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Prospects for EU-Russia relations

Electronic Publications of Pan-European Institute 6/2008

# Prospects for EU-Russia relations

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**6/2008**

**Electronic Publications of  
Pan-European Institute**

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## 1. Introduction

With the start of negotiations for a new agreement between the European Union (EU) and Russia in July the stage is set for a new chapter in this controversial relationship. Planned negotiations on a new strategic partnership between the two actors were stalled for over a year because of a bilateral dispute between Poland and Russia.<sup>3</sup> During 2007 there was a steady deterioration in relations with the media on both sides rarely reporting anything positive about the other. One of the principal areas of dispute was energy, an issue that divided EU member states as much as the EU and Russia. The Russian parliamentary election campaign also witnessed many open attacks on the EU for allegedly seeking to weaken Russia. Now that the parliamentary and presidential elections are completed in Russia, and President Medvedev has replaced Vladimir Putin in the Kremlin, many observers are wondering whether there will be a new and more positive phase in EU-Russia relations.

The 2003 European Security Strategy listed Russia as a strategic partner of the EU. This description might come as a surprise to many Europeans and Russians who have seen the EU and Russia take diverging positions on several issues, especially those affecting their common neighbourhood (Georgia, Ukraine, Belarus) as well as Kosovo, missile defence, the CFE treaty and NATO enlargement. As a result, according to the EU Commissioner for Trade, the EU-Russia relationship now contains a “level of misunderstanding or even mistrust we have not seen since the end of the Cold War.”<sup>4</sup> Yet despite these differences the two actors are vitally important for each other regardless of whether the term strategic partnership is accurate.

In many respects the EU and Russia are asymmetric actors: a sui generis supranational organization of 27 member states based on interdependence and a nation state wary of any encroaches on its sovereignty; a liberal democracy and a “sovereign democracy”; a market economy with some state regulation and a highly state regulated market economy; security through interdependence and security through balance of power; an aspiring superpower and a former superpower. As their political orientations stand now, both actors would probably prefer to live separate lives

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<sup>3</sup> An 18 month Russian ban on exports of Polish meat was finally lifted in December 2007.

<sup>4</sup> Peter Mandelson ‘The EU and Russia: our joint political challenge’ speech in Bologna, 20 April 2007.

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and manage their affairs without too much external interference. But in an age of globalization and given their geographic proximity the EU and Russia cannot avoid each other. They are condemned to find a new relationship based on the realities that exist rather on how each would like the other to be. <sup>5</sup>

This article reviews recent relations between the EU and Russia and considers the prospects for a future strategic partnership agreement. It argues that despite all the difficulties a comprehensive agreement would be in the best interests of both parties even though it could take several years to negotiate and ratify.

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<sup>5</sup> See Dimitri Trenin, *Getting Russia Right*, Carnegie, 2007.

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## 2. Quid Russia?

The last 20 years have brought momentous changes in Russia which have had an impact on the EU-Russia relationship. During this period, the EU has also undergone major changes, some of which such as the 2004 enlargement (and the NATO enlargement), have had a significant effect on EU-Russia relations. When the old Soviet communist system collapsed in 1991, Russia emerged as a reduced nation state with its own system of market economy and democracy. Russia is still struggling to come to terms with the loss of its superpower status based on empire, ideology and missiles and trying to create a new one based on its energy muscle.

Historically, Russians have never been so free or prosperous, although there remains much poverty. With few restrictions they can read, watch and listen to whatever they want – but television and most of the press is under state control. They can travel overseas (14 million in 2007) and start their own business. But they cannot organise against the Kremlin – without serious consequences. In western eyes these trends are deeply worrying. Many see Russia sliding towards authoritarianism with increased centralisation of power, attacks on the media and NGOs, energy blackmail and recourse to cold war rhetoric. These sentiments are particularly strong within the new member states, especially Poland, the Baltic States and the Czech Republic.

The dismal economic experience of the Yeltsin era led to a sharp drop in Russians' belief in democracy and market economy. The advent of Vladimir Putin in the Kremlin led to an improved economic performance and a form of guided democracy that some Russians described as 'sovereign democracy'. Despite widespread concerns about the parliamentary elections in December 2007 in Russia, it seems quite clear that millions of Russians voted for Putin's United Russia as it appeared to provide the best hope of continuing strong leadership. <sup>6</sup> Similarly, Putin's preferred candidate, Dimitri Medvedev, received overwhelming support in the March 2008 presidential elections.

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<sup>6</sup> See Lilia Shevtsova, *Russia – Lost in Transition*, Carnegie, 2007.

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### 3. The EU Member States and Russia

The EU-Russia relationship cannot be understood without reference to the bilateral relations of the 27 EU member states with Russia. A recent study by the EU Russia Centre provides a revealing insight into the many factors that impact upon these bilateral relations and consequently on EU-Russia relations.

There is a widespread perception that the more dependent a country is on Russian energy supplies, the more pro Moscow it is in its political orientation. This thesis is not borne out by the study. Although seven EU member states have over 90% dependency on Russian energy supplies, this does not translate into clear political attitudes. For example, the four Visegrad states (Poland, Czech Republic, Hungary, Slovakia) have roughly similar levels of dependency on Russian energy supplies but take very different attitudes towards Russia. On the political front, the number of summits is a good indication of the depth of bilateral relationships and levels of economic co-operation. Germany has far and away the most intense relationship with Russia, with 16 summits having taken place between 2003-07. Italy follows with seven summits over the same period, then France and Greece with six, Finland five and the UK four. Another notable trend is the rapid development of Russian tourism to Europe. The Russian population appears to be determined to visit EU countries, despite complex and often cumbersome visa requirements. The most popular destinations are Finland, Italy, Spain, Greece and Germany. There are also substantial Russian diasporas in many EU member states. <sup>7</sup>

The study highlighted the range of different relations between the 27 member states and Russia and the problems this posed for the EU in terms of trying to speak with one voice towards Russia. Another paper by the European Council on Foreign Relations argues that securing a common EU approach towards Russia has proved to be one of the most difficult tasks facing the Union. <sup>8</sup> This has also been acknowledged by EU Commissioner on trade Peter Mandelson who expressed that 'no other country reveals our differences as does Russia'. <sup>9</sup> Speaking to Russia in one voice seems to be more

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<sup>7</sup> [www.eu-russiacentre.org](http://www.eu-russiacentre.org)

<sup>8</sup> A Power Audit of EU Russia relations, 7 November 2007.

<sup>9</sup> Peter Mandelson 'The EU and Russia: our joint political challenge' speech in Bologna, 20 April 2007.

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and more difficult for the EU. This can be seen especially when dealing with energy security issues where the EU seems to be divided by the member states energy supply preferences, such as Germany or Italy for example, and being unable to create a common approach towards an internal energy market or even towards Russia. It is in the EU where Russian energy policies have the most immediate effect.

What then are the prospects of the EU speaking with one voice towards Russia? One would have to say that the prospects are not particularly good. Yet the political mood may be changing. The disappearance from politics of Messrs Schroeder, Chirac, and Blair has led to a more pragmatic group of leaders in power, none of whom look like enjoying a cosy relationship with Russia unless its internal policies change. For example, at the Samara EU-Russia summit in May 2007 Chancellor Angela Merkel went out of her way to emphasise the EU's solidarity with Poland and other countries suffering bilateral problems with Russia. The Gymnich meeting of EU foreign ministers in September 2007 also agreed on a more robust approach towards Russia in light of clear backsliding on democracy and the rule of law.



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#### 4. Economic relations

Despite the political souring of relations, economic relations are moving rapidly ahead. Most EU countries have significantly increased their trade with Russia over the past few years. Exports have tripled in some cases, while imports from Russia have doubled; a trend which is due mainly to increased costs for Russian energy supplies. In 2007, Germany was the top exporter to Russia (€23,132m) followed by Italy €7,639m and Finland, €6,200m. Germany again leads the import list with €29,023m followed by the Netherlands €17,018m and Italy €13,592m. The only EU countries whose exports exceed the import levels are Austria, Denmark, Ireland, and Slovenia.

Russia ranks as the third largest EU trading partner, while the EU is in first place on Russia's corresponding list. Economic ties between Russia and the EU have strengthened more rapidly during the past five years than with other regions of the world and by 2007 were worth more than €150 billion. The trade relationship is complementary, with Russia being the EU's most important supplier of energy, iron and steel, while the EU is among Russia's most important suppliers of telecommunications equipment, machinery and chemicals. In addition to these strong trading links, the stock of foreign direct investment (FDI) had grown to around €25 billion in 2007, with €22 billion of this accounted for by EU investments in Russia.

Buoyed by rising energy prices the Russian economy has performed well over the past five years with growth averaging over 6%. But the economy has not developed in a coherent manner and there remain significant problems relating to the rule of law, the lack of investment as well as major social problems such as male mortality rates and HIV/Aids. An improved socio-economic situation, however, could help provide a stable basis for further investment, both domestic and foreign, and thereby strengthen Russia's position as a leading partner in the world economy. For some companies, Russia could become a highly attractive production location. A large internal market with growing consumer spending power, relative proximity to the EU market to the west (increasingly integrated with the Russian economy through the EU-Russia Common Economic Space) and the booming Chinese market to the south-east, all combine to attract growing investment in consumer related production.

The main challenge facing Russian policymakers in the foreseeable future will be to avoid Russia becoming a victim of the "Dutch Disease" phenomenon. The key

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condition for meeting this challenge is the maintenance of responsible fiscal, monetary and economic policies and the continuation of structural reforms in all key areas of the economy. The remaining reform potential in the Russian economy is significant. There is considerable scope for restructuring of inefficient legacy industries. This could lead to the reallocation of labour and capital towards more efficient uses that could drive future economic growth. In other words, the diversification of the Russian economy could provide the basis for future sustainable economic growth and the ensuing increase in prosperity.

Moreover, it should be underlined that there is not one single measure that can improve the investment climate overnight. Investment decisions are closely related to investor confidence in the future performance of an economy. Policymakers can best strengthen investors' confidence by taking measures that strengthen the perception that investments are safe and can be put to the most productive use. Investment decisions will ultimately be taken on the basis of quality and implementation of the measures provided for by the law. Strict and non-discriminatory enforcement of applicable law is thus a fundamental requirement for investors.

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## 5. A Decade of the PCA

The EU-Russia relationship is governed by the 1997 Partnership and Cooperation Agreement (PCA) which reached the end of its initial ten year period in November 2007, but which was automatically prolonged as neither side wished to withdraw. The PCA spawned a considerably network of political and official ties between the EU and Russia which should not be under-estimated. There are summits every six months (an arrangement the EU does not have with any other strategic partner), Foreign Ministers Troikas which discuss foreign policy matters and then there are (since 2003) meetings of the Permanent Partnership Council in many formats Foreign Ministers, Justice Liberty and Security, Energy, Environment, Transport, Culture ) , political directors and senior officials' dialogues, and a vast array of committees and sub-committees covering the entire gamut of EU-Russia relations. The Russians have moved to double the size of their mission in Brussels and sent one of their most experienced diplomats, Vladimir Chizhov, to be the ambassador to the EU. The Russian bureaucracy has also invested in training their staff in EU affairs, an effort supported by the European Commission. <sup>10</sup>

While the PCA has worked reasonably well, within its limited parameters, there was a feeling on both sides that ten years on it should be replaced with a broader agreement reflecting the changed political environment. Following agreement in principle at the 2003 St Petersburg summit, the EU and Russia decided in May 2005 to work towards establishing four "Common Spaces" to provide a more detailed framework for mutual cooperation. These four spaces are in the areas of economic relations; freedom, security and justice; external security; and research and education. The proposed common economic space covers a wide range of policy areas and includes the establishment of sectoral EU-Russia industry dialogues. Arguably it is the most advanced of the four spaces. With regard to freedom, security and justice there is on-going cooperation in terrorism and migration issues. In 2006 a visa facilitation agreement was signed. The area of external security has been the least productive despite some obvious areas for cooperation, such as the Balkans, conflict prevention and crisis management, disaster relief, etc. The problem is that not all member states are prepared to accept Russia as a partner in areas where there are major differences of approach such towards the 'frozen conflicts'. Russia objects to what it regards as EU

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<sup>10</sup> See the Commission's support for the new EU Institute at MGIMO in Moscow.

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interference in its backyard while the EU refuses to accept that Moscow has any droit de regard in its neighbourhood. At present the Russian ambassador meets the EU PSC troika each month for an exchange of views on these issues. In the fourth common space the Russian side is keen to expand cooperation with the EU in terms of higher educational exchanges as well as in science and research.

Russia and the EU have dealt with each other within different frameworks. On a bilateral level the instruments deployed have been on the one hand legally binding arrangements such as the PCA, and sectoral agreements on textiles and steel products, visa facilitation and readmission agreements<sup>11</sup>, etc.; and on the other hand non legal binding commitments such as the above mentioned Common Spaces and their Road Maps. On a unilateral level they asserted political commitments such as the Common Strategy and Action Plans<sup>12</sup> on the part of the EU and the Middle-Term Strategy<sup>13</sup> on the Russian part. And finally, on a multilateral level the 'Northern Dimension' scheme and cooperation through several international organisations have been developed. The EU and Russia, for example, meet regularly within the framework of the G8.

From all these dialogues, commitments and agreements, it is the bilateral legal binding one (PCA) that holds the relationship together. The EU-Russia relationship could not have progressed without the PCA since the agreement establishes a legal, institutional, political, economic, and administrative framework to facilitate bilateral relations between Russia and the EU in all areas of cooperation. Hence, in essence the PCA represents the core of the relationship. But in practice it has become outdated in recent years mainly because since the signing of the PCA both actors have experienced significant change and new policy areas have come to the fore not envisioned in the early 1990s. Despite the EU's previous failed attempts to include Russia into a policy addressed to a group of countries, such as the European Neighbourhood Policy (ENP)<sup>14</sup>, Russia has on several occasions expressed the desire to be treated as an equal

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<sup>11</sup> Signed in Sochi the 25 May 2006. See at:  
[http://eur-lex.europa.eu/LexUriServ/site/en/oj/2007/l\\_129/l\\_12920070517en00270034.pdf](http://eur-lex.europa.eu/LexUriServ/site/en/oj/2007/l_129/l_12920070517en00270034.pdf)

<sup>12</sup> Such as the EU-Russia Action Plan on Combating Organized Crime of April 2000. See at:

<sup>13</sup> See in English at: [http://www.delrus.ec.europa.eu/en/p\\_245.htm](http://www.delrus.ec.europa.eu/en/p_245.htm)

<sup>14</sup> Including: the European Agreements (for Central and Eastern Europe countries), the Association and Stabilization Agreements (for the Western Balkans) and the European-Mediterranean Agreements (for South Mediterranean countries).

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and separate partner – as a consequence such treatment was acknowledged by the EU in the Common Strategy. Therefore, if negotiated, a new PCA would have to be a sui generis type of agreement.

One Russian analyst, Timofei Bordachev, has proposed a scenario such as the ‘Strategic Union Treaty’<sup>15</sup> that would represent the creation of a Pan-European integration between EU and Russia and is, as Emerson, Tassinari and Vahl<sup>16</sup> put it, analogous to a certain extent with the French-German reconciliation. On the other hand a ‘EU-US’ type of relations is greatly desired by Russia, in which the relations would be based on reciprocal recognition without any bilateral legally binding framework. However both models, although interesting future objectives, are not acceptable to the EU at present due to Brussels’ perception that Russia lacks economic (WTO membership and economic development), legal (rule of law, human rights), and democratic standards to embrace such type of relations.

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<sup>15</sup> See at: <http://eng.globalaffairs.ru/numbers/15/1024.html>

<sup>16</sup> Emerson, Tassinari and Vahl. ‘A New agreement between the EU and Russia: Why, what and When?’ CEPS paper No. 103/May 2006. See at: [http://shop.ceps.be/downfree.php?item\\_id=1331](http://shop.ceps.be/downfree.php?item_id=1331). p.10

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## 6. Options for a new treaty

What are the options for the new treaty? Some argue that it makes little sense seeking to negotiate a new strategic partnership with Russia when it manifestly does not share the same democratic values as the Union. Others suggest that the relationship is so important for both partners that there is no realistic alternative but to negotiate a new agreement. Still others suggest an approach that would envisage a political framework agreement followed by sectoral agreements. Supporters of this approach argue that it would avoid any one issue derailing the whole package. Opponents argue that it would weaken the bargaining power of the EU overall and especially weaken the conditionality many wish to see included regarding human rights and democracy.

The Commission view is that the more issues on the table the easier it will be to reach a comprehensive deal. This attitude is mainly due to the asymmetry in the energy relationship and partly due to a desire to avoid a proliferation of agreements with different controlling mechanisms. What is clear, and major challenge, is that the EU has never attempted to negotiate such a comprehensive package with a third country. Relations with the US, for example, are based on the non legally binding New Transatlantic Agenda based on reciprocity and numerous sectoral agreements. In July 2006, the EU agreed a broad negotiating mandate for the Commissions. It stated that the aim was “to provide an updated and more ambitious framework .... based on common values .... and to cover the whole range of EU-Russia cooperation .... fair and open development of energy relationship .... and ambitious objectives for political and external security cooperation”.

Another important question is the legal basis for the negotiations. Trade comes under art 133 but a broader agreement would require art 24 of TEU. The PCA is legally based on a range of EC Treaty, namely a combination of 9 articles: 44(2), 55, 57 (2), 71, 80(2), 93, 94, 133 and 308 EC, since the EC-Treaty does not provide for a specific legal basis for agreements such as the PCA. One can expect the Commission to lead on first pillar themes and the Presidency on second and third pillar issues with member states present when areas within their competence, eg education and culture, are discussed. <sup>17</sup> A mixed agreement would require ratification by the parliaments of all 27

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<sup>17</sup> But if the Lisbon Treaty enters into force as planned on 1 January 2009 then the new High Representative/Vice President of the Commission may wish to take charge. But who will deal

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member states plus the European Parliament. It is not difficult to imagine at least one member state holding the agreement up for some political purpose.

Some Russian experts such as Nadezhda Arbatova, Yuri Borko and Mark Entin have suggested a form of association agreement as the basis for closer integration with the EU. <sup>18</sup> The use of the term 'association' could irritate both sides; the EU because of its implied links to full membership of the Union; and Russia since it is perceived as unilateral approximation of its legislation to that of the EU. But this is an inaccurate perception, Association Agreements do not have to involve integration or approximation (the Contonou Agreement is an example of this). In practice Association Agreements have taken a variety of forms over the years. It will all depend on the legal approximation approach taken by the sides in the next agreement. Still, despite the above-described limitations and in accordance with the Commissions mandate for the negotiation of a new agreement, a formula akin to the last option might well be accepted as a new comprehensive agreement would provide the best method a promoting cooperation across the board. As for who will lead the negotiations? On the Russian side, ambassador Chizhov has been named chief negotiator. On the EU side Eneku Landaburu, the Commission's Director General of DG for external relations, has been appointed chief negotiator.

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with horizontal issues or institutional questions? Will the Council adopt the results by QMV or unanimity? Another question given the interest that the member states take in dealing with Russia is how much control they will seek on the negotiations.

<sup>18</sup> Nadezhda Arbatova, Yuri Borko, Sergei Kashkin, Paul Kalinichenko, Mark Entin. Concept for the modernization of the PCA and conclusion of a cohesion partnership agreement establishing an association', Committee for 'Russia in a United Europe", 2005.

See at: [http://www.rue.ru/o\\_seminarax/morozovka/concept\\_eng.htm](http://www.rue.ru/o_seminarax/morozovka/concept_eng.htm).

See also "The Russia-EU 2007 Quandary" by Nadezhda Arbatova at: <http://se2.isn.ch/serviceengine/FileContent?serviceID=ESDP&fileid=3DA10B8C-B679-6CE0-0122-8FE324F680BF&lng=en>

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## 7. Towards a New Agreement

No one doubts that any new agreement will involve tough and onerous negotiations. What are the key requirements for the EU in any new agreement with Russia? The Commission insists that any new agreement should include the old institutional framework including the last updates such as the Permanent Partnership Council (PPC) in order to ensure that the provisions of the Agreement are observed and implemented and to create opportunities for regular political dialogue on all issues of common concern. Christophe Hillion<sup>19</sup> argues in the framework of EU-Ukraine relations that in order to avoid rigidity and prolong the endurance of the new agreement the PPC should have a fully fledged decision making power as to be able to adopt legal binding decisions through which the relationship could be legally developed and effectively deepened. This could also be applied to the Russian case. Another important issue to be addressed is that the institutional framework should be reorganised in view of bridging the gap between meetings at a high level and at experts' level.<sup>20</sup> The agreement would also have to include the latest developments in the Northern Dimension as well as the Kaliningrad region, including the new transit provisions for Russians travelling outside the oblast. The European Neighbourhood Policy Instrument (ENPI) should be also specified as the funding mechanism for the accomplishment of the Common Spaces.

The economic elements to be included in the new agreement will directly depend on Russia's accession to the WTO. The prospective of WTO membership can influence the outcome of the new agreement in three possible ways. First, if Russia became a WTO member before the negotiation of the agreement there would be no need to include economic arrangements in the new legal framework, since the WTO would regulate trade relations of the parties.<sup>21</sup> Secondly, if Russia became a WTO member

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<sup>19</sup> See: "Mapping-out the New Contractual Relations between the European Union and Its Neighbours: Learning from the EU-Ukraine 'Enhanced Agreement'. *European Foreign Affairs Review* 12. 109-182, 2007. Kluwer Law International.

<sup>20</sup> According to the Commission, 'the framework should also define the institutional provisions for its implementation'. Indeed, the institutional framework should be revised 'to provide for Summits (annual basis?), PCs and appropriate formats of meetings at senior officials and Expert level'. (The EU-Russia PCA – Content of a new Framework for Relations', Commission – Meeting Document 025/06, Easter Europe and Central Asia, 26.01.2006).

<sup>21</sup> A side effect of this scenario would also be that the EU would have less leverage in the negotiation process and any guidance or pressure for economic reform as desired by the EU in Russia will be significantly reduced in the agreement if not left out completely.



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at the same time or right after the automatic prolongation of the PCA economic provisions would exist in both legal instruments, but there would not necessarily create legal inconsistency. Since PCA rules are based on GATT/WTO principles they usually do not pose compatibility problems. 22 And thirdly, if Russia was not to enter the WTO by the time the next agreement is negotiated, which is more likely, the agreement would have to include economic clauses based on WTO rules in order to regulate trade relations between the partners until Russia would enter the trade organisation.

Further, the new agreement should, building on and going further than the existing PCA and WTO provisions, concentrate on tackling trade barriers between the EU and Russia and emphasize regulatory issues thus giving new momentum to economic reforms in Russia. Like the PCA it should also include the objectives of creating a Free Trade Area (FTA). However, contrary to the former agreement the new one should go beyond the 'evolutionary clause' 23 and envisage practical steps to achieve a FTA such as liberalization of trade in goods and services through the abolition of tariffs and harmonisation of specific standards.

Given EU dependence on Russian energy, this chapter will be a particularly contested area of the negotiations. The EU has tried in several ways to deal with the energy dependency problem. First, it is trying to persuade Russia to ratify the Energy Charter Treaty (ECT) 24 and its Transit Protocol – a consequence being the opening up of access to Gazprom's pipelines. Secondly, it is pushing ahead with liberalisation and competition of the energy sector within the common market aiming at an EU common energy policy. In late 2007 the Commission also introduced proposal to prevent any third country (viz Russia) buying into the downstream area without reciprocity, a move that triggered protests from Gazprom. It is unlikely that the Russian side will agree on including in the new agreement any reference to Russia's ratification of the ECT and its

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<sup>22</sup> In case of contradiction, WTO rules override the ones of the PCA. Moreover, as the cases of Armenia, Georgia and Kyrgyzstan have shown WTO membership and trade obligations under PCAs with the EU at the same time have not provoked any significant difficulties.

<sup>23</sup> On the basis of this clause the parties (of the PCA) undertake to consider developments on the relevant Titles of the PCA, as circumstances allow, with a view to establishing a Free Trade Area between them. Art. 3 of the PCA.

<sup>24</sup> Originally based on integrating the energy sectors of the former Soviet Union and Eastern Europe at the end of the Cold War into the broader European and world markets, the treaty was signed in Lisbon in December 1994, together with a protocol on energy efficiency and related environmental aspects. The treaty came into effect in April 1998. An amendment to the trade-related provisions was also agreed that month. Russia has still not ratified it.

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Transit Protocol, and even if it does, it is doubtful whether Russia will comply with it. However, mentioning of the 'energy dialogue' is important since it is one of the main areas of economic relations and should consequently, at least at a political level, be regulated. A major achievement related to this area and that resulted from the negotiations after the EU-Ukrainian energy crisis of 2006 is the creation of an 'early warning mechanism' in case any interruption of energy transport occurs. Therefore this mechanism should also be introduced and regulated in the new agreement.

Conditionality will be another difficult area. The EU intends that, the new agreement should, like the PCA, include strong political conditionality in two ways. First, the new framework should foster Russia's commitments to the UN and OSCE. In addition, the objective of applying the principles of the Council of Europe and the European Court of Human Rights (ECHR) as stressed in the Common Strategy should be included. These elements would demonstrate that Russia and the EU have a common international legal basis for the protection of human rights. <sup>25</sup> Secondly, the so-called 'conditionality clause' should be an essential element of the agreement, whereby if there is any material breach of the agreement each of the parties can suspend unilaterally the implementation of the PCA. <sup>26</sup> Such links, already present in the current PCA, demonstrate the EU's interest in promoting and defending European democratic values in Russia. <sup>27</sup> The PCA state in the preamble that the two sides have a "firm commitment" to the OSCE principles of political and economic freedoms and are "convinced of the paramount importance of the rule of law and respect for human rights, particularly those of minorities, the establishment of a multiparty system with free and democratic elections and economic liberalization aimed at setting up a market economy."

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<sup>25</sup> In addition, Russia has also ratified the European Framework Convention for the Protection of National Minorities and the General Agreement on Privileges and Immunities of the Council of Europe and its additional protocols.

<sup>26</sup> The conditionality clause in the PCA consists of the essential element clause (Art. 2 of the PCA), the non-compliance or suspension clause (Art. 107 of the PCA) as well as the Joint Declaration. Such clauses are incorporated in nearly all EU agreements with third countries.

<sup>27</sup> It extends the competence of the Community in to the field of human rights protection. Employing all the EU pillars it also relates to the CFSP provisions, such as the foreign policy objectives to develop and consolidate democracy and the rule of law (Art. 11 (previous J1) of the EU Treaty), and the respect fundamental rights, as guaranteed by the European Convention for the Protection of Human Rights and fundamental Freedoms (Art.6 (2) of the EU Treaty).

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Yet, despite the various commitments of Russia to human rights in theory, in practice a growing values gap between Russia and the EU can be observed. For the EU a major concern has always been the lack of democratic values such as the application of the rule of law in an effective judicial system and high degree of corruption; the protection of human rights (the amount of Russian cases pending at the ECHR serving as corroboration); finally, the protection of fundamental freedoms, especially of civil society as well as of free and independent media. It could be argued that since Russia is now member of the ECHR the inclusion of a conditionality clause in the new agreement could be overruled. However, since the promotion of human rights is embedded in EU foreign policy it is doubtful whether the member states will allow such conditionality to be excluded.

In relation to the legal approximation clause, some experts believe that all references to approximation should be removed from the new treaty and that it should mainly serve to establish Russia as an equal partner for the West.<sup>28</sup> However, Arbatova rightly proposes to include a provision similar to the Euro-Med Agreement with Israel, where “the parties shall use their best endeavours to approximate their respective legislations in order to facilitate the implementation of this Agreement”.<sup>29</sup> Although this wording suggests approximation on both sides, one should not expect the EU to introduce any changes in its legislation. Nevertheless, such an approach seems realistic since Russia will not feel pressured by the EU and will eventually make the necessary logical moves towards approximation – possibly inspired by the need to create a FTA with its proximate biggest economic partner or by the inevitability of having standardised legislation in the WTO framework in order to incorporate its economy into the rest of the world.

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<sup>28</sup> Sergei Karaganov. ‘Russia’s European strategy: a new start’, report by an expert group led by, reprinted in *Russia in Global affairs*, July-September 2005.

<sup>29</sup> Art. 55 of the Euro-Mediterranean Agreement establishing an association with Israel. Lebanon also has such a clause (Art.49).

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## 8. Conclusion

This paper has reviewed the course of EU-Russia relations and sketched out the various options to replace the PCA. It has been argued that a comprehensive new agreement would, besides linking all the aspects of cooperation, reinvigorate economic integration – envisaging practical steps to establish a FTA –, improve cooperation on energy, and add legal weight to the four common spaces. Any new agreement should also have as a very minimum the same standards referring to European values as the old PCA.

Despite the many problems, there are a number of stabilizing factors in the EU-Russia relationship. These include the need to involve Russia in diplomatic efforts to reach a solution on Iran and Kosovo as well as tackling the common problems of proliferation and terrorism. There is also much regular business transacted under the PCA, from trade and economic issues to foreign policy. One should also not under-estimate the Russian elite's enjoyment of shopping, buying property and educating their children in Europe.

There is no doubt that the EU is a formidable actor, not least because of its huge internal market and its consumption of Russian energy supplies. This should lead to a more coherent EU energy policy, one that is based on win-win cooperation and not a zero sum game. Much will depend on public perceptions on either side. European public opinion has become increasingly sensitive about Putin and it remains to be seen how they will react to Medvedev. Whoever is in power, it is evident that there is a need for much greater information exchange and more people-to-people contacts if EU-Russia relationship is to be successful in long-term. Combating misperceptions on both sides will require considerable effort by all actors involved.

The EU has significant but limited leverage on Russia. Its powerful internal market and its consumption of Russian energy resources do give it important bargaining chips. But although its leverage is limited, the EU cannot give up on values (democracy, human rights, rule of law) as these are in the interests of both sides. The EU thus needs to use every possibility (the new PCA, WTO, Council of Europe, G8, political dialogue, business commitments) plus bilateral meetings with member states to remind Russia of its commitments. An EU-Russia relationship that did not have values at its core would be a relationship not worth having.

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