

# The EU-Russia relations and their reflections in the Baltic Sea region

Some recommendations for policy-makers

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### Summary

Since the early spring 2014 the European Union-Russia relations are in a deep crisis. Re-evaluation of principles and aims of the EU relations with Russia has been done at the level of communitarian structures in Brussels as well as by all EU member states. Multiple Russia's attempts to destroy unity of the EU countries regarding rejection to recognize integration of Crimea into Russian Federation have failed. EU member states and the Union's structures see Russia as fighting actor in the bloody conflict in Eastern Ukraine, but Russia ignores these claims. Current stalemate situation requires innovative steps for restoration of dialogue between the two entities. First of all, it is crucially important for the Baltic Sea Region as the only area where the EU and Russia have common land border. Future dialogue should be grounded at principles of mutual rejection of economic and visa sanctions, as well as on confidence-building measures, especially in hard-security issues. New Foreign Policy Concept of Russian Federation, which was adopted on November 30 2016, provides solid political and legal ground for these initiatives.

### Key words

European Union, Russia, Eurasian Economic Union, sanctions, interdependence, confidence-building measures

## Introduction

There is almost quarter of a century since Russian Federation emerged on ruins of the USSR as a sovereign state. Russia's path towards Europe as its most important economic and diplomatic partner has been long and problematic. It started from the euphoria in early 1990s and reached its peak in June 1994 when the Partnership and Cooperation Agreement of the EU and Russia was signed at the island of Corfu (Greece). Nowadays we live in the worst period of the EU-Russia relations since the Cold War due to the conflict in Ukraine. It begun in the late autumn of 2013 as competition of Brussels and Moscow for domination over foreign economic and security policy of Ukraine and has transformed in spring 2014 into a "proxy war" of the USA and their European allies with Moscow.

It is hardly possible to consider current crisis between the USA/EU and Russia as a "new Cold War". Still, present form of confrontation between them is potentially even more dangerous. Both sides are still relying on nuclear arsenals as security "guarantor of last resort" as well as on remilitarization of border regions between NATO and Russia. If we add threats to cyber security and Russia's drastic demands for real multipolarity we get the whole picture of confrontation in Eastern Europe, where Baltic Sea region has emerged as the frontline of the standoff.

## EU-Russia relations: brief history

Political relations between the EU and Russia have a wave-shaped form, where a period of growth in almost all areas of cooperation and optimism about their future is followed by a period of alienation in relationship, when negotiations were abandoned and official contacts, first of all diplomatic, were minimized.

For example, the period of 1991-1994 has been known as time of explosive development of relations, creation of their legal framework, establishment of contacts between business structures, governmental institutions and civil society's organizations.

Political frameworks and stable legal ground to these relations have been established by the Partnership and Cooperation Agreement in June 1994. The Agreement established regular (twice a year) EU-Russia Summits, the EU-Russia Permanent Partnership Council at the level of foreign ministers, as well as the Parliamentary Cooperation Committee.

The PCA Agreement came into force in December 1997, after more than three years of ratification in all the EU member-states. Initially it was valid for 10-years term and could be automatically prolonged unless one of side informed 6 months in advance about its willingness to cancel it.

At the EU-Russia Saint-Petersburg Summit in May 2003 they agreed about the common targets of their cooperation in future, namely the establishment of the Common European Economic Space (CEES), which has been characterized as an open and integrated market, based "...on common or comparable rules and regulating systems, including compatible administrative practices".<sup>1</sup> After the signing in 2005 documents for establishing four "Road maps", which established deeper forms of EU-Russia cooperation in a wide range of economic, security and social areas, a number of sectoral dialogues were set up, mostly at the level of Russian federal ministers and members of the European Commission. The 2010 Partnership for Modernization initiative has been designed to clear way for next EU-Russia agreement to replace the 1994 PCA.

All these measures have been designed to establish atmosphere of economic interdependence, to open Russian domestic market for foreign direct investments and to launch modernization process in Russian economy by taking possession of the newest technologies in industry, exploration of natural resources and agriculture. Intensive mid-level dialogue between European and Russian governmental officials was especially visible in energy, macroeconomic and educational policies, nuclear energy, science and technology, trans-

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<sup>1</sup> *The Road Map for the Common European Space at the Russia-EU Summit. May 10, 2005. URL: <https://www.consilium.europa.eu/uedocs/cmsUpload/84815.pdf>*

border cooperation, harmonization of standards and regulations, including the 2013 Cooperation Agreement between *Rosstandart* and the European Committee for Standardization.<sup>2</sup>

Nowadays, norms of the 1994 PCA do not correspond to realities of global and regional political economy as well as to level of socio-economic development of contemporary Russia. Meanwhile, since in current situation any new agreement between the EU and Russia cannot be signed, preservation the 1994 PCA is the lesser of two evils for both sides. If the 1994 Agreement will be abandoned, many areas of EU-Russia cooperation will find themselves in a legal limbo.

Boris Yeltsin's controversial decision to launch in November 1994 the Chechen War has marked the beginning a period of alienation in EU-Russia relations. It delayed the ratification process of this Agreement by EU member states for more than three years. It also coincided with a number of harsh antidumping procedures against Russian products at the EU market. Additional areas of conflict at that period were: involvement of the EU states and institutions into history-making Presidential elections in Russia in June-July 1996 as well as attempts to employ political conditionality to EU-sponsored programs in Russia.

At the beginning of the XXI century (2000-2005), issues of cooperation, establishment of single economic area and debates on European security architecture once again came back into agenda of the EU-Russia dialogue. But since the Orange Revolution in Ukraine in late 2004, relations once again started to deteriorate and reached the bottom in summer 2008 during the Five Days War in South Ossetia. Russian regular army intervened into the conflict on the side of separatist republics (South Ossetia and Abkhazia) against US- and EU supported President of Georgia Mikhail Saakashvili. Both Washington and Brussels considered that move of Moscow as a direct challenge to European post-Cold War order and their ambitions to Europeanize Georgia as strategically important post-Soviet republic. Due to extraordinary efforts by a number of EU leaders, first of all the President of France Nicola Sarkozy, the process of destruction of the EU-Russia relations was stopped in autumn 2008 for a while. At the same time, it is impossible to ignore the fact that mutual interest to development of bilateral relations and intention of putting them on a new basis disappeared since Georgian conflict in 2008. The last informal consultations between the EU and Russia on a new Agreement to replace the 1994 PCA were conducted in 2009 and since then this issue have never been discussed at a diplomatic level. For example, among almost two dozens of "sectoral dialogues" at the level of Russian ministers and EU commissioners, in 2012 there were short meetings just in two areas. All contacts in these spheres have been cancelled in 2013 and never restarted since then. We believe that hard security interests are "not-guilty" in that. The main reason is lack of interest both in Brussels and Moscow to look for ways of deepening partnership with such a complex and inflexible partners, as EU and Russia are for each other nowadays.

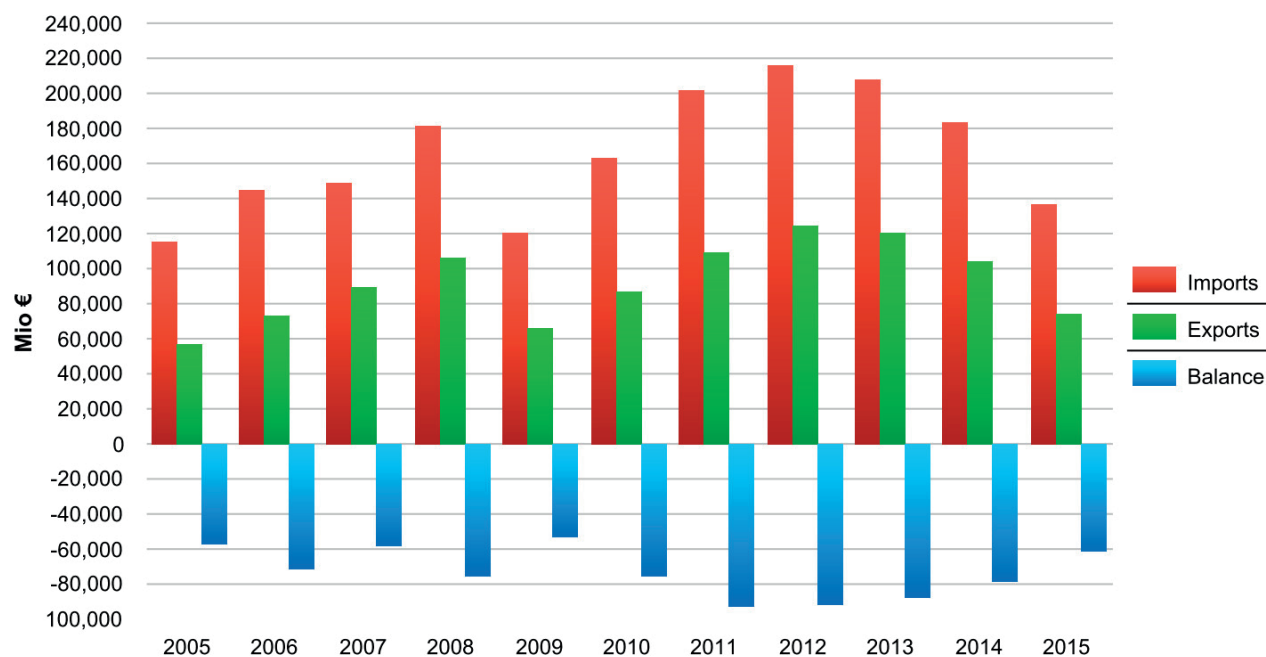
The EU-Russia conflict, which was frozen in 2008, has resumed with a new energy in autumn 2013 due to another "color revolution" in Ukraine. It rather quickly transformed itself into a violent coup d'état against President Viktor Yanukovich of Ukraine in February 2014 and civil war in Eastern provinces of this country in April of the same year. Russia reacted to the regime change in Ukraine by sponsoring on March 16 2014 a referendum at the Ukrainian Autonomous Republic of Crimea and city of Sevastopol, where over 96 percent of voters supported the proposition to leave Ukraine and join Russia as its regions.

From economic perspective, the EU-Russia relations in post-Soviet period have been growing steadily. They suffered from crush of Soviet-styled economy in 1992-1995, from the 1998 Russia's default, as well as from the global financial crisis of 2007-2008 and landslide of oil prices in 2014-2016. Still, statistics confirm persistent growth of volume and diversification of structure in EU-Russia trade in goods and services in recent quarter of century.

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2 *It is important to strengthen that professional contacts in many of these areas continue until now.*





Graph 1: Total goods: EU Trade flows and balance, annual data 2005-2015. Source: Eurostat.

Table 1: Total goods: EU Trade flows and balance. Source: Eurostat.

**Total goods: EU Trade flows and balance**

Period	Imports			Exports			Balance	Total trade
	Value Mio €	% Growth*	% Extra-EU	Value Mio €	% Growth*	% Extra-EU		
2005	113,981		9.6	56,690		5.4	-57,291	170,671
2006	143,602	26.0	10.5	72,399	27.7	6.3	-71,203	216,000
2007	147,734	2.9	10.2	89,196	23.2	7.2	-58,538	236,931
2008	180,446	22.1	11.4	104,970	17.7	8.0	-75,476	285,416
2009	119,569	-33.7	9.7	65,697	-37.4	6.0	-53,872	185,266
2010	162,075	35.6	10.6	86,308	31.4	6.4	-75,767	248,383
2011	201,327	24.2	11.7	108,587	25.8	7.0	-92,740	309,915
2012	215,124	6.9	12.0	123,441	13.7	7.3	-91,683	338,566
2013	206,957	-3.8	12.3	119,451	-3.2	6.9	-87,506	326,407
2014	182,430	-11.9	10.8	103,202	-13.6	6.1	-79,228	285,632
2015	135,867	-25.5	7.9	73,920	-28.4	4.1	-61,947	209,787

% Growth: relative variation between current and previous period

% Extra-EU: imports/exports as % of all EU partners i.e. excluding trade between EU Member States

It is possible to predict that for many years to come the EU and Russia will continue to be key economic partners for each other. Despite economic sanctions and stagnation in Russian economy in 2014-2016, the EU remains the largest trade partner for Russian Federation, accounting for more than 50 percent of export of Russian Federation as well as about 40 percent of its import. The physical volume of Russia’s energy resources (oil, natural gas, coal and electricity), exported into the EU market, are growing. Russian energy companies are successfully defending their share in the European markets – the most attractive and stable for them in a current turbulent global economy.

### Crisis in Ukraine and collapse of EU-Russia relations

Since times of the Second World War the desire of USSR/Russia to achieve status as great power and member of the exclusive club in world politics is dominant in all actions and strategic decisions of Kremlin’s diplomacy. In 1990s this “great power search” was abandoned due to severe domestic crisis. Popular explanations inside Russia present the West as “inventor” and “conductor” of the crisis, designed to humiliate new Russian

sovereignty. In autumn 2013 Russian diplomacy was critical towards the way of how Brussels and key structures of the EU (Commission and Parliament) were handling the negotiations with Kiev on establishing the Deep and Comprehensive Free Trade Area (DCFTA), as well as of the European Union lack of willingness to invite Russia or the Eurasian Economic Union (EAEU) to this negotiations. According to Vladimir Putin, EU reaction on Russian request to take part in these negotiations was: "This is not your business!" (in Russian – "Это не ваше дело"). Moscow evaluated this move of the EU as a clear declaration of diplomatic war with Russia for dominance in Ukraine.

In 2014 the US Administration imposed severe financial and technological sanctions on Russia as punishment for Russian coercion and assertiveness towards Ukraine and violation of its territorial integrity. The aim of the US/EU sanctions was to restore status quo ante, i.e. to return Crimea to Ukraine and stop economic and military support to separatist regions of Luhansk and Donetsk in Eastern Ukraine.

As soon as Ukrainian crisis began to advance in late February 2014, the EU unilaterally almost completely suspended majority of mechanisms and formats of cooperation with Russian Federation. At the same time it is important to emphasize that working-level contacts between EU and Russian officials (diplomats and representatives of different ministries) are still maintained. Political contacts and forums for debates about current state and future of bilateral relations are being retained with minor downgrade of agenda and intensity of contacts.

In non-economic areas of EU-Russia cooperation there are no positive developments for many years. Both sides have failed to coordinate the regulatory framework of interoperability in the field of crisis management. Initiative of "meetings of four", i.e. foreign and defense ministers from Russia and EU states (France, Italy, Germany) didn't last too long due to absence of concrete issues for discussions and weak institutional capacity of the EU member states in security area outside of NATO spheres of competence.

Since spring 2014 leaders in both Brussels and Moscow repeated many times like mantra that "there will be no 'business as usual' in bilateral relations". There is a universal understanding that we face real challenge of developing completely new agenda for relations between the most advanced community of nations in the world (the EU) and its largest neighbor (Russia). It should be a type of a "New Normal" mentality, which reflects changing status of the EU and Russia in global political and economic system and based on realistic assessments of mutual interests.

To understand prospects for development of bilateral EU-Russia relations it is worth studying the most recent programming documents of both actors and their current vision of bilateral relations.

### **1) Concept of Foreign Policy of Russian Federation (November 2016)**

This programming document has been adopted by the President Vladimir Putin on November 30 2016. It is designed to replace previous Concept of Foreign Policy (2013), which was developed soon after Vladimir Putin was reelected for the third term as Russia's President. Previous Concept became irrelevant to situation in global politics after the Ukrainian crisis and severe economic sanctions imposed on Russia in 2014. Initiative to prepare new programming document for Russian diplomacy was announced by Vladimir Putin in spring 2016 and it took rather long time to complete writing and editing this document.

Final product did surprise majority of experts. It is less "assertive" than previous one and based on assumption that Russia considers current problems in relations with the Western powers as provisional and it hopes to come back to previous norms and practices in relations with its partners in not-so-distant future.

### **Two key paragraphs on future of Russia's relations with Western neighbors are following:<sup>3</sup>**

On European security (Paragraph 61):

*Systemic problems, which have been cumulated in previous quarter of century in Euro-Atlantic region, manifested themselves in geopolitical expansion of NATO and the EU. Meanwhile this process coincided with*

<sup>3</sup> Translated by the author.

*lack of willingness to settle down the process of implementation of political statements on establishment of pan-European system of security and cooperation. These problems have caused serious crisis in relations of Russia and Western countries. Containment policy of USA and their allies, attempts to put political, economic, informational and other pressure, is undermining regional and global stability, harming long-term interests of all parties involved, contradicting to growing demand in cooperation and opposition to transnational challenges and threats.*

On relations with the European Union (Paragraph 63):

*For Russian Federation the EU is continuing to be important trade and economic partner. Russian Federation is interested in forming up constructive, stable and predictable cooperation with the EU member-states, which should be based on principles of equal rights and mutual respects of interests. Further development of relations with the EU requires improvements of contractual bases as well as institutional mechanisms of cooperation in order to assure mutual benefits and optimal prioritizing of partnership links, including spheres of energy. Strategic aim of Russia in relations with the EU is formation of common economic and humanitarian space from Atlantic to Pacific Oceans, which should be based on principle of harmonization and conjugacy of European and Eurasian integration processes. That will allow preventing establishment of dividing lines in the European continent.*

General assessment of the latest Russian strategic document in the sphere of foreign policy is mostly negative for EU-Russia relations. It is obvious that Russian diplomacy is suffering from lack of ideas about future of its European politics. "Wording" of above-mentioned parts of the Concept, dealing with the EU, is encouraging us to a conclusion that Russia doesn't see the current EU as its reliable partner. More probably, this text is designed to fill vacuum of ideas in this sphere. Russia's current "wait and see" policy towards the EU could be inspired by expectations of "conservative revolt" in a major EU member states or even complete collapse of the EU project in its contemporary form of "almost whole-Europe IGO with supranational institutions". Russian diplomacy doesn't believe in efficiency of EU structures and prefers to communicate with its member states on bilateral basis. "Brexit" in June 2016 gave Russian diplomacy powerful arguments in support of its skeptical vision of sustainability of European integration project in years to come.

## **2) The EU programming documents on relations with Russian Federation**

On March 14 2016, the Council of the European Union agreed on five principles of future EU policy towards Russia. Principles should regulate bilateral relations of member-states beyond policy of mutually-agreed sanctions, imposed on Russia in March–September 2014.

These five principles are:

1. Implementation of the Minsk agreement as the key condition for any substantial change in the EU's stance towards Russia.
2. Strengthened relations with the EU's Eastern Partners and other neighbors, in particular in Central Asia.
3. Strengthening the resilience of the EU (for example energy security, hybrid threats, or strategic communication).
4. Need for selective engagement with Russia on issues of interest to the EU.
5. Need to engage in people-to-people contacts and support Russian civil society.

At first glance, these five principles look neutral and even positive since they establish firm and clear "starting points" for dialogue with Russia. But if we put each of them into historical perspective, we find out that Russian diplomats consider all of them as another evidence of hostile attitude to Russia and its possible partnership with the EU.

1. Motto of Russian diplomacy is that “we are not able to implement the Minsk agreement since we are not part of the conflict” and it is Ukrainian authorities, who violate norms of the Agreement as well as order, in which measures should be implemented.

2. Russian Federation considers any initiative of the EU to enlarge its presence and involvement into affairs of the CIS countries as hostile action, that’s why attempts of the EU to revive in a new form its failed policy of the Eastern Partnership looks as unfriendly initiative.

3. “Strengthening the resilience” of the EU looks for Russian diplomacy like an initiative to rise level of conflict to new highs, including loose concepts of “hybrid threats”.

4. “Selective engagement” is possible only if Russia will support it and consider “engagement” as profitable. Since both the EU and Russia are driven by paradigm of “zero-sum game”, they may search for years for areas where visions of “selective engagement” will coincide.

5. Russian diplomacy since the 2004 Orange Revolution in Ukraine has been considered as attempts of the EU to support civil society institutions in Russia as preliminary steps to launch color revolution in Moscow and all around the country. It looks like paranoia for many external observers, but there is almost total consensus on this point among Russian elites nowadays. That’s why any attempts of the EU to initiate politically-driven programs in Russia will be blocked and followed by further deterioration of bilateral relation.

## EU-Russia economic relations in 2013-2016: statistics and comments

As we have pointed out earlier, since collapse of USSR the EU and Russia benefited a lot from intensive trade and economic relations. In 2015 trade with the EU accounted for almost 45 per cent of Russia’s total foreign trade volume. For its part, Russia is nowadays the EU’s fourth largest trade partner which in 2015 accounted for 6 per cent of its foreign trade. It includes third position in EU import in 2015 (€ 135,87 billion) and fifth position in EU export (€ 73,92 billion).<sup>4</sup> So, in 2015, after significant contraction compared to 2013-2014, volume of merchandize trade between Russia and the EU stood at € 209.78 billion. EU companies are continuing to control a significant share of total investments to Russia, close to 75 percent of total foreign investments into Russian economy.

Russian energy giants (GAZPROM, Lukoil, ROSNEFT, etc.) hold key positions in energy supply to the EU, satisfying the EU demand for crude oil (34 percent), coal (30,4 percent) and natural gas (almost 40 percent nowadays).

EU-Russia trade is suffering today from three major factors. *First* of all – declining energy prices pushed down statistics of trade, but not physical volumes of major items of Russia’s export: energy and metals. *Second* – lack of reforms in Russian socio-economic system. Limited and partial reforms in these spheres have been initiated by Vladimir Putin during his first presidential term in office (2000-2004). Since 2004 Russian leaders prefer status-quo and rhetoric on virtues of stability to any significant changes in stagnating but rather stable political and socio-economic system. *Third*, sectoral and financial sanctions, which have been imposed on Russia by the European Union and USA. Since October 2016 Russian economy has moved into positive zone of economic growth, stability of economic system and exchange rate of Russian ruble have become crucial prerequisite for significant inflow of foreign portfolio investment into domestic markets. OPEC deal in November 2016 to cut production of oil, which has been supported by Russian Government, moved prices for energy up.

All these factors create completely new situation in Russian economy and around Russia as the EU’s economic partner. Tactical decision of Russian Government to ignore the EU proposition to connect lifting economic sanctions with Russia’s political and military concessions in frameworks of the Ukrainian crisis, nowadays have transformed into willingness of Kremlin to utilize benefits of protectionist policy towards the EU member

<sup>4</sup> European Commission. Directorate General for Trade. Client and Supplier Countries of the EU28 in Merchandise Trade (2015). URL: [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_122530.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_122530.pdf)



states for relaunching economic growth in some sectors (agriculture, food industry) and reorientation of Russian businesses for cooperation with partners outside of the European Union. This policy, which just 6 months ago looked as delusory now is moving to the center of Russian foreign policy decision-making. It is almost impossible to imagine what may change it in a short-term perspective.

## The Baltic Sea Rim: security and economy

Several events in recent history of the European Union have urged Russian diplomacy to look into its Western neighbor as an alliance in deep crisis with bleak perspectives to improve soon its internal stability and foreign policy profile. They include “Brexit” in June 2016, success of anti-EU political parties in a number of European countries, as well as sensational elections of Donald Trump as new U.S. President. This trend may find its continuation in 2017 elections in France and Germany, where pro-Russian politicians may increase their presentation in national parliament (Germany) and get into the Palais de l’Elysee (France). These developments decreased significance of two aspects of contemporary EU, that made authorities in Brussels a difficult partner for Russian Federation: (1) its pro-American foreign policy and (2) its status as dominating economic power compared to rather economically weak Russia. For decades Russian diplomacy was dreaming about days when it will be possible to speak with Europeans without actual or virtual presence of U.S. diplomats at the negotiation table. These hopes seem realistic today as never before.

Above-mentioned factors influence relations of Russia with states of the Baltic Sea Rim. Since the days of the USSR collapse Russian borders in this region have always been the safest and most peaceful among all dozens of thousands of kilometers of Russian national borders. Both the EU and Russia have considered this area as testing ground for new quality of bilateral relations, including a number of initiatives for trans-border cooperation, liberal regime for crossing border by local population, tremendous cross-border growth of trade and tourism inside the region.

2004 accession of the Baltic States to the EU and NATO as well as EU membership of Poland in the same year have become turning point in history of the region. We should keep in mind that it is not economic, but security interests of both EU/NATO and Russia, which destroyed previous stability in this area. It is also important to emphasize that systemic reason for worsening of relations between Russia and its Baltic neighbors is not in the region itself. They could be found in severe standoff between Moscow and Washington on architecture of European security and role of Russia as either internal element of its structure or as outside trouble maker, which dissatisfied with U.S. plans to transform region into a frontline of conflict between NATO and growing Russia.

Keeping in mind these unique features of the region in Russian-Western relations, we may propose **two scenarios for future of bilateral relations in the region** in a mid-term perspective.

### Optimistic scenario:

Current crisis will be over in five years and new quality of relations between the EU and Russia will be established due to consensus between Russian and European leaders about unique role of the Baltic Sea Rim in reconstruction of Europe as an area of stable economic growth, security and high environmental standards. We do believe that this scenario could be implemented, but it seems politically impossible for current generation of leaders in all three Baltic States, as well as in Sweden and Poland. So, important precondition for letting this scenario to take place is eventual change of ruling elites in the region. If we keep in mind recent unexpected electoral “revolutions” in Bulgaria, Italy, Hungary, etc., it doesn’t look completely impossible. But, from our perspective, it may take much more than five years for regional elites to change their current Russophobic rhetoric and practice of outsourcing national foreign and security policy to Washington and Brussels, replacing them by more traditional forms of diplomacy, based on values of sovereignty.

## **Pessimistic scenario:**

Current crisis will continue, taking forms of further breach between EU member states, arms race as well as attempts of the EU to intervene into Presidential Elections in Russia in March 2018 to support EU-friendly candidate. In response Russia could support separatist movements in three Baltic States (first of all – in Latvia) as well as assist to a wide range of pro-Russian political forces across all European countries, especially in Central and Eastern Europe. In fact, this scenario is already in place and the very fact that it will not be stopped immediately jeopardizes stability and security in the region. Some diplomatic and political steps should be taken by both sides right now, otherwise it may take decades to demolish dividing lines, which are now under construction in the Baltic Sea region. The trend could be reversed by radical improvements in US-Russia relations, which seem not completely impossible due to elections of Donald Trump, or by fundamental revision of EU policy towards Russia in major European countries (Germany, France, Italy, Spain, Poland) as well as in the EU structures (European External Action Service).

Naturally, there is still possibility for maintaining the current **status quo**, unstable, but predictable and comfortable to ruling elites at both sides of the borderline. Until the March 2018' Presidential Elections in Russia status-quo is the most possible scenario for bilateral relations. But there is still a hope that changing public evaluation of EU sanctions' efficiency, as well as fatigue among European businesses from current crisis could push European leaders sooner rather than later to employ policy of engagement of Russia as equal partner in dialogue on security and cooperation in European continent. I.e., in long-term perspective the first (optimistic) scenario could prevail.

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We would like to express our personal view on three perspective areas of interaction between EU's Baltic States and Russia, where cooperation may manifest itself in years to come. They are followed by our recommendations to policy-makers on both sides of the borderline.

### **1) Provision of security in the Baltic Sea region.**

Re-emergence of confrontation for dominance in the Baltic Sea region led many experts to conclude that Russia and EU/NATO are nowadays in a new Cold War. As previous conflict, current edition of the Cold War is mostly developing in Europe, even if frontline has moved eastward for several hundred kilometers. A lot has been said that current standoff doesn't look like severe confrontation of 1945-1991, conflict lacks ideological aspect, and Russia doesn't pose threat to the very existence of the EU/NATO. We believe that it is too optimistic vision of current state of bilateral relations. Movement of NATO's and Russia's military infrastructure to frontline does increase threat of conflict and since both sides are nuclear powers, it will be loose talk to ignore emerging threat for global security.

Most problems in Russia's relations with its Baltic neighbors are coming not from concrete unfriendly actions by opponents, but from explicit hostile rhetoric on Russia, its domestic and foreign policy, which make active use in Baltic capitals, first of all in Vilnius. Arbitrary rejection of hate speech by politicians in the region, representing legislative and executive branches of power in the Baltic States, may become the most important prerequisite for improvement of bilateral relations. These relations are nowadays in the worst crisis since the dangerous days of the Cold War and intrinsic innovative steps by Russia and its Baltic neighbors should be taken to move region away from full-range military conflict.

Discussions about new continent-wide security treaty may bring positive agenda into problematic relations. It seems like Moscow prefer to forget about its 2008 proposal on the European Security Treaty, which is firmly associated with Dmitry Medvedev as then-President of Russia. But there should be no doubts that this idea is still valid for Russian diplomats and politicians as acceptable structural decision of security challenges in Europe.

## **Recommendations:**

1. The basic principle for Russia-EU relations in the Baltic Sea region nowadays should be – *primum non nocere*, i.e. do not harm. Current atmosphere in bilateral relations is so antagonistic, that it is wise to

avoid any further steps which may lead to “proxy war” or even open military conflict at the end of this dangerous road. Even innovative actions, which may be proposed by parties concerned, should be tested twice due to bilateral lack of trust. I.e., for coming years the motto for relations of the EU and Russia in the Baltic Sea region should be: no news – good news.

2. Highly technical and mid-level contacts between military of the Baltic States (plus Finland and Sweden) and Russia should be encouraged with following items in agenda: confidence-building measures related to military exercises, as well as to armament configuration and its usage in training of NATO or Russian troops in the region.

3. Substantial support of maintaining contacts of experts, as well as politicians from the Baltic States and North-Western Federal District of Russia, open and positive discussion of all problems related to stability and cooperation in the region.

## 2) *The Way out of current crisis*

Henry Kissinger famously noted at the first days of 2014 crisis around Ukraine: “Demonization of Vladimir Putin is not a policy; it is an alibi for the absence of one.”<sup>5</sup> Criticism on everything what has been done or declared by President Vladimir Putin is the core of contemporary discourse on Russia in three Baltic States. That leaves no space for productive communication between them and Russia.

It may sound provocative, but from the point of view of minimizing transaction costs for resolution of current face-off in EU-Russia relations, for Kremlin a deep crisis in the EU or even its disintegration looks like the most optimistic scenario. There should be no doubts that current generation of Russian diplomats and political leaders, after 25 years of attempts to engage the EU leaders in equal and meaningful dialogue, have lost patience and consider negotiations with the EU institutions as wasting time and resources. Growing anti-Americanism of Russian political leaders increase unwillingness of Russian leaders to look for settlement of existing conflicts by innovative diplomatic tools.<sup>6</sup> Tiredness from the EU provides in Moscow incentives for using instruments of hybrid warfare to promote Russian national interests in relations with European neighbors.

Assumption of power in USA by Republican Administration of Donald Trump could bring see-change to Russia-EU relations. One of the most desired scenarios for Russian diplomacy – emergence of self-sustained and independent Europe, which will be able to construct its strategy towards Russia on own interests rather than on promotion of interests of USA and American business. Kremlin leaders today are absolutely sure that provocative decision to escalate conflict in Kiev in January-February 2014 has been done personally by the US Vice-President Joseph R. Biden, who in March 2011 appealed to then-Prime Minister of Russia Vladimir Putin not to run for another term as Russia’s President. But it was impossible for Russian leaders not to notice that coup d’états in Ukraine in February 2014 took place with active involvement of foreign ministers of Germany, France and Poland, who played the role of US envoys at the most dramatic days of the crisis. Doubts about “foreign-policy subjectivity” still prevail in Kremlin, and there are hopes that Donald Trump and his Administration will force the EU to become really independent actor in global politics.

It is too early at this moment to announce concrete and wide-range program of actions for restart of problematic EU-Russia relations. The crisis is on the radar-screens both in European capitals and in Moscow. Security and diplomatic situation may deteriorate even further at any moment. What experts could do at this stage is to suggest certain frameworks for future contacts and dialogue.

One of the suggestions, which have been discussed already for several months, was to shift bilateral debates on all-European economic cooperation from Russia to the EAEU, where Russian Federation is just one of five member states. Ignorance of the EU towards this integration block of former USSR republics looks more and more irrelevant to concrete developments in the region eastward from the EU borders.

5 See “Henry Kissinger: To Settle the Ukraine Crisis, Start at the End,” *The Washington Post*, March 5, 2014, [https://www.washingtonpost.com/opinions/henry-kissinger-to-settle-the-ukraine-crisis-start-at-the-end/2014/03/05/46dad868-a496-11e3-8466-d34c451760b9\\_story.html?utm\\_term=.2b4e763cf315](https://www.washingtonpost.com/opinions/henry-kissinger-to-settle-the-ukraine-crisis-start-at-the-end/2014/03/05/46dad868-a496-11e3-8466-d34c451760b9_story.html?utm_term=.2b4e763cf315)

6 Понарин Э. Раздражение Америкой объективно. *Огонюк weekly*, December 5, 2016, p. 14-17.

## Recommendations:

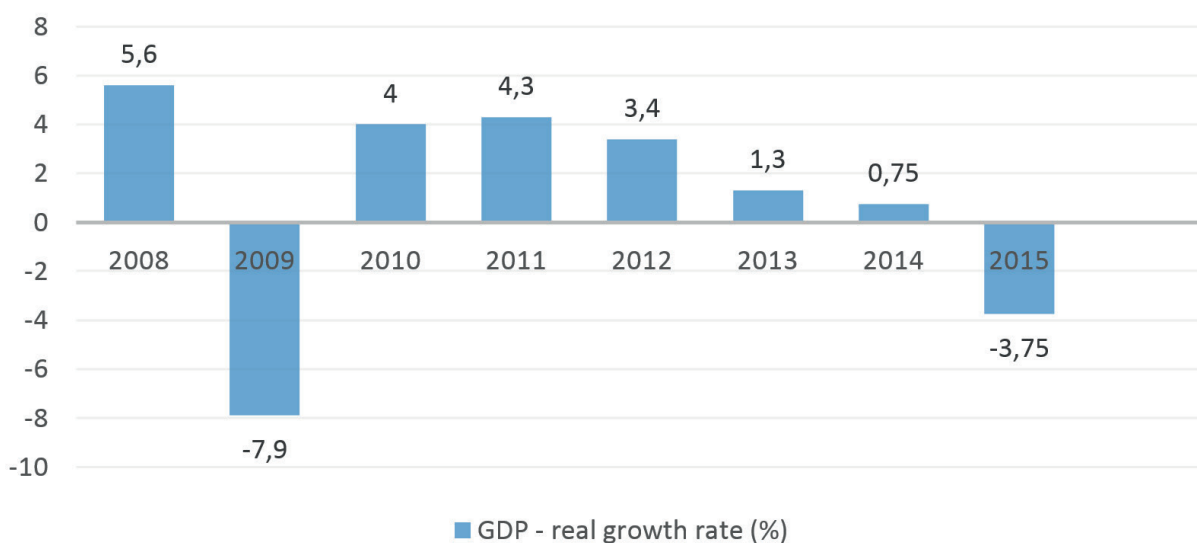
1. To resume practice of EU-Russia summits. At the initial stage they may be hold once a year, but direct communication between leaders is a crucial element for restoration of dialogue and trust between Brussels and Moscow.
2. Prompt decision to grant bilateral visa-free regime.
3. Establishment of an EU-Russia Political and Security Committee for joint decision-making in the field of hard and soft security. Russian Ministers of Foreign Affairs and Defense, as well as their EU counterparts, should participate in this forum. They might begin a dialogue on continent-wide security regime and rising role of the EU in its maintenance.

### 3) Restoration of economic relations

The EU and Russia's retaliatory sanctions have injured badly the Russian economy. It shrank 3,75 % in 2015 and expected to decline for another 1 % of GDP in 2016. Living standards of Russian have been driven back to indicators of 2012 and about 9 million of people hit a group of those living below subsistence level of consumption. Macroeconomic effect of 'war of sanctions' for the EU economy is less visible, but there are a number of indicators that it is remarkable for some sectors (agriculture) and some countries (Baltic states, Germany, Finland).

Table 2: GDP of Russian Federation in 2008-2015. Source: Federal State Service, 2016.

## GDP - real growth rate (%)



Role of the EU as a paramount economic partner of Russia is decreasing. In 2015 its share in Russia's foreign trade was 45 %, and according to preliminary estimations, in 2016 it will decrease to 43 percent. Volume of mutual trade suffered even larger decline. In January-September 2015 it amounted €180, 45 billion, and in January-September 2016 – only €142,77 billion.<sup>7</sup>

Until current crisis, the EU exported to Russia about 10% of its foods, equivalent to about 11 billion per year. Crisis could jeopardize 25,000 jobs in Germany while, according to a study by Deutsche Bank, German GDP could suffer a decline of 0.5 percent.<sup>8</sup> Italy is another country highly dependent on exports of goods to Russia.

<sup>7</sup> On foreign trade of Russian Federation in January-September 2016. Russian Federation. Federal State Statistics Service. URL: [http://www.gks.ru/bgd/free/b04\\_03/IssWWW.exe/Stg/d01/237.htm](http://www.gks.ru/bgd/free/b04_03/IssWWW.exe/Stg/d01/237.htm)

<sup>8</sup> "Russia hits West with food import ban in sanctions row". BBC News. August 7, 2014. <http://www.bbc.com/news/world-europe-28687172>

In 2013, Italy exported machinery, food and clothing for more than € 10 billion and current crisis pushed indicators of trade with Russia in a “red zone”.<sup>9</sup> Among other countries which have been affected negatively by mutual economic sanctions are Baltic republics and Finland, whose economies are closely linked to Russia. A study by the Finnish Chamber of Commerce shows that nearly half of the national companies could be affected by sanctions. Ten percent of the sales of Finnish products abroad are directed to Russia, which is the fourth largest export market for Finland.<sup>10</sup>

There are visible difficulties among the EU member states in automatic prolongation of the sanctions. The whole process of debates about sanctions and their effectiveness has been named by Federica Mogherini, Vice-President of the European Commission and the High Representative of the EU for Foreign Affairs and Security Policy, as political and not just technical.<sup>11</sup>

Economic relations of the EU and Russia include important geopolitical aspects. Besides their obvious effects on domestic economies, they are an element in Eurasian continent-wide debates on liberalization vs. protectionism. There are two projects in recent decade, which have been intensively discussed in Eurasia. One of them is the establishment of the EU-Russia free trade zone. Another is the free trade zone between China and the EAEU. Some experts nowadays even speculate on prospects of trilateral free trade zone, which includes EU, China and Russia.

Keeping in mind today’s realities, neither of above-mentioned proposals meet interests of Russia, that’s why its diplomacy successfully torpedoes them. At the same time, it is obvious that the EU is not concerned in free trade zone between Russia and China, because in this case positions of European businesses on Russian market will be diminished.

Still, real modernization process for Russia cannot happen without European Union and, to a less extent, without US technologies and transfer of know-hows. That’s why a number of large European companies continue their “Russia-first” approach when they face a forced choice between Russia and Ukraine or other countries of Eastern Europe. Amid relative decline in relations, Russia has been able to stay attractive to a number of European companies, which then serve as lobbyists for normalization of bilateral economic and political relations. For example, in September 2015, European energy giants E.ON (Germany), BASF (Germany), OMV (Austria), Royal Dutch Shell (British-Dutch), and ENGIE (French) signed an agreement with Gazprom on the construction of the Nord Stream-2 pipeline in the Baltic Sea. On October 10 2016, Russia and Turkey signed an Agreement on construction of “Turkish Stream”, a gas pipeline, which outflank Ukraine and will deliver up to 31 billion cubic meters of Russian natural gas to consumers in Turkey and Southern Europe. As well, in August 2015, Finland was able to conclude a deal with Rosatom on building a nuclear power plant (partly financed by Russia’s National Welfare Fund).

### **Recommendations:**

1. Gradual lifting of mutual sanctions and renunciation from their use in the future.
2. Establishment of “second track” in EU-Russia relations, dealing with economic and trade affairs. It should be disconnected from current political squabbles between Moscow and Washington and concentrate on mutually beneficial aspects of economic cooperation.
3. Denial from unfriendly actions towards EU or Russian companies, functioning on the territory of other partner. It should include, among others, energy and transportation companies.

9 Federazione Russa. “Analisi delle Esportazioni Italiane”. Agenzia ICE. Moscow, February 2014. <http://www.ice.gov.it/paesieuropa/russia/upload/088/ICE%20Russia%20-%20Analisi%20delle%20Esportazioni%20Italiane%20nella%20FR%202014.pdf>

10 Ministry of finance. *The economic effect of the EU’s Russia sanctions and Russia’s counter sanctions*. August 27, 2014. [http://valtioneuvosto.fi/documents/10184/1058456/venaja\\_pakotteet\\_en.pdf/11184e4f-b00a-4474-9576-66c89d9e18ae](http://valtioneuvosto.fi/documents/10184/1058456/venaja_pakotteet_en.pdf/11184e4f-b00a-4474-9576-66c89d9e18ae)

11 Outcome of the Council meeting. 3457<sup>th</sup> Council meeting. Foreign Affairs. 7042/16. Brussels, March 14, 2016, p. 4.



## Conclusion

Recent history of the EU-Russia relations shows that isolation of Russia is simply not possible. International community nowadays is much bigger than G-7, European Union or NATO. Many major powers, including Russia's partners in BRICS, have little interest in cutting their economic relations with Moscow.

Previous policy of political dialogue, strategic partnership and engagement of Russia into whole-European system has been abandoned by the EU in 2014. There is no political will in the EU to replace it by something sustainable and coherent. The fact that there are no new sanctions, imposed on Russia since September 2014, should be interpreted as a sign of "tiredness from Ukraine" and tolerance to existing status quo: neither peace, nor war at this country. Both Russia and the European Union could be satisfied with current status quo in Ukraine for many years. The problem is that people in Ukraine are suffering from internal crisis and role of "conflict zone" at Russia's proxy war with the West – USA and the European Union. That's why the first sign of improvements in EU-Russia relations will come from Ukraine. Either as a consequence of change in post-Maydan's ruling class in the country via elections or even after another coup d'état, which will bring pro-Russian forces to power in Ukraine instead of current pro-Western leaders of the country.

Solution of the Ukrainian crisis would be great news for security and stability in Europe, including the countries of the Baltic Sea region. Today there are no institutions and mechanisms in place, which protect existing level of cooperation and assist in development of a new strategy for bilateral relations. Dialogue between Russia and other Baltic Rim states is overloaded by hard security agenda and lack of trust. Desecuritization should become the common goal for politicians and experts in the region. Positive agenda in the dialogue should prevail and it may include trade, environment, mobility of people, investments. Gradually declining efficiency of EU-Russia cooperation mechanisms put additional obstacles on future of bilateral relations. There is little hope that improvements could be done in the near future. But already now experts should discuss prospective areas for communication and possible cooperation.

Today's challenge is enormous; to put EU-Russia relations on a completely new foundation. Already now it is possible to predict that we may expect discussions on a new treaty on European security, which will fix borders in Europe, introduce principles of indivisibility of European security and establish mechanisms of conflict prevention and resolution. Russian Federation prefer to discuss this problems directly with European countries without US mediation. If both EU and Russia will be able to develop such structures of dialogue – it will become an important precondition for success in formation of all-European area of security and cooperation.

EU-Russia economic relations are to a great extent dependent on qualitative characteristics of relations in security and foreign policy spheres. Depolitization on the relations is a long-term task, and the solution can be found in the Baltic Sea region where geographical proximity and common history should assist in the search for innovative diplomatic and political steps.

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