

spotlight europe

2013/03 — March 2013

The European Union and Russia at a Crossroads

Iris Kempe

American Institute for Contemporary German Studies, kempe.iris@gmail.com

Cornelius Ochmann

Bertelsmann Foundation, cornelius.ochmann@bertelsmann-stiftung.de

The European Union and Russia are strategic partners – through their geographic situation, their common history, through social and economic obligations. Currently, the EU's relations with Russia are under pressure for innovation. The EU's ability to manoeuvre is hindered by the financial crisis, which has developed into a crisis of the Union's political integration. For that reason, the EU's relations with Russia depend on the Union's ability to overcome the crisis and undertake reforms.

The Russia policies of EU member states and of the European institutions are dominated by the rhetoric of partnership for modernization. Europe is interested in a guarantor for security and in reliable energy suppliers. It remains to be seen to what extent today's Russia will live up to European norms and values, and in what form European policy will be able to react to the most recent developments.

The initial conditions for relations between the EU and Russia include, on the one hand, the crisis in European integration, and on the other, Russia's democratic deficits. Formally, bilateral relations are structured by the Partnership and Cooperation Agreement (PCA) of 1997. Although the PCA was originally negotiated to last 10 years, it is automatically renewed on an annual basis unless one party decides to

cancel it. The PCA no longer matches the political realities, as the fruitless EU-Russia summit in December 2012 demonstrated for all to see. For seven years, both sides have been called to work out and then ratify a new bilateral agreement. Before that can be done, however, it is necessary to clarify fundamental questions and only then, based on this analysis, develop new means of cooperation.

Russia as a European partner

Vladimir Putin's re-election as President of Russia in May 2012 is a signal for the future development of the country's society, state and economy. Russia is in a strong economic position, thanks to its rich reserves of oil and natural gas. In terms of building a democratic

society, however, the situation is very different: In the Bertelsmann Transformation Index 2012, the country places 99th out of 128 states in its transformation management. Making Russia into a sustainably modern country remains a task for Russian society, as well as for Russia's European partners.

Putin's articles in the media before the election make clear that, in his view, modernization can only succeed with the help of an influential Russian state and a technological breakthrough. The debate about Russia's future development has become a national task. Several groups of experts have given their substantive views. Supporters of Dmitri Medvedev, the previous president and current prime minister, have given further thought to the term modernization. In their view, society carries out the country's development. Only civic engagement and political participation bring about an effective middle class, federalism and the rule of law.

The state's effectiveness for its citizens can be measured by the education system, provision of health care, and protection against poverty.

Putin, however, is not following this path. "Strategic Global Outlook: 2030," a study undertaken by the Russian Academy of Sciences' Institute of World Economy and International Relations (IMEMO) under the leadership of Alexander Dynkin, ties the development of the global economy with the prognosis for international security policy. In the study, a team of Russian academics researched ideology, administration, global economics, social development, and global security policy, as well as the role of global actors such as the United States, the European Union, Asia, Africa and Latin America. A goal of the study was to determine global actors' influence on Russia. By contrast, the authors consider Russia as an actor in its own right only very briefly in the concluding chapter, devoting less than 10 pages to the topic.

Maria Lipman and Nikolay Petrov of Carnegie Moscow Center led the study, "Russia in 2020: Scenarios for the Future." In contrast to Dynkin's project and Medvedev's expert group, the scenarios from the Carnegie Center are critical of Russia's current system and oriented toward trans-Atlantic discourse.

1. Modernization as a domestic political task of the Putin system

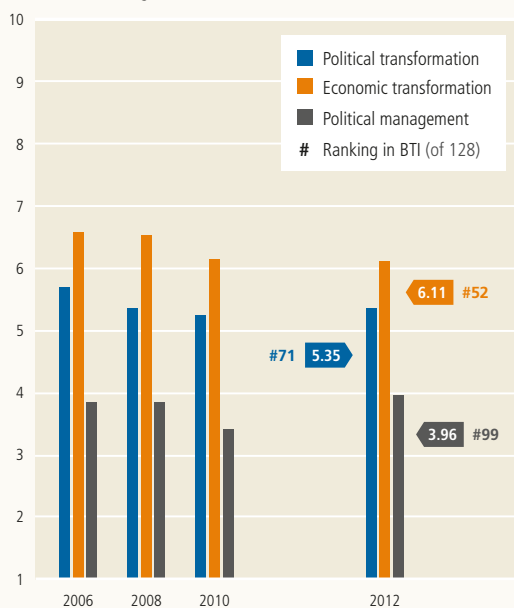
Since the parliamentary elections in December 2011, the modernization debate in Russia has also sharpened politically. First, irregularities in the parliamentary elections and general dissatisfaction with the government led to public protests. In the summer of 2012, Russian citizens protested against limitations on the activities of civil society organizations. In January 2013, residents of Moscow demonstrated against the Russian government's ban on the adoption of Russian children by US citizens. To date, popular resentment has not been mollified by modern governmental measures.

There are recurring rallies against the government in Moscow and St. Petersburg, as well as in Russian regional centres. However, there have not to date been charismatic personali-

Russia in the Bertelsmann Transformation Index

BTI 2006-2012

Scale: 1 (low) to 10 (high)



The Transformation Index (BTI) compares individual states in various categories and thereby evaluates the deliberately politically guided transition to democracy and a market economy.

Source: BTI 2012, bti-project.org

© Bertelsmann Stiftung

ties to spearhead the protests. Demonstrators criticize the government, call for free elections, and demand a fight against corruption. There is little in the way of plans; nevertheless, the protests remain a challenge to the legitimacy and the performance of the Putin system.

To date, the system has reacted with restrictive methods. Before the 2012 summer break the Russian parliament (Duma), which has a majority of Putin supporters, rapidly passed a series of laws that take aim at civil society activities. Russian non-governmental organizations that are financed with Western funds are now subject to special inspection measures in their substantive work and financial reporting. In addition, they are required by law to identify themselves as “agents of the West.” At the same time, Russian judicial authorities took strong measures against the feminist punk band Pussy Riot and against Alexei Navalny, one of the protests’ leaders. In contrast, the Russian administration took little action during catastrophic flooding in July 2012, which claimed 170 lives in the north Caucasus city of Krimsk. In this case, the people themselves had to come to terms with the effects of the natural catastrophe. In domestic politics, the Putin system is attempting to demonstrate an autocratic system of power and to use restrictive methods to counteract society’s democratic tendencies.

In terms of Russia’s economic growth, current prognoses show slow-downs and stagnation. Growth in Russian GDP for 2013 and 2014 is predicted to reach no higher than 3.7 percent. As long as the Russian economy grows at least at a minimal pace, social services are provided for broad strata of the population, and no personal alternative to Putin is in sight, a wave of protests that sweep the country is not to be expected.

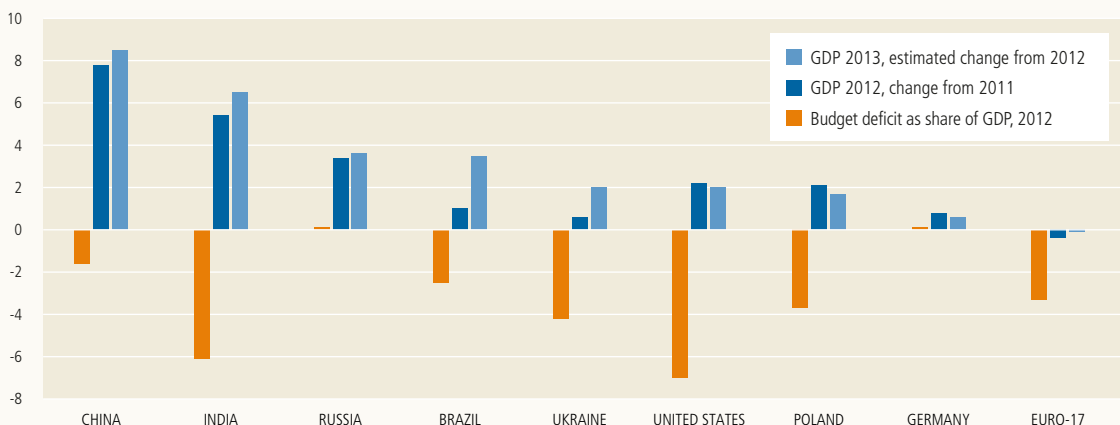
What might happen in the case of an economic and financial crisis is difficult to predict in the present circumstances. At a special session of the Russian government on 31 January 2013, Putin made clear that his administration has the key role in the country’s social and economic development over the next five years.

2. Global goals

Over the last two years, Russia has pursued the two following foreign policy priorities: efforts to become a global economic player, and influence over its neighbouring countries. Russia’s global efforts are visible through its membership in the G20, the G8, its accession to the WTO, its efforts to join the OECD, and its status as a BRIC state. The common denominator among these forums is economic interest; common values, by contrast, play a subordinate role.

Russia in comparison with other countries

All data in percentages



Russia is also seeking an equal role as a global partner. In August 2012, following 18 years of negotiations, it was able to ratify membership in the WTO. As a result of the obligations in the trade regulations, Russia's trading partners will see relaxation in trade conditions, although it remains to be seen how the Russian civil service will put the treaty provisions into practice.

Russia's role as a global economic actor is negatively characterized because of the prevalent corruption and the undemocratic political climate. The country is interested in using international cooperation for its technocratic approach to modernization. This method, however, runs up against the limits of Western approaches to modernization, which place democratic values in the foreground.

In its direct neighbourhood, Russia is demonstrating increasing dominance. The most important instrument in this regard is the Eurasian Union, which is supposed to be conceptually similar to the European Union. Member states are the Russian Federation, Belarus and Kazakhstan; potential members include Kyrgyzstan and Tajikistan. In contrast to the European Union's model of integration, the dynamic of integration in this region does not come from the states jointly – it is determined by Russia.

The Kremlin is attempting to create integration with the tools of economic and political dependence. Institutional and personal responsibilities are, to date, difficult to ascertain. Within this framework, at the beginning of 2010 a common customs union and a common economic space were created with Belarus, Kyrgyzstan and Tajikistan under Russia's dominance.

One problematic aspect of these post-Soviet institutions is that they hinder cooperation with the EU. This conflict of interests was the reason that Ukraine has, to date, declined to join the Eurasian integration space. Russia reacted with high prices for natural gas. At present, Ukraine pays \$430 per thousand cubic meters of gas, while Belarus only pays \$166. It remains to be seen what results will come from the direct negotiations between presidents Putin and Yanukovich. Without a transparent set of institutions and without Ukraine

as a member state, the Eurasian Union will remain a paper tiger, without the capabilities for democratic actions.

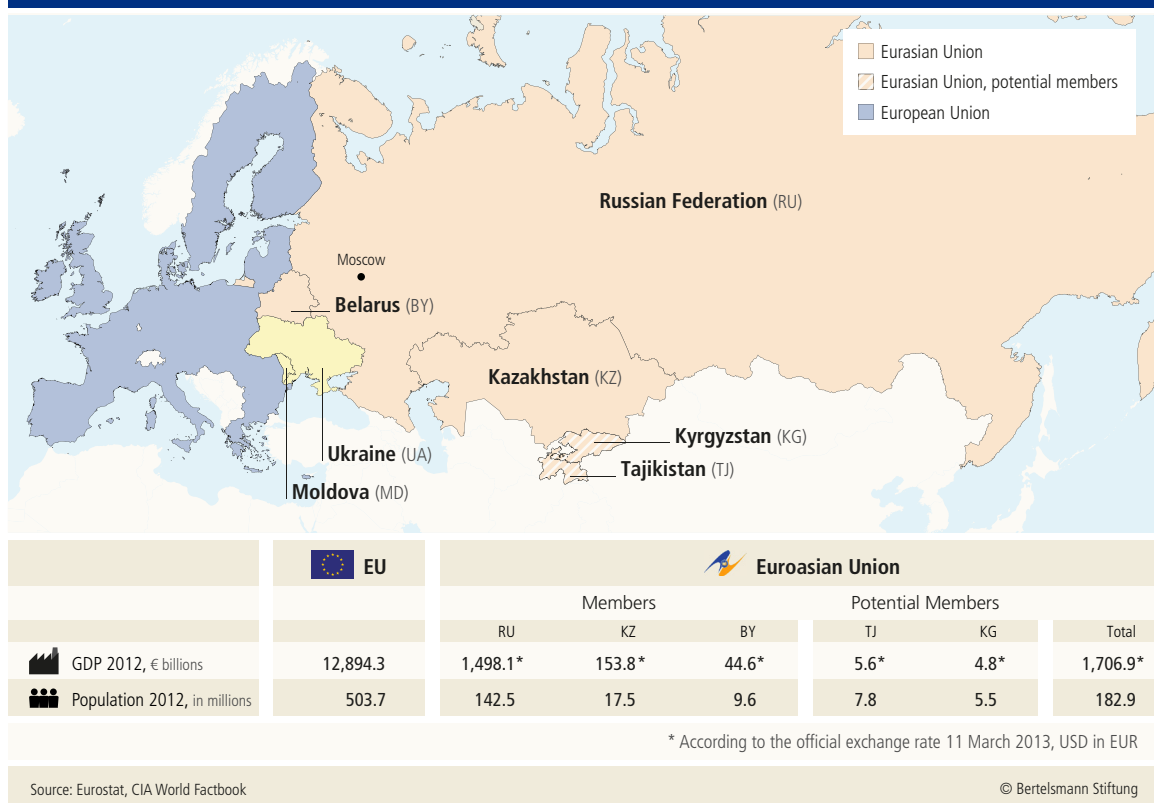
European strategies

To date, the EU has only adapted its policies to new developments in the Putin system to a limited extent. Russia is particularly interested in a partnership for modernization, and the tasks that stem from it, such as implementing WTO accession or introducing visa-free travel. In questions of visa-free travel, thanks to the engagement of Polish Foreign Minister Sikorski and support from the German government, a special regulation was signed for the Kaliningrad region and northern Poland. In March 2013, the German government announced that it would allow visa-free travel for holders of Russian service passports. In the interest of its own elites, the Putin system will welcome this development. Its usefulness for the Russian population will, however, be limited.

The EU-Russia summit in December 2012 reflected the current state, prospects and problems of bilateral relations. Currently the top of the agenda is occupied by the crisis of European integration, which has placed the community of European states under enormous pressure to act. For Russia, the euro crisis is an additional argument for why the EU remains an interesting partner to only a limited extent. Added to this is the Third European Energy Package, which is interpreted in Moscow as being set up against Russia.

For itself and its neighbours, Russia sees the Eurasian Union as an alternative to the EU. To give this Union emphasis vis-à-vis the EU, the Russian government presents itself as speaker for and framer of the Eurasian Union, which leads to incomprehension in the EU. From Brussels' point of view, the Eurasian Union remains an administrative paper tiger. Politically, the member states have criticized Russia's dominance over its neighbours. The EU only recognizes Russia's role in the Eurasian Union under the condition that Russia can only shape the Union according to the regulations of the WTO.

EU and Eurasian Union in comparison



The partnership for modernization continues to have significant meaning for European-Russian relations, in which Russia is pursuing technocratic interests and the EU emphasizes the importance of civil society as an integral part of modernization. In addition, Russian diplomacy only has a limited amount of interest in negotiations with the many-layered structure of European institutions. Instead, the Kremlin prefers to fashion its relations on a peer level with EU member states.

To date, the EU has not succeeded in negotiating a new basic agreement with Russia. Although the PCA from 1997, which remains valid, has lost its attractiveness, neither of the two sides wishes to withdraw, in order not to send any negative signals for cooperation. Compared with current political realities, the agreement does not form the foundation for a comprehensive partnership based on common values and norms. Poland, the Baltic states, and increasingly other EU states as well, are criticizing how the Russian government and its dominance over its neighbouring states breach-

es democratic values; the German parliament's resolution "Strengthen the Rule of Law and Civil Society in Russia Through Cooperation," passed on 6 November 2012, is one example.

Bilateral criticism is driving relations between the EU and Russia into a dead end. Getting out of it will require a broader political discourse, the development of networks, and academic analysis of the situation in Russia, upon which new adjustments in the relations could be made. The results of this discourse could flow into a new agreement, one whose European reach would become apparent as the EU member states examined it as part of the ratification process.

Modernization debate as a key moment

The understanding of and interest in modernization are key moments in Russian-European relations. Russia's modernization and its attrac-

tiveness as a partner for the EU are based on Russian oil and Russian gas. The Putin system has reacted to developments in the European energy market by making institutional changes. For example, BP's joint venture in Russia, BP-TNK, has agreed to sell 50 percent of its shares to the state-owned oil company Rosneft, in an equity swap. Rosneft's daily production of 10.37 million barrels puts it ahead of Arab countries and makes it the world's largest oil producer. Rosneft is administratively weak, but is nevertheless considered a major pillar of the Putin system.

The ability of the Russian state to take action depends on prices in global energy markets. Russia is an important partner in delivering oil and gas to Europe. In addition, opportunities for import and export are not exhausted. To make Russia attractive for small and medium-sized enterprises, to use renewable energy and the human capital of the Russian population, will require a comprehensive approach to modernization. In this regard, Russia's interests and those of the West overlap. Russian society must take an active role in these processes in order to profit from them.

The modernization of Russia and the country's conspicuous shortcomings on the path to being a global shaper of politics and economics remain challenges on Russia's political agenda, as well as for its European partners. This results from the country's geopolitical and economic importance. A key moment on the way to these goals would be pluralistic discourse about modernization within the country, combined with Western expertise. In addition, there is a need for international experience, which is available in international organizations such as the World Bank and the IMF. However, Russia is much too independent and energy-rich to let itself be influenced by demands from the outside.

Western actors would be well advised to develop approaches together with Russian partners. The key to success is in the discourse and in the cooperation between Europe and Russia. Strategically, the course of action cannot always proceed in a peer-to-peer fashion, but it is a matter of joining diverging interests into a common roadmap. Russia must develop from a rent-

seeking state into one with a modern economy and a strong middle class. To do that, the Putin system must enlarge the space for societal participation and strengthen its economic success sustainably to enable the country to undertake sustainable modernization. This process is not a matter of a change of regime that is supported from the outside, but rather of breaking down the lags in modernization.

The Russian government views the EU as having limited usefulness as a partner in modernization, because the EU has its hands full with the euro crisis, and because the decision-making processes among 27 member states are at a standstill. In the search for partners in modernization, Russia is turning instead to the institutions of globalization. Since August 2012, Russia has been a member in the WTO; the government is signalling its interest in full membership in the OECD; and Russia has already acceded to the OECD anti-corruption convention. Full membership would oblige Russia to live up to important basic principles of a modern state with responsibility to its population: free trade; an independent judiciary; science and technology; an effective system of education; social policy; competitive governmental leadership; as well as obligations in governmental development aid according to standards set by the United Nations.

The OECD standards can be used as guidelines for Russia's modernization. The Russian government uses membership in the G8 and G20 to help shape the global agenda. Holding the presidency of the various groupings is particularly useful in this regard. In 2013, Russia holds the presidency of the G20; of the G8 in 2014. In 2015, Germany will take over presidency of the G8 from Russia. From this succession and from the various groupings arise opportunities to shape the global agenda for both Brussels and the Kremlin.

On the other hand, Russia is challenged to prove the viability of its approach to modernization. The limits of the technocratic approach can be seen in the public protests as well as in the extractive nature of the economy. The EU is well advised to make use of Russia's interests in the global institutions; they open opportunities

for new forms of dialogue. From that can arise points of contact to reshape the understanding of modernization, and to reduce the current gap between the common interests and diverging values of Russia and the EU. The shortfall in common value is increasingly turning into a lack of knowledge about each other – including actors, processes and policy areas.

One important task for Europe is the establishment of think tanks in policy-oriented analysis of Russia. These centres, with participation from Russia and the other post-Soviet states, would work on a realignment of relations: From a new institutional approach, from analyses, and from newly constructed networks a road map to a new basic agreement between Russia and Europe that is attractive and gives directions to both sides can be developed.

Successful realignment of the EU's relations with Russia is a contemporary question of Europe's ability to act. As a global actor, the European Union must speak with one voice if it is to be capable of taking action in questions of energy and security that involve Russia. The EU will only be an attractive partner for a modern Russia if the Union is capable of overcoming its finance crisis. To reach that goal, the EU must develop and implement new forms of institutional cooperation, such as tiered integration through partial membership in a free-trade zone.

Viewed historically, the dynamic between deepening and broadening the European Union has been a successful recipe for prosperity and security on the European continent. The trailblazers for developing innovative European-Russia relations should be the EU member states that are tied to Russia through common interests and values: Germany, Finland and Poland. ■

Further reading:

Bertelsmann Stiftung (ed.), *Transformation Index BTI 2012, Political Management in International Comparison*. Gütersloh, 2012.

Cornelius Ochmann, Andrei Zagorski, *Den Stau auflösen: Die EU und Russland 2008*. spotlight europe, Nr. 1, 2008.

Nikolay Petrov, Maria Lipman, Thomas Carothers, *Russia 2020: Scenarios for the Future*. Washington, D.C. 21 April, 2011

Alexander Dynkin (ed.), *Strategic Global Outlook 2030*. Extended version (in Russian). Moscow 2011.

Reinhard Krumm, Sergei Medvedev, Hans-Henning Schröder, *Constructing Identities in Europe. German and Russian Perspectives*. Baden-Baden 2012.

Igor Jurgens, Sergej Kulik, *Vetschn'nie sputniki. Rossija i Evropa v menjajuschemsja mire*. Moscow 2013. (Sputniks Forever: Russia and Europe in a Changing World)

Pami Aalto (ed.), *Russia's Energy Policies. National, Interregional and Global Levels*. Tampere 2012.

Responsible:

Bertelsmann Stiftung
Carl Bertelsmann Straße 256
D-33311 Gütersloh
www.bertelsmann-stiftung.de

Isabell Hoffmann
isabell.hoffmann@bertelsmann-stiftung.de
Telefon +49 5241 81 81313

Joachim Fritz-Vannahme
joachim.vannahme@bertelsmann-stiftung.de
Telefon +49 5241 81 81421

Latest editions:

spotlight europe # 2013/02
Syria: From Rebellion to All-Out War
Christian-P. Hanelt & Kristin Helberg

spotlight europe # 2013/01
Vive l'Europe! Vive l'Union!
Joachim Fritz-Vannahme

spotlight europe # 2012/07
At Long Last, the EU Takes on its Banks
Stefani Weiss & Isabell Hoffmann

All "spotlight europe" editions
can be downloaded from:
www.bertelsmann-stiftung.de/spotlight