

Russia -EU Relations : Further Deterioration Expected?

Mutual mistrust

Nobody can deny that the relations between the West, especially the EU and Russia are not in good shape. Maybe some on both sides are happy about it. Some regarded the pragmatically good relations of the times after the break down of the Sovietunion always with mistrust and skepticism. And you could find them amidst the nostalgic dreamers of the Russian empire and the Sovietunion as well as amidst those, especially in some new member countries, for whom the Russian imperialism is "genetically" founded. For some of them, Putin's Russia was and is the same as the Sovietunion and therefore Putin was and is another Stalin.

On the other side some nostalgics of the the strong Russia - before or inside - the Sovietunion have a deep mistrust against the West with its liberal values and especially with its new freedoms for homosexuals and secular, even anti-religious tendencies. It is in line with these tendencies that the former KGB officer Putin is on very good terms with the hierarchy of the Orthodox Church. We should never forget the parallelism of the domestic and foreign policy of today's Russian policy.

Missed chances after the Sovietunion's breakdown

This trend has its origin in the Russian history and its use by today's Russian ideologues and politicians. But this new trend, which is based on old and traditional structures, ideologies and policies was also supported by the "one sided" enlargement of EU and NATO. Nevertheless one can understand that, regarding the history of Soviet domination and policies after the World War II -and partly even before - there was a strong incentive and pressure to go foreword as quickly as possible with enlargement and integration of the the now liberated countries into the Western political and military structures.

Nevertheless, the neglect of any strategy to involve and include - parallel to the enlargement process - Russia into a comprehensive defense structure in Europe was a grave mistake. Such a wide ranging and courageous strategy should have been considered from the beginning. The later reaction of the so called Medvedev Plan, when he was Russian president, was typical for the Western lack of visionary ideas and conceptions towards a wider European strategy. Maybe the Medvedev plan had in mind to exclude the US from a European security structure, but this was never tested. Anyway, the EU never seriously and in right time tried to present and offer a

far reaching and innovative approach to an all - European security structure with Russia and the USA as strong partners.

Acute crisis with Ukraine's rapprochement with EU

The diverging courses of the EU and Russia became acute with the approaching of the EU enlargement process to the borders of Russia in what was called the "Near Abroad" of Russia. With a certain stabilization of Russia, also due to high energy prices and the build up of financial reserves, Putin became much stronger and assertive in his new presidential period. Just at this time, the negotiations about an Association and Comprehensive Trade Agreement with Ukraine and some other countries of the common neighborhood came into its final phase. Armenia withdrew from an already fixed agreement. With Georgia and Moldavia Russia had not really new and strong measures and tools of pressure at hand. Both countries already were affected by Russian sanctions and support for breakaway regions. And these countries were not as strategically and ideologically important as Ukraine.

Negotiations with Yanukowitch & Co.

In regarding and evaluating the Russian reactions to the negotiated agreement with Ukraine, it has to be underlined, that these negotiations were done principally with President Yanoukowitch and the government of Prime minister Azarov from the Party of the Region. And all other negotiators like Andriy Klyuyev were representing the same party. And in all talks - and I myself had many talks with them, often bilaterally - they underlined the willingness to sign the agreements negotiated. Only at the very end came the No from Kiev, due to the enormous pressure from Moscow. The decline of signing the agreement had the protest at the Maidan as consequence. This was less a probes against Russia as such as a protest which was directed against the interruption of the association process, which was rightly interpreted as a stop to the internal reforms of a corrupt system. This system with many deficiencies concerning the state and rule of law was an obstacle to

the modernization of the country and the development of democracy.

Even then the EU tried to mediate between the Maidan movement and Yanukowitch. But the trust into the Ukrainian President, who recently switched from Yes to No and was seen as the symbol of a corrupt system was no longer existing. And the fact, that Russia is not "using" Yanoukowitch as the legitimate president and that it had respected the recent presidential and parliamentary elections is clearly a sign for their recognition of him as a persona non grata in Ukraine. As in the years after the break up of the Sovietunion also in course of the negotiations of the association agreements the EU may have made mistakes not considering Russia's concerns and fears. But we had respected the elected representatives of all these countries and their clear willingness to come to an agreement with the EU.

Crimea and secession

On the other hand, the support for the secessionist movements in the Eastern region and the well prepared and illegal annexation of the Crimea was violating clearly international law and also the Budapest agreement in which also Russia recognized the territorial integrity of the new Ukraine. This was and is a behavior the EU could not and cannot accept. One cannot compare this enforced annexation with the lengthy process of giving Kosovo - after many years of suppression - the chance for independence. Even in the case of Kosovo, the EU did not support an annexation by a foreign country, for instance by Albania, and the West especially the EU is trying to find an agreement with Serbia and to establish good relations between Kosovo and Serbia, including supporting the Serb minorities in Kosovo. It is along and internationally accorded process to a new regional order.

The choices of the EU

The EU had basically three choices how to react to the direct Russian interference:

neglect it,
go for the military option, directly or by delivering weapons to Ukrainian government or decide on sanctions, political a or economic nature.

To neglect the annexation and the support for separatist movements would signify acceptance and would have brought enormous strain and divisions inside the EU. The military reaction would never met consensus inside the EU and even NATO and would have been disastrous. So sanctions are the least damaging reaction for the EU, the least damaging, but not without damages for the EU itself and some serious setbacks!

EU and Russian sanctions

Sanctions in an economically and politically interconnected world create always collateral damages also for the countries who decided on sanctions and apply them and not only in the countries who are the target of sanctions. In addition they go against the ideological supported principle of free trade. And they always raise the questions how and under what conditions to get out of the sanctions, what kind of exit strategy has been considered if any. This was as well the case with the sanctions concerning imports of wine, meat, fruits etc. Russia levied against some of its neighbors. And it is now the case with the different kind of political and financial sanctions decided by the EU.

And we should not forget the very differentiated gas prices as political tools, which sometimes can also be interpreted as sanctions. The same could be said about the insistence to deliver gas to Europe not via Ukraine but either directly or via countries which would have no conflicts with Russia.

Concerning the legal basis the EU is bound by the law, which finally is interpreted by the European Court, which already in the past decided against several decisions for example taken against Iran. We have to wait, what kind of decision will be taken in the case of sanctions against Russia or Ukraine. It is known, that several Russian companies and also Ukrainian individuals have appealed to the European Court to challenge the legal basis of the sanctions.

New basis for sanction regimes

Independently from the legal questions, the EU should create a legally sound and reasonable basis and framework for sanction regimes, to which CEPS made recently some proposals. One of the vital questions is of course if sanctions will reach the goal intended with them. And what kind of goals will be chosen. The costs of the sanctions on all side should be taken into account. Also the unintended effects should be considered. And most importantly it should be clearly evaluated if sanctions are in line with the other political aims and objectives of the EU foreign and security policy.

The costs of sanctions

Concerning the costs - of the sanctions imposed on Russia and the counter-sanctions with which Russia retaliated - a recent study done by the very reliable Vienna Institute for International Economic Studies (WIIW) shows that they may go up to one percent of Russian GDP for the period 2014 - 2016, primarily on account of increased investment risks. You had already before some capital flights and reduction by foreign investment, but sanctions seemed to have strengthened this development. One of the consequences of sanctions is that Russia is less able to meet the challenges of slow growth and increasing inflation than without. And the devaluation of the Rubel will even increase inflation!

A much smaller impact is evaluated for the EU, alas with a very wide spread between different countries, depending on their exposure to the Russian market. The Baltic states and Finland are much more affected than for example Austria. For Lithuania and Estonia the costs would be about 0,4% and for Austria less than 0,1%.

Apart from these costs, we have to realize, that Ukraine is of course the biggest victim of the dispute. And Ukraine stays the biggest single trade partner for Russia. And Russia needs Ukraine for energy imports.

Russia's economy and the oil price

Unfortunately to this day, no exit out of the crises is visible. The separatists still have the support, at least politically and morally by Russia and even the Minsk agreement seems not to be respected. And this means, the sanction imposed by the EU will not be lifted. Especially as some hope, that the decline of the oil and gas price will in particular hit Russia and force Putin to a change of course. Some even speculate, that the lowering of the oil price is artificially manipulated by the US and Saudi Arabia to the detriment and disadvantage of Russia and Iran, which has been officially denied.

Russia today is economically and financially not in a very good position. Some of the sanctions, especially concerning new technologies, the reduction of foreign investment from the West and the decline of income from energy exports is creating a lot of problems for Russia. But Russia still has financial reserves. And politically Putin could rally many friends around him and received strong public support. In addition many elite groups, who had different views before, now have to support the Russian foreign policy. This is the non-economic effect. Even if it is called "collateral" it is a major effect.

New Russian alliances?

And of course President Putin and Russia will look for other alliances in the Eurasian neighborhood and in China. But that will be not so easy, as the Russian actions against Ukraine and other neighbors has met mistrust and not found much support. The resurgence of Russian nationalism and imperialistic tendencies is not a good basis for a close cooperation. Even some Chinese companies, for example those with subsidiaries in the USA, are not happy to work together with Russian companies, because of fears to be sanctioned by USA. On the other hand, some countries like Kazakhstan and Belorussia have got a stronger position because they are the source of western imports into Russia affected by sanctions to Russia.

Looking to the high importance of energy exports, the strong dependence on European markets and the extensive use of Dollar and Euro an alternative direction towards Asia and especially China is not easy. Nevertheless Europe must be careful and vigilant and enhance its relations with all those who could be attracted to a strong alliance with Russia against the EU. Otherwise China would be the big winner, at least politically.

From status quo to Helsinki II

We have to recognize that the overall situation in the relations between Europe and Russia will not easily improve. We will have to leave with frozen and /or lukewarm conflicts, hoping we can avoid of overheating. But this is not a stable and secure situation. We should look for ways to overcome this fragile status quo. And the minimum would be a de-escalation of words. We have to stop the war of words in order to prevent the outbreak of a real war.

What we would need in addition, are channels of dialogue which would prepare an exit strategy for both sides. With the annexation of the Crimea and the support for separatists in Eastern Ukraine and by thus violating the Minsk agreement, it will be difficult. Both sides do not want to be seen as weak and compromising too early. But a Helsinki II process to give the whole Europe a new security structure would be necessary. A courageous reset in the relations between the EU and Russia will be vital for peace in Europe. And to be honest it would include a stop of NATO enlargement, should not include a stop to EU enlargement and must include a new all-European security structure. This cannot be done without the USA.

But it will be very difficult to agree on the neutrality for Moldavia, Georgia and especially Ukraine. The leading politicians in these countries will argue, that only NATO would protect them against Russian intervention. And of course for the USA even if they are not eager to extend NATO into this conflicting zone, they never like neutrality. And if Russia would take that initiative it would be met with much resistance and skepticism. And if we can find an agreement in Europe is at least at the moment doubtful. But the initiative must come from the European Union. And Austria and several institutions like this can be helpful to keep the dialogue going. It is in anyway better than war and also better than economic and political sanctions.

One possibility to take steps towards an agreement is of course to think about a renovation and reconstruction of the OSCE. Here we have European Union countries and other European countries, Russia and the USA and others together and a sincere dialogue would all of them give the possibility to bring in their ideas. The OSCE now as a platform and in future as a reconstructed and strengthened security organization could be the way out of the present stalemate.