**EU-Russia Relations: A Guide for Times of Strategic Uncertainty**

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In 2018, President Putin was re-elected for another 6-year term. In 2019, the EU selected its top leadership for a 5-year mandate (with the exception of the President of the European Council appointed for 2.5 years). One can thus assume there will be some stability at the top level of political management in the EU and Russia until 2024. This paper proposes to briefly evaluate the current state of EU-Russia relations and critically assess the EU’s policy options on Russia in the next five years.

*Stabilizing relations at a decade’s low level*

Currently the EU and Russia are locked in a strategic stalemate: both sides are more focused on managing disagreements and contentious situations rather than on reaching new ambitious agreements. Relations are more competitive than cooperative. After a rapid degradation in 2014-2016, relations have stabilized, however at a decade’s low level. This ‘low’ manifests itself on the level of perceptions, trade and people-to-people contacts (with certain exceptions) and political relations.

Perceptions

Russian ruling elites over the last years depicted the EU as an unfriendly actor or merely a pawn of the US (in the context of sanctions policy). Prior to 2014, Russia on a rotational basis accused the Baltic States and Poland of “Russophobic” positions. After 2014, the Kremlin expanded its list of EU MS considered as promoters of “anti-Russian” stance (e.g., Netherlands after MH17, Greece in the wake of the expulsion of Russian diplomats). On top of this, domestic audiences regularly received from Russian television a heavy dose of messages about decaying and failing Europe. This discourse leaves an imprint on public opinion: according to Pew Research (Spring 2019), favorable views in Russia towards the EU sank from 63% in 2013 to 37% in 2019; whereas negative ones rose from 22% in 2013 to 60% in 2015 and later decreased to a still sizable 44% in 2019.

On the EU side, Russia has been framed either as an important neighbor, a problematic neighbor the EU needs to deal with or as a strategic challenge, risk or threat. For major European corporate actors Russia still shines as a business opportunity, but less so than 5 years ago. Exemplificative is the behavior of German companies; between 2014 and 2019 their number in Russia dropped from 6200 to 4274. Opinion polls in Europe demonstrate the change of perceptions too: according to Pew Research (Spring 2018) conducted in 10 EU MS, a little over half of Europeans viewed Russia unfavorably in 2013. This number reached 63% in 2018. A noteworthy detail, Netherlands tops the list with 79%.

Trade and people-to-people ties

Trade and people-to-people contacts are traditionally the bedrock of EU-Russia relations. Despite political divergences, they remain the important tissue through which the EU and Russia are closely intertwined. However, these links weakened over the last years.

According to the EU Commission, the EU-Russia trade turnover declined from €326 bn in 2013 to €191 bn in 2016. Since then, it rebounded to €253 bn in 2018, mainly due to the growing value of Russia’s exports. Since 2017, the value of EU exports to Russia is stagnating. Notably, despite much better political relations, China’s exports to Russia have been growing compared to 2017 (+26%) slower in 2018 (+9%) and have almost plateaued in 2019 (+3.6%). Among EU MS, the Netherlands is the 2nd biggest importer and the 4th largest exporter to Russia. The Netherlands has at the same time the largest trade deficit with Russia. Overall, EU-Russia trade relations are asymmetric: the EU remains by far Russia’s main trading partner with a 43% share, whereas Russia is EU’s 4th trade partner with a 6% share.

Over 70% of the EU’s imports from Russia represent energy and raw materials. The share of gas imports from Russia increased from 30% in 2011 to 40% in 2018, which is still far below the all time high – 65% - in 1990. However, Russia’s share expanded amid growing gas interconnections in Europe (Baltic Interconnector, Trans Adriatic Pipeline) and the expansion of infrastructure for LNG imports (by 148% in 2006-16). Thus, Russia’s share goes up when gas gradually becomes a global commodity (LNG represents 45% of global gas trade), while the European market is less fragmented than a decade ago. It is important to highlight that sales to Europe account for around 70% of Gazprom’s export profits and over 5% of Russia’s GDP.

The EU-Russia people-to-people contacts partially declined. The number of applications from Russia for Schengen visas dropped from around 7 million in 2013 to 3.5 million in 2015, followed by a meager rebound to 3.7 million in 2018. Russians’ declining incomes explain this drop. Still, Russia remains the biggest recipient of Schengen visas in the world, ahead of China by 900 thousands visas annually. At the same time, Russia managed to attract more European tourists during the Football World Cup in 2018. Following this success Russia introduced free of charge e-visas in 2019, allowing EU citizens to spend 8 days in the Kaliningrad oblast, Saint Petersburg and Leningrad Oblast. In 2020, Russia might attract more European visitors and shore up its revenues from tourism.

Political relations

Bilateral relations in the politico-diplomatic field took a turn to the worse even before the dramatic events of 2014. Vladimir Putin’s return to the Kremlin in 2012 and repressive tactics at home widened the normative gap between the EU and Russia. Shortly after, Russia made it known that it had a problem with the EU’s engagement in the Eastern neighborhood. In fact, Russia tried to block the conclusion of the Association Agreements (AA) with Eastern Partnership (EaP) states. This assertive foreign policy in the EU’s eastern neighborhood, in particular in Ukraine, amplified mistrust and pushed the EU to introduce a set of unprecedented sanctions on Russia in 2014-18.

The prior 2014 conviction was that if the EU and Russia often cannot cooperate in their shared neighborhood, they still can do so with success in other regions. Since 2014, this assumption did not materialize on multiple occasions. Russia’s foreign policy became more confrontational in the Western Balkans, Middle East, Africa and Latin America. Even on dossiers where the EU and Russia public positions coincided (e.g. counter-terrorism), substantial cooperation failed to take root.

A series of hostile Russian measures against Europe produced additional negative impact on bilateral relations. Since 2014, Russia has been challenging openly or covertly (e.g., political funding, cyber-attacks, disinformation) political systems across Europe. Furthermore, assassinations of Kremlin’s opponents on European soil and meddling in internal affairs have resulted in highest number of expelled Russian diplomats from EU MS since the end of the Cold War.

By the end of 2019, EU-Russia relations stabilized: no major crises occurred, half of the EU MS resumed or kept running bilateral economic commissions with Russia, whereas the Donbas file, to which EU sanctions are pegged, registered meagre progress. There are renewed calls to re-think relations with Russia in an attempt to move from a strategic stalemate to a more intensive engagement, which ultimately could reinvigorate economic exchanges, avert further tensions in the shared neighborhood, and arrest Russia’s drift from Europe towards China.

*Proposals for overcoming the strategic deadlock*

Three preliminary ways to start untangling accumulated problems with Russia are often discussed: soften and ultimately phase out sanctions; formalize relations with the Eurasian Economic Union (EAEU); re-engage with Russia to dilute its pivot to China. Can a single option or a combination of the three help put relations back on track?

Softening of sanctions

The argument often made is that sanctions do not work; they hampered EU-Russia trade and allegedly did not help to change Russian behavior in Ukraine. Accordingly, 5 years later, sanctions are more of the problem rather than a solution and therefore need to be gradually lifted.

Firstly however, sanctions do work. In the spring 2014 President Putin was, in a not very veiled way, claiming rights over Ukrainian territory (regions which belonged to Tsarist Russia, described as “Novorossiya”). In late August 2014, Russian proxies were closing in on Ukraine’s seaport on Azov Sea Mariupol. But after a 2nd round of sectoral sanctions, these forces abstained from launching a full-scale assault on an almost defenseless Mariupol, whereas the Kremlin reluctantly shelved its “Novorossyia project”. Sanctions have not changed Russia’s objectives in Ukraine, but, in combination with other constraining factors, they did force Moscow to scale down the use of force. This limited the number of victims, the radius and intensity of the military conflict. As fighting in Donbas persists and there is no properly enforced disengagement of forces and withdrawal of heavy weapons, sanctions’ relief or removal at this stage risks contributing to a new escalation of violence.

Secondly, sanctions are a bargaining chip, which the EU would do better to exchange for some palpable concessions from Russia serving the EU’s interests. To give up on sanctions without getting anything substantial in return is self-defeating. In addition, such a move will undermine the EU’s reputation and sanctions efficiency in future situations.

Thirdly, EU sanctions are neither the single nor the main factor behind the EU-Russia trade deceleration. Bilateral trade began to fall in 2013 (along with Russia-China commerce) due to Russia’s weak economic performance and frequent application by the Kremlin of protectionist measures against the EU. Since 2014, the trade decrease was driven by: European sanctions and Russia’s partial food embargo against the EU, the collapse in oil prices (reduced value of Russia’s main item of exports to the EU – energy resources), an accumulated 8.4% fall of real disposable incomes in Russia for 4 years in row followed by stagnation (contraction of consumption) and a less favorable investment climate (e.g., a volatile regulatory environment). Lifting of EU sanctions might have short-term economic benefits, but these will be hampered by Russia’s structural economic malaises and the preservation of US sanctions. At the same time, softening of sanctions might increase EU’s costs of managing conflict in Donbas.

Formalizing relations with EAEU

Although the EU is engaged in technical dialogue with the EAEU, it abstained from developing and formalizing structural relations. The “pro” argument is that the EAEU is another economic integration unit with more than 180 million consumers next door to the EU and to ignore it while the EU has relations with similar organizations around the world is economically irrational. Thus, The EU has to act upon Russia’s offer and establish relations with the EAEU. Besides potential economic advantages, relations with the EAEU are expected to placate Russia’s assertiveness and set a more cooperative atmosphere in the shared neighborhood.

Firstly, EAEU is not build on a basis similar to the EU. It is not an entirely voluntary union. The EAEU is also less about economics and more about geopolitics. Members’ intra-EAEU trade (2014-18) as a total share of their global trade declined (Kyrgyzstan), stagnated (Russia, Belarus) or only moderately grew (Kazakhstan, Armenia). By pushing for EU-EAEU relations, Russia seeks to monopolize its allies’ relations with the EU and cement influence over them. Unsurprisingly, some of Russia’s allies privately plead against the formalization of EU-EAEU relations. Formalization of relations with the union would conflict with the EU’s consistent position that states, according to Helsinki principles, have the freedom to join alliances and organizations. Notably, the 1970s Soviet Union proposed to recognize the European Economic Community (EEC) in exchange of institutionalizing relations with the Moscow-led Council for Mutual Economic Assistance (COMECON). This proposal was interpreted as another move to further reinforce control over Eastern Europe. The EEC declined the offer, instead proposing bilateral tracks to each of the Soviets’ captive allies, in order to expand their maneuvering space in talks with Moscow. Certainly, the EAEU is not COMECON, but the logic behind Russia’s offer to institute the EAEU-EU relations strongly resonates with one from 1970s. Thus, the example provides a historical lesson, which can inform and guide the EU’s positioning today.

Secondly, the EAEU is not yet a fully functional union. The functionality of the Customs Union and Common Market is diluted by numerous exemptions from agreements, weak rule of law and corruption. European businesses had hoped to take advantage of the EAEU common customs space. After disappointing experiences many complain that it exists mainly on paper. Some of the Russian government’s unilateral decisions (e.g., food embargo on the EU, prevention of goods’ transit between Ukraine, Kazakhstan and Kyrgyzstan) come to support this point. It also raises doubts about the functionality of the union and questions the Eurasian Economic Commission’s capacity to be a guardian of rules.

In conclusion, establishing relations with the EAEU might generate less economic benefits than expected due to the fragmented nature of the union and slow rates of economic growth in the EAEU’s main economy - Russia. The move could also worsen the position of some of the EU’s eastern neighbors and breed more tensions.

Decoupling Russia from China

Much has been said since 2014 about Russia’s rapid rapprochement with China. The argument goes that the EU has pushed Russia into China’s embrace. As a result Russia is rapidly re-orienting its energy exports towards China, while the EU is losing the Russian market. This logic dictates amending the EU’s policy on Russia in order to stop this drift. But is it realistic?

Firstly, the Russia-China rapprochement is not something which began in 2014 and surely is not driven only by EU policy on Russia. Observing China’s rise, Moscow initiated bandwagoning with its eastern neighbor in the early 2000’s. This is when outstanding bilateral territorial issues were finally solved, volume of Russia’s crude oil exports to China began to grow, overall trade started to expand and Beijing sent its first big loans to Moscow. The relation deepened further in 2009 when China, in the midst of global financial turmoil, lent $25 bn to Russian state oil companies in exchange for oil deliveries for the next 20 years. The 2014 events precipitated, but did not initiate the Russia-China partnership. Despite 2 decades of almost uninterrupted (exceptions are 2009, 2013 and 2015) bilateral trade growth, Russia’s trade with China remains comparatively small (EU-China trade turnover is above €600 bn). A pledge made in the early 2010s to surpass $100 bn turnover was fulfilled only in 2018.

Secondly, China can offer Russia what the EU cannot or what Russia does not want, for political reasons, to get from Europe. In the security field China is perceived as less threatening than the US or Europe. China is not only a valuable market, but also a partner who shares authoritarian know-how (e.g. internet surveillance and segmentation), provides political support in crisis situations (e.g., during 2019 summer protests in Moscow) and shares digital technologies. Russia finds Chinese 5G technology politically safer than a hypothetical European alternative. All this makes the relation with China even more valuable for Russia. Regardless of amendments to the EU’s Russia policy, these drivers behind the Kremlin’s openings towards China will not disappear overnight. Thus, Russia is unlikely to renounce soon on close economic, political and security relations with China.

Last but not least, Russia’s energy reorientation to China is less dangerous than it is often depicted. Gas exports to China via the newly opened “Power of Siberia” pipeline will reach maximum capacity only by 2025 (38 bcm), which will be moderately above the capacity of TurkStream (31.5 bcm), but significantly below the capacity of China-Central Asia Gas Pipeline (60 bcm). Substantial reorientation of gas exports will require more time and financial resources to build the infrastructure to China. It will also require political decisions in Beijing, who keeps stalling talks on a second gas pipeline from Russia. Thus, in the foreseeable future, Europe will remain Gazprom’s main market. As far as Russia’s oil exports are concerned, these underwent important geographical diversification. China is now the main destination for Russian crude oil deliveries. Still, Russia’s share in Europe’s oil imports grew from 10% in 1992 to 30% in 2002. Thanks to durable growth in oil production, Russia’s share stayed relatively stable since 2002, in spite of increasing exports to China. Today, the glut on the global oil market provides the EU with enough means to counter Russia’s attempts to leverage oil supplies geopolitically.

*Strategic patience, tactical flexibility*

It is not for the first time in the last 5 years that Europe contemplates amending its course on Russia. In November 2015, EU MS were discussing new policy options on Russia, but this process was interrupted by Russia’s bombing of Aleppo and a new wave of refugees to the EU. In early 2018, there was again an impression that EU-Russia relations stabilized and that Europe had to change the tack on Russia. However, the use of a chemical agent on British soil by Russia’s intelligence operatives and later the incident in the Kerch Strait again forestalled a review of EU policy. The lesson learned is that despite Europe’s good intentions to put relations with Moscow on a healthier footing, these have slim chances to materialize without reciprocity on the Russian side. And reciprocity is so far in short supply.

In 2019, the sensation of relative stabilization in bilateral relations is felt due to very low criteria of success, meaning the absence of any major bilateral crisis. Still, in 2019 Russia meddled in elections to the European Parliament (confirmed by EU Commission reporting) and apparently continued targeted killings on the EU soil (the assassination of a Georgian-Chechen refugee in Berlin). Even the slightly positive dynamic on the Donbas file has principally been the result of elections in Ukraine and stemmed from Kyiv’s efforts to revive peace talks. Russia made no major concessions: it decided to distribute Russian passports in the region, introduce measures to restrict exports of oil and coal to Ukraine, and insisted on a witness in the MH17 case being exchanged in a big Russia-Ukraine prisoner swap. In this climate, unilateral steps (discussed above) to reach out to Russia risk backfiring and putting the EU in a much weaker position vis-à-vis Moscow. This would also make its immediate neighbors more vulnerable.

The next 5 years will be a period when the EU will have to learn how to live with a more competitive and assertive Russia at its border. To be successful and protect the interests of the EU MS, Europe should show strategic patience and tactical flexibility. In practical terms this means: keep unity, restrain, mediate and engage.

Unity is not an empty slogan, it is a strategic imperative for EU MS. Unity does not exclude bilateral relations with Russia, it rather provides weight and endows EU MS with support in their dealings with Russia. For instance, Dutch diplomats repeatedly underscored how important it was to have EU MS behind in the wake of the downing of MH17. For unity to be functional there is a need for coherent messaging and coordination of actions on Russian track.

Restrain is about penalizing misbehavior and building EU immunity to Russia’s multi-domain hostile strategies. It is mainly about improving sanctions implementation, closing domestic loopholes and reducing vulnerabilities Russia (and other unfriendly great powers) can exploit. The Netherlands, with its impressive expertise in the cyber domain, does and can further make a significant contribution to EU cyber security. Besides intra-EU efforts, building immunity will require deeper cooperation with NATO. Resilience also has an external dimension, as instability in the neighborhood can be imported to the EU. Europe can in many ways help its eastern neighbors in building their immunity against externally induced economic or political shocks. The EaP Summit in June 2020 represents a good occasion to debate and charter the course for the next decade.

In the neighborhood, besides fostering immunity the EU will have to operate more and more as a pro-active mediating power to de-escalate or prevent disputes. This will not be an altruistic exercise; it will clearly serve EU interests. Acting preventively might be more cost effective for the EU than to wait for the new crisis on its borders to explode or an old one to re-escalate. A good example of the EU performing this role efficiently is its mediation in gas talks between Russia and Ukraine. However, the pre-condition for successful mediation with Russia is a strong negotiating position (immunity) and consistent strategic communication. The EU and Ukraine stored extra gas in storages in case of suspension of deliveries, while Ukraine backed its position by a legally binding decision against Gazprom delivered by the Stockholm Arbitration Tribunal. The next file where the EU can test its mediating role and works towards de-escalation in the coming years is in Donbas. The appointment of an EU Special Representative, expansion of EUAM regional offices and support for more economic projects in the government-controlled Donbas could help the EU to raise its profile and position well Europe for mediation.

The fourth pillar is dialogue and targeted engagement with Russia. Bilateral dialogue should remain uninterrupted regardless how divergent the positions are. It is important to understand why and how the Russian vision, discourse and arguments on the EU and international dossiers evolve in real time. It might also help identify areas where cooperation is feasible. The Nordic dimension of regional cooperation and climate change issues could be prospective avenues to test Russian willingness to engage. However, without Russia’s genuine openness, attempts to engage will remain only attempts. For example, Russia in words supported the efforts to save the international deal on the Iranian nuclear program. This is what the EU tries to do too. In reality, Russia did little to save it, as a weaker Iran partially excluded from oil markets is a more comfortable counterpart for the Kremlin to deal with.

Last but not least, Russia is not only the government, it is also Russian people. Therefore, engagement with Russia means a greater outreach and interaction with Russian society. For instance, the EU may think about how to facilitate more Russian citizens’ travel to Europe and expand programs for students and young researchers. More engagement could take place on the levels of cities and municipalities to which many young Russians migrate from rural areas and small towns. There is also need for more content in Russian language about Europe addressing Russian audiences. In the second half of the 2020s, Russia might undergo a power shift. Society could again play an important role in Russian politics. It is in EU interests to build bridges with the next politically active Russian generation.