to Kaliningrad

## POLICIES ON RUSSIA

- Avoids highly-politicised disputes
- Threatened to veto negotiations on new agreement with Russia due to the oil blockade
- Supports active ENP
- Cooperative on Kaliningrad transit

# Poland

## RELATIONS WITH RUSSIA

- 70% of gas acquired from Gazprom and its proxy RosUkrEnerg
- Poland issued 250,000 visas to Russian citizens in 2005 (160,000 in Kaliningrad)
- Elements of US missile shield to be based in Poland

## POLICIES ON RUSSIA

- Blocked negotiations on the new PCA
- Tries to achieve objectives via the EU
- Opposes the Nord Stream pipeline
- Was active in supporting the Orange Revolution in Ukraine
- Promoting an active ENP
- Focus on Ukraine and Belarus

Russia's uncompromising stance towards the 'New Cold Warriors' has 'Europeanised' many of their problems with Russia. As these countries move towards full participation in all EU policies, such disputes could become even more damaging to the overall EU-Russia relationship. For example, Poland's government under Jarosław Kaczyński blocked EU negotiations on a new EU treaty with Russia after Russia introduced a ban on Polish meat and the EU was slow to deal with the problem. This is one of the most visible instances where one single EU member state has blocked an important policy measure on Russia.

Poland has sought more EU solidarity on Russia, but its appeals have been undermined by the fact Poland has often been a difficult partner on other EU priorities, such as the EU Reform Treaty. Moreover, the fact that Poland at first refused to invite OSCE observers to its October 2007 elections (before subsequently relenting) created a useful precedent for Russia to argue against a strong mission of OSCE observers to its own parliamentary elections two months later.<sup>62</sup>

Lithuania has kept a lower political profile in relations with Russia. Compared to Latvia and Estonia, it has a much smaller, better integrated Russian minority, reducing the possible irritants in relations with Russia. Lithuania also tends to avoid unilateral or highly-politicised disputes with Russia, and is active inside the EU in shaping the overall policy on Russia and the Eastern neighbourhood. However, it threatened to veto EU-Russia negotiations on a new treaty because the EU had reacted slowly to a Russian move to cut off oil to Lithuania. This puts Lithuania in a different position from the two other Baltic states.

Following the Polish elections on 21 October 2007, it seems likely that the new government will pursue a less confrontational relationship with Russia.<sup>63</sup> Considering Lithuania's relative caution in confronting Russia, the 'New Cold Warriors' group might soon cease to exist. Much will depend on Russian policy towards these states, and particularly towards the new government in Warsaw.

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<sup>62</sup> 'Poland bans OSCE poll observers. BBC News, 22 September 2007', <http://news.bbc.co.uk/1/hi/world/europe/7008373.stm>

<sup>63</sup> 'New Polish leader vows to repair EU and Russia ties', *EU Observer*, 24 October 2007.



### **Chapter 3 Towards Symmetrical Interdependence**

The five groups within the EU find themselves at different points along a continuum between the EU's traditional approaches to Russia – those of containment and integration. Both extremes capture an element of truth about the nature of the Russian system and the EU's interests, but neither will ever find favour with all EU member states and, above all, they risk cancelling each other out.

#### *Containment in an era of globalisation?*

At one end of the continuum are those countries that see Russia as a shadow of the former Soviet Union. They point to a litany of Russian transgressions. At home, they highlight the way the Kremlin is grabbing control of key industries and violating human rights. Abroad, they show how it is promoting its model of managed democracy in Armenia, Azerbaijan or Central Asia, putting pressure on governments in Ukraine, Georgia and Moldova, using the threat of energy cut-offs as a weapon, refusing to help bring Litvinenko's murderers to justice, stoking up 'frozen conflicts' in the Caucasus, launching trade disputes over meat and other natural products, and undermining EU diplomacy on Kosovo and Iran. The best response to Russian assertiveness, they argue, is a policy of 'soft containment'. In practical terms, this involves excluding Russia from the G8, expanding NATO to include Georgia, supporting anti-Russian regimes in the neighbourhood, building missile shields, developing an 'Energy Nato', and excluding Russian investments from the European energy sector. This is not the same as the military containment of the Cold War. Rather, it is an attempt to 'stop the rot' by trying to counter the spread of Russian practices and limiting the effect of Russian policies. Under such an approach, the EU should use its economic leverage over Russia more openly, while engaging with Russia only selectively and vocally criticising negative developments within Russia.

What this approach ignores is the extent to which the European Union depends on cooperation with Russia to deal with issues in its neighbourhood and on the global stage. Containment is a policy that can be delivered in the military sphere – but what does it mean in an era of globalised trade and investment where people are free to travel? Even if the EU could free itself from reliance on Russian gas – which it cannot in the medium term – it would still need help from Russia in managing climate change, organised crime, migration and a

host of other issues that we face in our common neighbourhood. Moreover, as a permanent member of the UN Security Council, Russia can help or hinder European objectives on Iran, the Balkans, climate change, proliferation, and a host of other issues.

Getting caught in a zero-sum game with Russia in our common neighbourhood – where we each back our respective client states rather than promoting the rule of law - would undermine much of the point of EU integration. In any case, the Union makes a poor cold warrior. With its slow and cumbersome decision-making processes and lack of tactical nous, it is likely to be outmanoeuvred by Russia. Soft containment also runs the risk of becoming self-defeating. The more countries like Lithuania, Poland and Estonia block EU decisions on Russia, the more other EU member states – and particularly the big ones - are likely to accept Moscow's bilateral approaches.

### *Integration at any price?*

The other extreme could be called a doctrine of 'creeping integration'. The German Foreign Minister Frank-Walter Steinmeier has been its most eloquent advocate, putting forward the principle of 'Wandel durch Verflechtung' – essentially meaning change by increased interdependence. The philosophy of such an approach has its roots in Europe's post-War history when peace, democracy and prosperity were ensured by binding France and Germany into a web of interdependence expressed through the European Communities. And it makes a conscious reference to 'Wandel durch Annäherung' – change through proximity - which served as leitmotiv for West Germany's policy of engaging the Eastern Bloc in the 1970s.

The hope is that by binding Russia into our existing political and economic structures as much as possible, Europeans will find that Russia is eventually drawn into their way of thinking. This applies at the level of economic interests and international institutions alike. By allowing Russia to buy downstream assets in the energy market, supporters of creeping integration argue, the EU would make cut-offs of their gas supply less likely – as Russian companies will be the ones that lose money. By inviting Russia into the WTO, the EU gets access to legally judicable processes which European companies and governments can use to protect their interests. Few people who support this approach believe that Russia will immediately become an advocate of liberal democracy - but even if Russia enters these institutions under false pretences,

it could be gradually socialised. This approach is not only favoured by Russia's strategic partners. A senior British diplomat made the case in a similar way: "The process of turning Russia into a more normal, civilised state will not be by poking them or punching them, but by integrating them into our systems so that you can create constituencies within Russia that want to uphold western rules."

Nevertheless, increasing interdependence between two countries that do not share a common world view can be a recipe for instability rather than integration.<sup>64</sup> For interdependence to lead to stability, both parties must be willing to lock themselves into a straitjacket of common rules and norms which cannot be revised unilaterally. Fyodor Lukyanov, an influential Russian analyst, argues that under present conditions interdependence will heighten tensions rather than decrease them: "Europeans think 'integration' means Russia gradually moving towards the European model, while for today's Russia, integration means 'asset swaps'. You can't have an agreement on interests unless you at least agree on some basic concepts."<sup>65</sup>

The European project is based on stable rules, which can only be changed by common consent, rather than revised unilaterally every time the power equations in Europe change. But because Moscow sees the law as an expression of power at any given moment, it feels that the post-Cold War settlement need to be revisited now that Russia is stronger and richer than it was in the 1990s. It refuses to accept that agreements entered into by earlier governments have long-term relevance. These differing approaches to international law mean that any attempts to formalise the EU's interdependence with Russia can only lead to greater friction. The 'creeping integration' approach does not have a response to this challenge and thus plays into the hands of Russia's explicit strategy of building asymmetric interdependence with the Union.

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<sup>64</sup> Richard Rosecrance and Arthur Stein: 'Interdependence: Myth or Reality', in *World Politics*, Vol. 26, No. 1. (Oct., 1973), pp. 1-27.

<sup>65</sup> ECFR interview, Moscow, 4 July 2007.

*Europe's Hidden Power*

At the moment, relations between Russia and the EU are conducted in a way that puts the Union permanently on the back foot. Russia tends to negotiate with member states bilaterally rather than with the EU collectively, and the relationship is concentrated in a few areas where Russia has visible and powerful sticks – energy and vetoes in the UN security council.

But if the EU were able to agree on a common approach, it would theoretically have a formidable set of levers at its disposal. At a diplomatic level, Europeans could threaten to deprive Russia of the prestige it draws from participating in G8 and EU-Russia Summits, and block Russia's application to join the Organisation for Economic Cooperation and Development (OECD). At an economic level, the EU could apply stricter regulations to Russian investments in EU markets, and use competition law to launch investigations into monopolistic practices for existing investments. EU member states could blunt Russian policy in the European neighbourhood by tightening their economic and security ties with countries such as Georgia and Ukraine, playing a much more active role in the post-soviet secessionist conflicts, and signing more generous trade and visa regimes with them. In the future, the EU will be able to force Gazprom to sell its controlling stakes in the gas pipelines it plans to build in the EU - such as Nord Stream and South Stream - under tougher energy unbundling rules. Finally, EU member states could target the interests of individuals in the Russian elite by employing better scrutiny of their properties and assets in the EU and even by restricting travel to the EU for those deemed responsible for human rights abuses. But the EU will not be able to wield any of these levers effectively so long as EU member states remain divided at the level of strategy. While it continues to sway between integration and containment, the EU will appear weak and directionless, thereby encouraging Russia to become ever more assertive.

## *The Foundations for a New Approach*

There is hope that the EU might overcome the barriers of history and geography to develop a common approach, because the status quo is not in the interests of any of the five groups of European states identified in the last chapter. When tensions with Russia come to the fore – as they have done over Estonia, Kosovo, and Litvinenko - the ‘Trojan Horses’ find themselves isolated, and risk being punished by other member states in areas of interest to them. The ‘Strategic Partners’ suffer as well, both because they are not big enough on their own to negotiate a relationship of symmetrical interdependence with Russia, and because their sweet deals with Putin cost them a lot of political capital. For example, Germany’s decision to support the Nord Stream pipeline has not yet enhanced its energy security, but it has cost Berlin a high price in soft power within the EU. The ‘Friendly Pragmatists’ also find themselves at the mercy of Russian foreign policy. If they do not develop a proactive stance, Russia can easily renege on deals, or play them against each other as it does with Austria and Hungary. Their ‘Frosty’ counterparts suffer a similar fate of having to react to Russian policy moves rather than setting the agenda. For example, Russia has tried to isolate Estonia and Britain, threatening to turn them into ‘veto countries’. Finally, the ‘New Cold Warriors’, especially Poland under its previous government, are already isolated and have lost much political capital for that reason.

Even if they did not disagree on the course to follow, Europeans would have another reason to look for a new paradigm: recent changes in Russia’s foreign and domestic policies. The old ‘democratising Russia’ paradigm around which the EU united in the 1990s was based on the assumption that the EU was dealing with a weak neighbour. Its two replacements - of containment and integration - were inspired by past experiences such as the Cold War and European enlargement. But today’s Russia is a new kind of country, with a consolidated regime that is difficult to deal with and understand. On the surface, it claims to be democratic, but in reality, its virtual politics are designed to strengthen the power of the authoritarian executive. Moscow’s economic reforms have consolidated political and economic power so that, as Dimitri Trenin argues, the people who run Russia are now the same people who own it; this makes it harder to disentangle Russia’s national interest from the private interests of elites. Finally, the state has won the loyalty of the Russian public by providing them with economic growth, a nationalist revival and a consumerist revolution. Meanwhile, a powerful EU feels weak because it is held hostage by Russia’s attempt to build ‘asymmetric interdependence’.

In these changed circumstances, Europeans can neither hope to craft a new Russia in their own image by integrating it into Euro-Atlantic structures, nor can they isolate themselves from a powerful neighbour with which they need to trade, deal and negotiate.

Given this situation, Europeans need to rethink the goals, the means and the policies they pursue in their relations with Russia. While the long-term goal should be to have a liberal democratic Russia as a neighbour, a more realistic mid-term goal would be to encourage Russia to respect the rule of law, which would allow it to become a reliable partner.

### **A New Policy Paradigm**

The EU and its member states have often talked about promoting the rule of law and have even funded programmes of legal reform, but this has never been the centrepiece of EU policy towards Russia. Yet the 'rule of law' is central to the European project, and it is the only basis for a stable long-term EU-Russia partnership. It is a concern for all Europeans interested in Russia, as well as for Russian citizens themselves. The selective interpretation of the law affects European businesses worrying about respect of contracts, diplomats who fear breaches of international treaties, human rights activists concerned about the centralisation of government, and military planners trying to promote confidence building and the transparency of military developments. It is also of great concern for Russian citizens, who might be cynical about the language of democracy, but are concerned about corruption and the arbitrary exercise of power by Russian state institutions.

This paper tries to explain why we urgently need a new European consensus, and on what basis it could be achieved. It discusses the broad directions that a policy could take rather than the detailed challenge of implementation.

## Different EU Paradigms for dealing with Russia

### Creeping Integration

#### OBJECTIVES

Change through interdependence

#### MEANS

- Socialisation and persuasion, dialogue
- Economic interdependence at any cost
- Russia-first approach to EU neighbourhood

#### POLICY ACTIONS

- Promoting bilateral deals
- Avoid criticism of Russian foreign and domestic policies
- Asset swaps in energy
- Weak competition policy
- Oppose unbundling of energy giants
- Restart PCA talks at any cost
- Keep Russia in G8
- Sceptical of Georgia and Ukraine in NATO
- Liberalise/abolish visas for Russia
- Oppose missile defence shield

### Soft containment

#### OBJECTIVES

Insulate EU from negative influences and roll back Russian expansionism

#### MEANS

- Conditionality and pressure
- Decrease dependence on Russia
- Anti-Russian approach in the EU neighbourhood

#### POLICY ACTIONS

- Bilateral disputes and EU vetoes
- Publicly criticise Russian domestic and foreign policies
- Reduce energy reliance on Russia
- Create 'Energy NATO'
- Support unbundling of energy giants
- Block PCA talks
- Exclude Russia from G8
- Fast-track NATO membership for Georgia, maybe Ukraine
- Liberalise/abolish visas for Russia, Ukraine, Belarus and Moldova
- Build missile defence shield

### Rule of Law

#### OBJECTIVES

Define stable rules as the basis of the EU-Russia partnership

#### MEANS

- Enforcement of rules
- Increase symmetry in interdependence
- Active support of the rule of law in the EU neighbourhood

#### POLICY ACTIONS

- Principled bilateralism
- Selective, public criticism of Russian domestic and foreign policies
- Promote Russian investments in Europe, but strong application of transparency rules
- Support unbundling of energy giants
- Restart PCA talks
- Keep Russia in G8, hold more low level meetings at G7
- Enlarge NATO when standards are met
- Visa-free regime for Russia, Ukraine and Moldova
- Extend Energy Community, and promote unbundling of energy companies in Ukraine and Moldova

The starting point is to reexamine all the points of contact with Russia to establish how they could be used to build a more symmetrical relationship with Russia, underpinned by the rule of law. This involves developing antidotes to the Kremlin's attempts to divide and rule European countries, its reversal of European values in the Eastern neighbourhood, its legal revisionism, and its attempt to increase Europe's dependence on Russia.

Europeans should begin by recalibrating their international diplomacy. It is no secret that Russia craves recognition in international politics. Its government's self-perception as a great power is linked to its participation in institutions like the G8 and EU-Russia summits. That is what leads proponents of 'soft containment' to advocate excluding Russia from the G8 and blocking the negotiation of a new Partnership and Cooperation Agreement. On the other hand, proponents of 'creeping integration' are opposed to all policies which would cut off contact. They argue that the most important challenge is to maintain dialogue – even if that means postponing agreements on the thorniest issues. Under a 'rule of law' approach, the EU would keep Russia engaged in these institutions, but moderate the level of cooperation in line with Russia's observance of the spirit as well as the letter of the common rules. For example, if Moscow drags its feet on G8 commitments and policies, more meetings should be organised on these topics at a junior level under a G7 format - excluding Russia. Given the importance that Russia attaches to its G8 membership, the other members of G8 should use this forum to publicly voice their concerns about developments in Russia. Equally, the EU should also not be afraid to use the EU-Russia summit and the negotiation of a new Partnership and Cooperation Agreement to highlight issues where Russia is being unhelpful, such as Kosovo, or the conflicts in Georgia and Moldova.

EU member states should revisit how they conduct bilateral relations with Moscow. As European Commissioner Peter Mandelson argues: "the EU complains that Russia plays divide and rule between individual member states. But Russia can hardly be blamed for such behaviour when some in Europe appear to invite it, and fail to deliver a unified message."<sup>66</sup> Those in favour of 'creeping integration' believe that bilateral relations are the best way of reaching out to Russia at a time when it has such problematic relations with countries such as Poland or Estonia.

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<sup>66</sup> Speech by Peter Mandelson, 'Russia and the EU', EU-Russia Centre, Brussels, 17 October 2007, SPEECH/07/629.



On the other hand, proponents of ‘soft containment’ are prone to see any kind of bilateral contact between EU member states and Russia as a kind of betrayal. Polish politicians have even referred to the Nord Stream deal as a new Molotov-Ribbentrop pact.

Under the ‘rule of law’ paradigm, the EU’s response to ‘divide and rule’ should be a new kind of ‘principled bilateralism’. Given how important Russia is to so many EU member states, it is neither possible – nor even desirable - to try to strap all EU-Russia relations into the straitjacket of Brussels-Moscow dialogue. However, it should be possible to move towards a situation where the proliferation of bilateral contact reinforces rather than undermines common EU objectives. EU member states now normally read from the same script on issues which previously divided them such as the Western Balkans, Israel-Palestine and Iran. The same can and should happen in the case of Russia. A principled bilateralism would require countries to use their bilateral arrangements with Russia to support common EU goals, such as defending the property rights of EU investors in Russia or the right of the opposition to hold demonstrations and to participate in elections. To ensure unity and make better use of its power over Russia, the EU could try to centralise its bargaining channels with Russia through the appointment of a high-level coordinator on relations with Russia who would work towards the establishment of the four EU-Russia common spaces (in economy, external security, justice and home affairs and culture). It won’t be possible to predict how the EU will need to respond to all future Russian behaviour, but it should be possible to establish some guiding principles, and some red lines. For example, the EU could agree that on certain issues, member states must consult with their partners before approaching Russia – even when powerful economic interests are involved. The one thing that unites all member states is an aversion to surprises. On the one hand, Russia’s closest partners resent the way that bilateral problems – such as the War Memorial crisis in Estonia, the Polish meat row, or the UK’s attempts to pursue Alexander Litvinenko’s killers – have erupted at short notice and blocked EU-Russia relations. On the other hand, the ‘new Cold Warriors’ complain bitterly when other EU member states cut private deals which reduce Europe’s ability to diversify its energy routes. Most member states would welcome an early warning system allowing both upcoming crises and upcoming deals to be discussed internally in the EU.

A third area that needs to be rethought is the ‘neighbourhood policy’. Proponents of ‘creeping integration’ have been reluctant to get into a zero-sum contest with Russia for influence in the region. They have tended to

implement a 'Russia first' policy of granting concessions on visas, trade and political relations to Russia before other countries in the common neighbourhood. For fear of upsetting the Kremlin, they oppose a proactive EU in the Eastern neighbourhood. People who favour 'soft containment' have argued that the neighbourhood policy is the most powerful tool for blunting Russia's influence. They have urged the EU to support governments in places like Georgia and Ukraine in their disputes with Russia, and to push for a rapid expansion of NATO to these countries.

Under a rule of law approach, the EU would develop a more active policy – to encourage these countries to respect the rule of law and integrate them into the European project. This does not mean giving money to friendly regimes; but it does mean putting real resources into protecting the autonomy and development of the EU's neighbours. Part of the challenge is to develop a more responsive policy framework. The European Neighbourhood Policy has been designed with a very long-term focus in the hope that slow, incremental change will be allowed to take root. But the EU badly needs to complement this with some shorter term measures that can help prop up weak states in the face of Russian pressure. It needs to develop ways of showing solidarity with neighbouring countries which are struck by politically motivated energy cut-offs or trade embargoes. The EU could extend the European Energy Community and seek the full application of the energy acquis in Turkey, Ukraine and Moldova. This could lead to the unbundling of energy companies in these states, greater transparency of their energy sectors, and as a consequence greater energy security for Europe and fewer possibilities for Russia to use energy for political purposes. The EU could invest in electricity interconnections with Ukraine and Moldova, support energy efficiency programmes in these states, and give them access to the Nabucco pipeline. Equally, the EU should explore the possibility of giving the Trade Commissioner a mandate to fast-track access to the EU market for selected products in the case of any more politically-motivated embargoes, such as those on Georgian and Moldovan wines. A more active policy should aim to build constituencies in the European neighbourhood that support reforms. This entails organising more visits to ENP countries by European leaders, more effective communication that talks up the 'Europeanness' of the EU's neighbours rather than talking down the prospects of enlargement, a serious easing of visa regimes for Ukraine, Moldova and the south Caucasus, and the elimination of visa fees for young people.

The fourth issue the EU needs to rethink is law enforcement - how to ensure a consistent application of the rules that Russia and the EU have already signed up to. A 'soft containment' approach would seek to minimise contact with Russia in order to limit its influence inside the EU. A 'creeping integration' approach would focus on signing agreements with Russia, mutual investments and dialogue in the hope that this would have a transformative effect on the way Russian elites conduct their business and diplomacy. However, the supporters of such an approach risk getting carried away by new projects while neglecting to enforce what has already been agreed.

A 'rule of law' approach should promote mutual agreements and investments but be much tougher on their implementation. It would start by empowering the European Commission to apply competition policy in the energy sphere. It already has the formal competence to do that, but not the political support of EU member states. In order to avoid further monopolisation and partitioning of the single market, the European Commission could be granted the right to pre-approve big energy deals on long-term contracts and pipelines between EU energy companies and foreign energy companies. The EU could also investigate some of the murky deals with Russia in which EU companies are involved. As a matter of principle, the EU should push for the enforcement of the growing pile of agreements which have not been implemented, such as the PCA, the four Common Spaces and the European Energy Charter. The EU should demand compliance with the European Energy Charter, which, according to its own provisions, is binding even before ratification, and EU companies should use arbitration in those instances where Russia breaches ECT provisions on investment protection or gas deliveries. This may result in Russia leaving the ECT rather than ratifying it - but this may be preferable to the current situation, which undermines the principle that agreements have to be respected.

Finally, the EU - and above all EU companies - should also be encouraged to defend contractual obligations with Russia through arbitration and in the courts. When there are problems - such as oil supply cuts to Germany, the forced sale of majority stakes in projects like Sakhalin II and Kovykta and pushing Bulgaria into an early renegotiation of its gas contracts - these should not be hushed up for fear of embarrassing or angering Russia. The best way to bring Russia and the EU closer to each other is to demand respect of mutual obligations, not to hold pleasant summits.

The EU's objective in all this should be to seek a more symmetrical interdependence. The EU should neither try to reduce its contacts with Russia, nor accept a relationship that is skewed in Russia's favour. Germany's Foreign Minister Frank-Walter Steinmeier defined a symmetrical relationship as "having mutual access to markets, getting all companies active in the European Union to accept the strict EU competition rules."<sup>67</sup> It is up to the EU to rebalance this relationship. The Union's energy vulnerability does not stem from the fact Russia is such an important gas supplier, but from its own inability to achieve an integrated and flexible gas market. The Union should try to agree an internal code of conduct on energy deals which would prevent countries from signing agreements which would undermine attempts to diversify energy supplies. In the longer term, the Union should seek to de-energise its relationship with Russia by reducing its gas consumption and investing in alternative sources of energy. The ultimate goal should be open competition, respect for the rule of law, and an integrated and flexible gas market.

The biggest challenge facing the EU, however, will not be to develop specific Russia-related policies, but to agree on a common strategy. The 'rule of law' could act as a unifying framework for a new, more principled and effective approach. But it will require hard work, intelligent leadership and political will to overcome EU defeatism and the expectation that agreement on Russia among all 27 member states will always remain minimal. One solution may be for an 'avant-garde' of member states to take the lead on the main aspects of the relationship, such as policy towards Ukraine, the Caucasus and Central Asia, and on energy. This group would need to contain representatives from most of the five groups - since a degree of consensus will be vital - but it need not begin with all EU member states.

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<sup>67</sup> Frank-Walter Steinmeier, *Interaction and Integration*, Internationale Politik 8:1, Spring 2007, p. 53; <http://en.internationalepolitik.de/archiv/2007/spring2007/interaction-and-integration.html>

The EU has helped to spread peace in Europe by creating a political order based on the rule of law, and by establishing rules which cannot be changed unilaterally. If the EU now wants to engage Russia in a Europe free of dividing lines, it will need to build a new partnership with Russia on similar foundations. This will not be an easy process. It will be hard to overcome the politics of the lowest common denominator in an EU where all 27 member states have to agree. But the EU has the resources and levers to exercise serious influence over Russia. The biggest challenge will be to strengthen the key point of leverage which Europeans could exercise over Russia: their unity.

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Co-founder, El País; President of FRIDE

**Mary Kaldor (United Kingdom)**

Professor and Director of the Centre for the Study of Global Governance, London School of Economics

**Gerald Knaus (Germany)**

Chairman, European Stability Initiative; Open Society Fellow

**Caio Koch-Weser (Germany)**

Vice Chairman, Deutsche Bank Group; former State Secretary

**Rem Koolhaas (The Netherlands)**

Architect and urbanist; Professor at the Graduate School of Design at Harvard University

**Ivan Krastev (Bulgaria)**

Chair of Board, Centre for Liberal Strategies

**Mart Laar (Estonia)**

Former Prime Minister

**Mark Leonard (United Kingdom)**

Executive Director, European Council on Foreign Relations

**Adam Lury (United Kingdom)**

Director, Menemsha Ltd; former advisor to Lord Browne

**Alain Minc (France)**

Chairman, Le Monde; Head of consulting group AM Conseil

**Christine Ockrent (Belgium)**

Editor-in-chief, France Télévision

**Leoluca Orlando (Italy)**

MP; President, Sicilian Renaissance Institute

**Cem Özdemir (Germany)**

Member of European Parliament, Greens Group

**Simon Panek (Czech Republic)**

Chairman, People in Need Foundation

**Teresa Patrício Gouveia (Portugal)**

Trustee to the Board of the Calouste Gulbenkian Foundation; former Foreign Minister

**Chris Patten (United Kingdom)**

Chancellor of Oxford University; Former EU Commissioner and Governor of Hong Kong

**Diana Pinto (France)**

Historian and author

**Ruprecht Polenz (Germany)**

Chairman of the Foreign Affairs Committee of the Bundestag

**Andrew Puddephatt (United Kingdom)**

Director, Global Partners & Associates Ltd.

**Sigrid Rausing (United Kingdom)**

Founder, Sigrid Rausing Trust

**Albert Rohan (Austria)**

UN Deputy to Special Envoy for the Future Status Process for Kosovo

**Daniel Sachs (Sweden)**

CEO, Proventus

**Pierre Schori (Sweden)**

Director General, FRIDE; former SRSG to Cote d'Ivoire

**Narcís Serra (Spain)**

Chair, CIDOB Foundation; former Vice President

**Elif Shafak (Turkey)**

Writer

**Aleksander Smolar (Poland)**

Chairman of the Board, Stefan Batory Foundation

**George Soros (Hungary/US)**

Chairman, Open Society Institute

**Dominique Strauss-Kahn (France)**

Managing Director, International Monetary Fund; Former Finance Minister

**Helle Thorning Schmidt (Denmark)**

Leader of the Social Democratic Party

**Michiel Van Hulten (The Netherlands)**

Managing Director, Burson-Marsteller, Brussels; Former Member of European Parliament

**Mabel Van Oranje (The Netherlands)**

International Advocacy Director, Open Society Institute

**Antonio Vitorino (Portugal)**

Lawyer; former EU Commissioner

**Sir Stephen Wall (United Kingdom)**

Chairman, Hill and Knowlton (Public Affairs EMEA); former Europe advisor to Tony Blair

**Andre Wilkens (Germany)**

Executive Director, Open Society Institute Brussels

"A bleak view of European selfishness and short-termism emerges from a paper on EU-Russia relations, just published by the European Council on Foreign Relations."  
**The Economist, 8 November, 2007**

"A well-researched report that draws attention to the confusing maze of bilateral Russia policies within the European Union. It provides a valuable contribution to the European debate on how to handle an increasingly assertive and authoritarian Russia."  
**Joschka Fischer, former Foreign Minister of Germany**

"This report proposes that the EU should use a new language in its relationship with Russia: the language of truth. No more illusions, no more wishful thinking about democratizing Putin's Russia, but an approach based on a critical and realistic analysis. An outstanding text."  
**Bronislaw Geremek, MEP and former Foreign Minister of Poland**

"The short-sighted bilateral diplomacy with Russia is jeopardizing the real interests of EU member states. This report presents a thorough analysis of the surprising strength of Europe's common assets."  
**Teresa Patricio Gouveia, former Foreign Minister of Portugal**

"ECFR has had the original idea of doing a 'power audit' on the EU's relations with Russia. It turns out that the EU is stronger and Russia is weaker than most people assume. Compulsory reading."  
**Timothy Garton Ash, Professor of European Studies, University of Oxford**

"The report delivers a devastating verdict on the European Union's approach to Russia."  
**Die Presse, 9 November, 2007**

"Europe has lost the plot in trying to cope with a resurgent Russia under President Vladimir Putin, who is dictating the agenda in his dealings with European capitals, according to the study published yesterday."  
**The Guardian, 8 November, 2007**