COOPERATION BETWEEN THE EUROPEAN UNION AND RUSSIA

A MATTER OF MUTUAL INTEREST

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Foreword

The Advisory Council on International Affairs (AIV) issued this advisory report at the request of the Senate of the Dutch parliament. The full text of the Senate's request, dated 22 February 2008, is included in Annexe I.

This report was prepared by a joint committee chaired by Professor A. van Staden, Chair of the European Integration Committee (CEI). The members of the committee were Professor M.G.W. den Boer (CEI), Dr W.F. van Eekelen (CEI), Lieutenant General G.J. Folmer (ret) (Peace and Security Committee, CVV), T.P. Hofstee (Human Rights Committee, CMR), Dr P.C. Plooij-van Gorsel (Vice-Chair of the CEI), Professor J.Q.T. Rood (CEI), C.G. Trojan (CEI) and Professor J.W. de Zwaan (CEI). Professor W.M.F. Thomassen (CMR) participated as a corresponding member. Two former members of AIV committees, Professor F.J.M. Feldbrugge and A.P.R. Jacobovits de Szeged, and honorary member E.P. Wellenstein acted as external experts.

The following persons acted as civil service liaison officers: S.J.F.M. van Wersch, head of the European Integration Department, External Affairs Division (DIE-EX), of the Ministry of Foreign Affairs; K.J.R. Klompenhouwer, director of the Southeast and Eastern Europe Department (DZO), also of the Ministry of Foreign Affairs; M. Jacobs, head of the Eastern Europe Department (Russia, Ukraine and the Southeast Caucusus), Economic Affairs Division at the Dutch Permanent Representation to the EU; and J. Douma, Deputy Head of Mission at the Dutch Embassy in Moscow. They were also consulted as experts. The executive secretary was Dr S. Volbeda, who was assisted by the trainees Ms S. van Schoten, H. Honnef and S. van Hooff.

In preparing this advisory report, the committee consulted a number of experts in The Hague, Brussels and Moscow. A list of the persons consulted is included in Annexe II. The AIV greatly appreciates their willingness to share their insights with the preparatory committee.

The report was adopted on 4 July 2008.

I Introduction

Request for advice from the Senate

Meeting in joint session, the Senate's Foreign Affairs, Defence and Development Cooperation Committee (BDO) and its European Cooperation Committee (ESO) decided to request advice from the AIV on the future of the relationship between the European Union (EU) and Russia. The relationship is topical, among other reasons, on account of the summit meeting held between the EU and Russia in Khanty-Mansiysk, Siberia, on 28/29 June 2008. One of the points on the agenda was the negotiation of a new Partnership and Cooperation Agreement (PCA). The original PCA was signed in 1994 and came into force in 1997 for a period of ten years. It was tacitly extended for a period of one year in 2007 but the concept is in need of updating. Negotiation of a new agreement was delayed by a variety of bilateral frictions with individual member states but the sticking points have since been overcome. It was decided at the summit in Siberia to start negotiation of a new PCA in Brussels on the day that the AIV adopted this report, 4 July 2008.

The main questions are what form a new agreement should take, what its content should be and what the EU and, indirectly, the Netherlands' aims should be in the negotiations.

Bordering Finland, Estonia, Latvia, Lithuania and Poland, the Russian Federation ('Russia') is not only the EU's largest direct neighbour, it is also the *other* neighbour of the Union's eastern neighbours. The AIV issued an advisory report on European Neighbourhood Policy (ENP) towards the eastern neighbours Belarus, Moldova and Ukraine in July 2005.[1] This report also considered the Transcaucasian states of Georgia, Armenia and Azerbaijan, which will become neighbours should Turkey accede to the EU. Russia is also the other neighbour of these countries.[2]

The Senate noted in its request that Russia has been pursuing a distinctly more assertive foreign policy in recent years, prompted in part by the sharp increase in the strategic value of its stocks of fossil fuels, especially natural gas. The Senate asked the AIV to consider the relationship between the EU and Russia in the broader context of the Commonwealth of Independent States (CIS) and the United States and in the light of the North Atlantic Treaty Organisation (NATO).

The Senate also expressed its concern about the reversal of democratisation processes in Russia, its refusal to prosecute human rights violations, the frozen conflicts in common neighbours, the sluggish pace at which Russia is opening its markets, its one-sided economy and the increase in poverty and unprecedented population decline since the collapse of the Soviet Union. The Senate also asked the AIV to consider what new opportunities there may be for stronger ties with Russia, especially in the interests of expanding food production and improving the Union's energy supply security.

1 AIV advisory report no. 44, *The European Union's New Eastern Neighbours*, The Hague, July 2005.

2 Armenia borders Turkey, Georgia and Azerbaijan but not Russia. Azerbaijan does not border Turkey with the exception of the enclave of Nakhichevan (following a border correction in 1921).

The following specific questions were asked:

1. What scenarios are conceivable for nurturing the relationship between the EU and Russia, assuming that the latter's foreign policy moves towards (i) a constructive partnership with the EU and (ii) an autonomous, assertive policy with geopolitical ambitions?
2. In these two scenarios how does Russia view working with the EU in the areas of peace, security and justice (especially counterterrorism, democratisation, free media, respect for human rights and frozen conflicts)?
3. What does each scenario mean for the economic partnership with the EU (especially with respect to open markets and economic diversification, including the expansion of food production)? And what do these scenarios mean for energy supplies to the Union and its individual member states?
4. What do the scenarios mean for the EU's relationship with common neighbours, particularly Ukraine (with its wish to join the EU), but also Belarus, Moldova and the countries of the southern Caucasus? And what kind of opportunities do the scenarios present for resolving the frozen conflicts in places like Moldova, Georgia, Armenia and Azerbaijan?
5. What instruments can the EU use in each of the two scenarios? The existing European Neighbourhood Policy (ENP) provides a key framework; all its programmes and funds are open to Russia. What types of projects could be undertaken and under what conditions? How can a balance be struck between carrots and sticks in each of the scenarios?
6. How can the Dutch government and parliament make a positive contribution to the relationship with Russia and the relationship between the EU and Russia in the two scenarios?

The questions were placed in the context of two alternative scenarios: either the EU and Russia engage in a constructive partnership, or Russia pursues an autonomous assertive policy with geopolitical ambitions. In the AIV's opinion, however, these two scenarios are not mutually exclusive: a policy can be both constructive and assertive, or non-constructive and non-assertive. The AIV thinks Russia's policy on Europe will probably be one of both willingness to cooperate and, aware of its own strength, assertiveness in the pursuit of its own interests. In its answers to the Senate's questions, therefore, the AIV does not describe scenarios but addresses the crux of the questions.

The Dutch government's perspective

After the Senate formulated its request (at two meetings on 5 and 12 February 2008), the Minister of Foreign Affairs submitted two letters to the House of Representatives explaining the government's perspective on the Netherlands' relationship with Russia.[3] The letters also touched upon the relationship between the EU and Russia.

The Minister of Foreign Affairs subsequently considered the bilateral relationship with Russia in a speech to the Christian Democratic Alliance in South Holland.[4] He noted

3 Letter to parliament DZO/OE-025/08 with a memorandum regarding relations with the Russian Federation of 15 February 2008 and letter to parliament DZO/OE-039/08 of 4 April 2008 further to the memorandum on Russia.

4 Speech by Minister Maxime Verhagen on the relationship with Russia, CDA South Holland, Wassenaar, 19 April 2008.

that a common action plan would be signed during the forthcoming visit of the Russian Prime Minister and Minister of Agriculture on 29 April 2008. He also said that despite the substantial investments made by the Netherlands and the many common interests, 'our relationship with Russia is currently complex and at first sight might look like a jumble of contradictions'. Although economic relations were good, political and social interests were diverging and there was no lack of clashes in security policy. He summed up his policy as a 'strategy of measured cooperation', of 'cooperation where possible, criticism where necessary'.

The minister sent a letter on the ENP in general to the House of Representatives on 14 May 2008.[5] In it he wrote, 'It was agreed with Russia in 2003 that the relationship with the EU would be based on the four common spaces and the Partnership and Cooperation Agreement (PCA), not subsumed in the ENP'. The letter did not include an initiative to update or modify the existing agreement.

For the sake of completeness, the AIV would note that the House of Lords in the United Kingdom recently issued a report on the relationship between the EU and Russia.[6] The report voices concern about Russia's supposed straying from the path of democracy and calls for a further study of the implications of the recent political changing of the guard in the country. The report's authors also urge the EU to build on the existing relationship with Russia and to conduct a policy of constructive dialogue and engagement at all levels, cross-cutting all policy fields.

EU policy on Russia

Five of the Senate's six questions relate to the EU's policy on Russia; only the last question is concerned with the Netherlands' contribution to this policy. What should EU policy be based upon and what should it consist of?

The EU Commissioner for External Relations and European Neighbourhood Policy recently said in Salzburg that the EU and its member states should 'talk to Russia as it is, rather than with Russia as we would like it to be'.[7] This is indicative of the Commission's realism, which we return to in chapter II, ahead of the negotiation of a new agreement as agreed at the EU-Russia summit at the end of June 2008. The path to negotiation was cleared when Lithuania became the last of the 27 member states to withdraw its veto and the EU's mandate, which had been ready for some time, could be adopted by the European General Affairs and External Relations Council (GAERC) on 26 May 2008.[8]

The European Council on Foreign Relations (ECFR), a London think-tank, has issued a comprehensively argued and ambitious report outlining the potential contours of the

5 Letter to parliament DIE-414/08 on the partnership, 14 May 2008.

6 House of Lords European Union Committee, The European Union and Russia, 22 May 2008.

7 Benita Ferrero-Waldner, European Commissioner for External Relations and European Neighbourhood Policy, 'The European Union and Russia – future prospects', Speech/08/175, Salzburg Global Seminar – Russia: the 2020 Perspective, Salzburg, 6 April 2008.

8 See the European Commission's website on EU-Russia relations at: <http://ec.europa.eu/external_relations/russia/index-en.htm>.

EU's Russia policy.[9] It found that the EU member states take two main approaches: soft containment and creeping integration. The report suggests that the EU should sidestep this dilemma by taking a third course: the rule of law approach, giving priority to improving the rule of law. The AIV has the following comments on this approach.

The AIV thinks it would be ill-advised to use Russia's application of the rule of law as the sole criterion for strengthening or weakening the relationship with Russia. We prefer a wider approach that also considers, in respect of the internal situation, Russia's progress in modernising its economy and developing a free civil society. Inevitably, the relationship with Russia will also be influenced by geopolitical interests and economic considerations. The AIV has not considered this in a wider context or looked at, for instance, the problems in the Middle East, China or Africa. We consider whether Russia would be willing to maintain a reasonable relationship with countries in its immediate vicinity (what Russia itself refers to as the 'post-Soviet space'). NATO and the EU each has its own role to play in such a relationship, as does the US. In particular, the AIV considers whether Russia would be willing to conclude further energy supply agreements with the EU and what agreements would do justice to the parties' longer-term interests.

The AIV's approach

As noted in the foreword, the AIV appointed a broadly-based committee – supplemented with several former members with specific expertise in the subject – to prepare this report.

We believe the Senate's questions should be considered not only from the Dutch and the European perspective but also from the Russian. This was the main reason to consult not only experts from the Netherlands and EU circles but also from Russia. The committee consistently consulted people from both policy circles and business and non-governmental organisations. The persons consulted are listed in Annexe II.

Contents of this report

Chapter II gives a picture of Russia today, looking at relevant developments in both foreign policy and domestic policy. What are Russia's perceptions and ambitions? What limitations must the Russian government recognise? Chapter III first summarises the sweeping changes that have taken place in the former Soviet Union since 1989 and then analyses the development of relations between Russia and the EU. A key issue is the implementation of the PCA, which entered into force in 1997. Chapter IV looks at the issue of common neighbours and discusses a number of questions in the wider context of security policy that affect not only the EU but also the US and NATO. Chapter V responds to the question on shaping the future relationship between the EU and Russia and makes proposals in the form of recommendations for a substantive deepening of the partnership.

9 Mark Leonard and Nicu Popescu, *A Power Audit of EU-Russia Relations*, ECFR Policy Paper, London: ECFR, November 2007.

II A picture of today's Russia

A mixed picture of foreign policy developments

Reports about Russia have taken an undeniably more negative turn in our part of the world in recent years. This is not surprising. The EU and the US embraced Vladimir Putin during the first years of his presidency but the relationship gradually cooled and became more fraught. The reasons are not difficult to identify. Russian self-confidence grew as the economy improved and stability returned, and its inclination to turn to the West declined correspondingly. This shift was reinforced by Russia's frustration about events in the 1990s (such as NATO's enlargement towards the east), accompanied by the widely held and gradually growing belief that Western advice on the transition to a market economy has done more harm than good. It was even blamed for the severe economic crisis of 1998.

In the West, it became increasingly clear that the Russian political system was not evolving as hoped and the separation of powers necessary in a democracy would not yet be forthcoming. Moreover, the Kremlin's control of the mass media[10] has become more pronounced and more overt, the establishment of the rule of law has encountered obstacles and life has become more difficult for civil society organisations with foreign affiliations. In the West, furthermore, there was a perception that Russia was showing less and less respect for human rights and authoritarian tendencies in the political system were increasing. It would be wrong, though, to think that the erosion, or even suppression, of democracy began under the second president of the Russian Federation, Vladimir Putin. There was also much to criticise in the functioning of the new system under Russia's first president, Boris Yeltsin, despite the political will to make a rapid transition from the Soviet model to an open market economy and a state system founded on democratic values. The transition was not smooth and made deep inroads into society. Today, Russia sees itself as a 'sovereign democracy', with the adjective 'sovereign' emphasising that Russia itself is defining is own form of democracy.

In the former Soviet republics, Russia's actions have been perceived more than once – and not without cause – as intimidating. Russia has not exercised any subtlety in its relationship with its smaller neighbours. Furthermore, its conduct in a number of other international matters has not been characterised by flexibility or conciliation, as in the case of Kosovo's desire for independence and the proposed location of the American anti-missile shield. The latter prompted Russia to suspend the Treaty on Conventional Armed Forces in Europe (the CFE Treaty).[11]

In the light of these political developments, the question is whether Russia can or must be seen as a power seeking to restore its influence in the area of the former Soviet Union. Is it a country preoccupied with increasing its international status and

10 Print media clearly have more freedom of expression than mass media such as radio and television.

11 This treaty was signed by NATO and the Warsaw Pact in Paris on 19 November 1990 and has been in force since 9 November 1992. See the website <http://www.osce.org/documents/doclib/1990/11/13752_en.pdf>. See also AIV advisory report no. 2, *Conventional Arms Control: Urgent Need, Limited Opportunities,* The Hague, April 1998.

determined to restore its former glory and honour, one that demands respect as a great power and instils fear into other countries? Is it a country that looks upon international politics chiefly as power politics in terms of a zero-sum game?[12]

The AIV thinks these questions must be answered in the affirmative at present, but the picture presented above is not complete. On the one hand, there are worrying developments. Russia initially worked constructively in the contact group consisting of the US, EU and Russia to find a solution to the conflict in Kosovo, but it has since distanced itself from the group and now supports Serbia's ambitions to retain control of Kosovo. Russia is also not working actively to help find a solution to the long drawn-out conflict regarding the position of Transdniestria in Moldova. Russia is even acting belligerently with regard to the two Georgian territories of Abkhazia and South Ossetia. On the other hand, there are a number of developments that point to more positive tendencies in Russia's external relations. As one of the four powers belonging to the Quartet, Russia has continued to seek a peaceful solution to the Israeli-Palestinian question. Within certain limits, it was also willing as a member of the UN Security Council to support stepping up sanctions against Iran. The Russian position on the Afghan conflict is one of detachment, if not 'benign neglect'. In the fight against terrorist organisations, Russia has shown itself to be a loyal ally. Under pressure from the EU, moreover, its signing of the Kyoto Protocol[13] represented a breakthrough in allowing the international rules on greenhouse gas emissions to enter into force.[14] Finally, the AIV thinks it is highly unlikely that Russia will relapse into a totalitarian one-party state, which is of great significance to the development of Russian foreign policy as a whole.

For all their reservations about Russian policy in the years ahead, the EU and the member states should recognise that in Russia's new situation they are dealing with a self-assured and undogmatic counterpart that is bent on protecting its national interests, especially its economic interests. And Russia's perception and assessment of its economic interests may differ from those commonly held by Western 'liberal' economists. An authoritative representative of a Moscow think-tank put it in the following concise words, 'Russia's business is business', and also, 'Russia is nobody else's business'.

Russia's foreign policy, as the AIV understands it, is driven chiefly by pragmatic, traditional power politics. To put matters into perspective, Russia is not heading towards a new Cold War[15] but is resurrecting itself as a power that forcefully looks after its own interests.

12 A game in which one participant's gains or losses are equal to the other participant's losses or gains.

13 This protocol sets limits on greenhouse gas emissions. It was signed in Kyoto in 1997 to implement the United Nations Framework Convention on Climate Change, which entered into force on 21 March 1994.

14 The Kyoto Protocol entered into force 90 days later on 15 February 2005.

15 Cf. Edward Lucas, *The New Cold War: How the Kremlin Menaces Both Russia and the West,* London: Bloomsbury, 2008.

Relationship with Russia's domestic policy and internal problems

As in many other countries, Russia's foreign policy largely reflects the internal balance of power and domestic political developments. It is uncertain how the political arena will look following the inauguration of President Dmitry Medvedev in May 2008. A novel factor is that the former president is now the prime minister. This is not a new office – Putin is the tenth prime minister of the post-Soviet Russian Federation – but it is expected to take on a new form now with considerably more power. The question is, how will power be divided between the Kremlin, the seat of the president, and the White House, the seat of the prime minister?[16] Will Medvedev turn out to be 'his own man'? Any answer to this question is inevitably speculative.

It has frequently been said that Putin and his successor differ in style but the existing policy will be continued as much as possible. Alternatively, it has also been suggested that Medvedev will eventually fail if he, like his predecessor, concentrates on ensuring stability. The new president has said in public speeches that Russia needs to modernise its economy and place it on a broader footing. A key test of Medvedev's presidency will in any event be the extent to which he reins in bureaucracy and effectively combats corruption, which has taken endemic forms in Russia. As is known, he has no roots in the current or previous security service and, aged 42, he did not rise through the ranks of Communist Party officialdom. The fact that Medvedev is not part of the *siloviki*[17] might be an advantage in this respect, but he also has the disadvantage of not having his own power base.

Furthermore, there is something paradoxical about the two men's trading offices. The new prime minister, who owes his prestige in part to his foreign policy, is responsible for economic development. His successor, like Putin a lawyer, who has gained some credit as a supporter of a more or less liberal economy, will be commander-in-chief of the armed forces and responsible for foreign and security policy. Who will be blamed after this reshuffle for the high rate of inflation and other economic problems? Politically, the Putin-Medvedev tandem is not in danger at the moment. With two million members, their party United Russia is the first mass movement since the Communist Party and counts three-quarters of the 85 regional governors among its members.

Internal problems

Without the spectacular increase in oil and gas prices, the second Russian president would not be so firmly in the saddle. Despite the economic reforms introduced under Putin, the Russian economy is still too one-sided and Russian national income is directly reliant on oil prices. As a result, economic growth depends on them.

Nevertheless, the general standard of living in Russia has increased markedly in the past ten years.[18] Not only is average per capita income higher now than it was before 1998, the poor benefited more in relative terms from the economic progress, an important reason for Putin's popularity. Initially, inequality increased after the crisis of

16 President Medvedev took office on 7 May 2008 and Prime Minister Putin one day later.

17 Members of the armed forces, the police and the Federal Security Service (FSB, the former KGB).

18 It is widely accepted that the standard of living has fallen sharply (and poverty has correspondingly increased sharply) since the economic crisis that preceded the disintegration of the Soviet Union, although comparative figures from before 1998 are not available.

1997-1998, but it has since declined steadily and evenly.[19] This progress can also be seen in the fact that women and children have benefited more than the population at large; poverty is concentrated chiefly among older children and young adults, not among the elderly.[20] With regard to gender policy and female participation in the labour process, Russia is not doing badly.[21] Yet more than 26 million Russians (over 18% of the total population) are still estimated to be living below the poverty line and the contrast between the level of service provision in large cities and rural areas is stark. Furthermore, the country's demographic development is a cause for concern; not only is the birth rate low, but the average Russian does not live long (male life expectancy in particular has fallen to less than 59).[22]

A recent report issued by former ministers Boris Nemtsov and Vladimir Milov, who are now part of the opposition, is critical of the internal situation.[23] They claim that the army, the pension system, public health, secondary education and the road network deteriorated under Putin and they attribute the decline largely to increased corruption.[24] The bureaucracy, which was already very extensive, has also expanded further. These problems are frustrating the growth of legal certainty while, as noted above, there is little if any separation of powers. The Duma has no independent power and is still too often open to bribery. The domestic situation is further troubled by the low standard of health care and education and the underdeveloped state of agriculture and high-tech industries. The poor state of Russian agriculture attracts particular attention in view of the recent increases in food prices. Russia was once one of the granaries of the world, but years of mismanagement and neglect have led to a dramatic fall in the production of cereals and other food crops. To combat poverty[25] – it is the poor that can least afford the increased food prices – priority must be given to developing potential farmland.

19 This does not mean that the rich did not get richer, but the numbers are not statistically significant; there has been little change in the Gini coefficient since 1998 (World Bank, *Russian Federation: Reducing Poverty through Growth and Social Policy Reform*, Washington, 2005, p. 71, see the website: <http://194.84.38.65/mdb/upload/PAR_020805_eng.pdf>.

20 Ibid., pp. 73-4.

21 Kevin Watkins et al., *Human Development Report 2007/2008,* pp. 338-9, New York: UNDP, 2007, see the website: <http://hdr.undp.org/en/media/hdr_20072008_en_complete.pdf>.

22 Op. cit., p. 327.

23 Boris Nemtsov and Vladimir Milov, 'Putin: the bottom line', 2008, see the website: <http://www.docstoc.com/docs/520723/nemtsovbookform>.

24 An article in *The Economist* of 28 February 2008 ('Smoke and mirrors, Russia's economy') makes the same point. According to Transparency International's index of corruption perception, however, corruption has fluctuated in the past decade but has not increased significantly. Owing to the lower corruption perception in other countries, however, Russia has fallen in the international rankings, see the website: <http://www.transparency.org/policy_research/surveys_indices/cpi>.

25 Russia, too, supports the Millennium Development Goals and is conducting a noticeable policy to combat poverty. See: World Bank, op. cit., pp. 88 ff. For the Millennium Development Goals, see the UN website: <http://www.un.org/millenniumgoals/>.

Putin's handing of the presidency to Medvedev and the accompanying reshuffle took place at a turning point in Russia's economic development. Putin oversaw a significant advance in average income and an increase in foreign reserves from zero to more than EUR 293 billion.[26] It would be wrong, though, to overestimate the relative size of the Russian economy. The national income it generates is not much higher than that of the Benelux countries together.[27] Furthermore, Russia seems to be heading towards stagnation rather than growth[28] and the one-sided and very old-fashioned economy is suffering from relatively high inflation.[29] This is due in part to the dysfunctional labour market. With young people preferring to work in the urban service sector, there is a looming shortage of workers in agriculture and industry. On his last day as president, moreover, Putin raised domestic energy prices by 40%, which will further increase the high rate of inflation.

The current president of Russia is facing the formidable challenge of solving the internal problems described above while simultaneously diversifying the economy. To do so, he badly needs foreign technology, know-how and – not least – project management.[30] Medvedev has said in several speeches that he fully recognises the critical importance of economic diversification and modernisation for the future of his country. That he sees the EU as a promising partner was confirmed in his talks with the German foreign minister, Frank-Walter Steinmeier, in May 2008. Soon afterwards Putin visited Paris as prime minister to discuss the same subject,[31] accompanied by more than 20 representatives of Russian business. President Sarkozy said he wanted to conclude the new cooperation agreement between the EU and Russia this year during the French Presidency of the EU. In the first week of June Medvedev made his first official visit to Berlin, where he spoke in no uncertain terms about international security

26 'Net foreign assets': statement by the Russian Central Bank of 30 May 2008 (Money Statistics Indicators, see website http://cbr.ru/eng/statistics/credit_statistics/). The increase is due in part to the depreciation of the dollar now that Russia no longer holds its foreign reserves only in dollars.

27 Using a revised calculation of purchasing power parities, the World Bank has estimated Russia's share of the world economy at about 3%, compared with: the US (22.5%), China (nearly 10%), Japan (7%), Germany (4.6%), the UK (3.5%) and France (3.4%). See World Bank, *2005 International Comparison Program: Preliminary Results,* New York, December 2007, p. 23. Expressed in terms of gross national product (GNP), the Russian economy was worth USD 1,166 billion in 2007, slightly less than that of the Benelux (USD 1,190 billion). The EU's GNP in 2007 was USD 15,849 billion. For the figures, see: IMF, World Economic Outlook Database, April 2008.

28 See: European Commission, Country Strategy Paper 2007-2013, 7 March 2007; OECD Policy Brief, Economic Survey of the Russian Federation, 2006, November 2006; World Bank, Russian Economic Report no. 15, November 2007; UNDP, op. cit.; IMF Country Report, Russian Federation: Selected Issues, no. 07/352, October 2007.

29 The IMF expects the rate of inflation to be 11.4% in 2008. IMF, World Economic Outlook Database, April 2008.

30 See: Andrew Dean, 'Challenges for the Russian economy', OECD Economics Department, Moscow, 7 July 2004.

31 See, for example: Ben Knapen, 'Gazprom-diplomatie', *NRC-Handelsblad*, 28 May 2008, and 'France hoping to broker EU deal with Russia', *Financial Times*, 29 May 2008.

but also emphasised the need for internal reform in Russia and made proposals to extend economic cooperation.[32]

Unlike most Western European states, Russia does not have a long tradition of political pluralism, peaceful changes of government or tolerance of minorities. The desire for strong political leadership to bring about stability and prosperity is evidently shared by many Russian citizens. The price they seem willing to accept, at least for the time being, is a certain degree of repression. An exceptional circumstance is that the Western model of market economics and democracy is associated with the chaos, humiliation and poverty that prevailed under President Yeltsin. All-too-obvious European interference provokes a great deal of irritation in a country basking in regained self-respect. As noted elsewhere in this report, however, the AIV still believes that Russia should be held accountable for fulfilling the international obligations it has assumed in the Council of Europe and the OSCE,[33] particularly in the field of human rights.

The desired enlargement and modernisation of the Russian economy, if successful, will trigger further social changes by anchoring and embedding civic organisations in society. This will increase support for Medvedev's campaign against 'legal nihilism' and the promotion of the rule of law in general. In this light, it is useful to take a closer look at Russia's perception of the EU.

Russia's perception of the EU

The AIV asked itself how Russia views the EU. The European part of Russia is in any event the heartland of the Russian Federation. This is the context for Vladimir Putin's statement that Russia sees itself as *'*a natural member of the "European family" in spirit, history and culture'.[34] Although Russia wants to present itself as a great power with a far wider focus than Europe alone, which was not the case in the 1990s, there are reasons to assume that it will continue to see the EU as a *'*key interlocutor'.[35]

The social and conceptual world of many Russians, however, begins at home. No concept appeals to the average Russian more than that of the motherland. To a large extent, Russia is a world unto itself.[36] Russia accordingly wishes to have no part in the

32 See 'Medvedev takes tough line on global security', *Financial Times*, 6 June 2008.

33 Organisation for Security and Cooperation in Europe.

34 Vladimir Putin, 'Europe has nothing to fear from Russia', *Financial Times*, 21 November 2007. See also the Russian positions, articles, interviews, speeches and press reports on the EU combined in 'Towards strategic partnership: overview of the main documents on Russia-EU relations', Permanent Mission of the Russian Federation to the European Communities, Brussels, January 2008.

35 This term was used Nicole Gnesotto and Giovanni Grevi, eds.,*The New Global Puzzle: What World for the EU in 2025?,* Paris: European Union Institute for Security Studies, 2006 (see p. 111). For an overview of the relationship between the EU and Russia, see the chapter by James Hughes, 'EU relations with Russia: partnership or asymmetric interdependency?', in Nicola Casarini and Constanza Musu, eds. *European Foreign Policy in an Evolving International System,* London: Palgrave, 2006, and Katinka Barysch, 'The EU and Russia: From Principle to Pragmatism?', Centre for European Reform, London, November 2006.

36 As Arnout Brouwers said in a speech at the Netherlands Association for International Affairs in The Hague on 20 March 2008.

European model of integration with its emphasis on free movement in a common market, the aim of making national borders irrelevant and compliance with the rule of law.

The current Russian political elite thinks the Russian system of autocratic leadership and strong state influence on strategic economic sectors is an attractive alternative, not only for Russia itself but also for, for example, Central Asian countries.

Thanks above all to its nuclear arsenal and substantial energy reserves, Russia has the potential to become a strategic partner of the US in a number of areas. Russia's leaders like to see their country as an independent pole with a right to its own place in the development of a multi-polar world order. Recalling memories of the 19th-century 'concert of Europe', in which tsarist Russia played an important role, the Russian foreign minister Sergey Lavrov has referred to a 'concert of the powers of the 21st century'.[37] He also thought the institutionalisation of the dialogue conducted by the G8[38] with such countries as China, India, Brazil and South Africa would dovetail with this concept. In the Euro-Atlantic zone, the US, EU and Russia would work together on an equal footing. This thought was repeated in President Medvedev's recent visit to Berlin, mentioned in the previous section.

Russia's relationship with NATO is awkward. The NATO-Russia Council, in which Russia consults with the NATO countries, works well, but Russia was dismayed by the accession of former Soviet republics and strongly opposes any further enlargement to include Ukraine and Georgia. Russia looks upon this region as its backyard, where it prefers to call the shots and does not welcome any interference from NATO. This Russian stance makes it difficult for the EU to implement its neighbourhood policy. Steadily increasing cooperation between NATO and Russia may eventually change the situation, but Russia will also have to show willing.

It almost goes without saying that Russia's perception of its place in a new international order limits the opportunities to widen and deepen relations with the EU. Russia's re-found self-confidence sits uneasily with the concept of the current PCA. The agreement is based on the ENP's precept that all neighbouring countries, including Russia, are treated equally and are 'guided' one step at a time in their transition towards an open market economy and the rule of law based on democratic principles. Russia, however, does not want to be treated as a junior partner and certainly does not want its progress to be marked by EU inspectors. Against this background it is not surprising that Russia repeatedly stresses its willingness to cooperate with the EU only on the basis of equality and reciprocity.

Like other players on the world stage, Russia sees the EU predominantly as a civil power, a 'sweet seducer' that binds countries to it with offers of membership, special economic ties and aid. Russia is not impressed by the military capacity of the EU or its member states. Russian leaders therefore did not voice serious objections to the accession of Central European countries to the EU even though they had objected to

37 See: Sergey Lavrov, 'The foreign policy of Russia: a new phase', *The Journal Expert*, 17 December 2007.

38 The Group of Eight, or G8, is an intergovernmental forum of eight leading industrialised nations. It was set up in 1975 by the United Kingdom, France, Germany, Italy, Japan and the US as the G6; since the accession of Canada (1976) and Russia (1998) the forum has been known as the G8. With the EU's participation since 1977, it is sometimes known as the G9.

their membership of NATO. This is one of the main planks in Russia's foreign policy for its immediate neighbours in Eastern Europe that are not yet NATO members. Russia does not see the EU's undeniable involvement in its eastern neighbours as a security threat. Since the EU is not a major military power, Russia also cannot use the EU as a lever to neutralise the US. Nevertheless, Russia probably assumes that if it invests more in its relationship with the EU, the member states will be less inclined to ally themselves so closely to Washington.

In this respect, it will not have escaped the Russian leaders' notice that EU member states do not always speak with one voice on foreign policy.[39] There is no common position on relations with Russia and no consensus even on the selection and use of instruments. Russia certainly recognises these limits to the EU's standing as a political power. For Moscow, the long delay in agreeing a mandate for the European Commission to negotiate a new agreement to replace the 1997 PCA underlined, as it were, the strength of the individual member states in the EU decision-making process.

Individual member states try to outdo each other by establishing a special relationship with Russia. They evidently expect such a relationship to deliver more for them than a common European position. Moscow seems to be capitalising on the divisions within the EU by entering into separate agreements with certain member states.[40] Nevertheless, Russia cannot avoid the European Commission in all the fields of Community policy, such as trade, visa regulations and access to the single market. An additional problem is that member states that want to settle specific disputes with Russia use the EU as a lever to achieve their goals. On the whole, negotiation of a new agreement will not be easy. Moscow wants a 'strategic' accord without being clear about precisely what that means, other than that it should be a short document setting out only the broad lines of the relationship. In this conception, the details would be worked out in ongoing consultations. We shall return to this matter in the final chapter.

On the plus side, the EU is by far the most important trading partner for Russia. EU member states account for more than two-thirds of Russia's trade[41] and three-quarters of foreign direct investment in Russia.[42] This creates a solid platform for further cooperation. Without the transfer of technology and the engagement of companies from these countries, Russia will be unable to diversify its economy and benefit from the EU single market. A key step in this regard is Russian membership of the World Trade Organisation (WTO). Russia applied for membership under the previous president but it

39 As well as the ECFR report mentioned above (see footnote 9), Katinka Barysch highlights this in her publication 'Russia, realism and EU unity', Policy Brief, Centre for European Reform, London, July 2007. The member states also do not speak with one voice with regard to other key players on the world stage such as the US and China.

40 A policy of divide and rule on the Russian side and bilateralisation on the EU side is one of the key themes of the ECFR report.

41 In 2006 Russia's exports to the EU 25 were worth EUR 137 billion, or 17.5% of its GNP (its GNP in 2006 was EUR 780 billion). Fossil fuel exports were worth EUR 91.1 billion, equal to 66% of all Russia's exports to the EU. Source: DG Trade, European Commission.

42 See chapter III of this report. These investments also include Russian funds transferred to Cyprus and Curaçao.

is not clear when the necessary preparations will be completed. The new president's interest in membership means the Kremlin is willing to continue along the path of economic reform. The opportunities for cooperation in various fields are considered further in the next chapter.

Conclusion

Russia did not develop a tradition of political pluralism, peaceful political changes of government and tolerance of minorities in the 20th century. The state system also has great difficulties facilitating new, private economic initiatives. For the majority of Russians, the abrupt transition from the Soviet system to an open market economy and Western style democracy was a traumatic experience. Even though the poverty trap was due largely to the complete breakdown of the state-run Soviet economy, this period of chaos, upheaval and growing poverty is associated chiefly with the economic switchover; the period that followed – with less freedom and media restrictions – is remembered for the return of political stability, self-confidence and a gradual decline in poverty. Furthermore, the crisis was blamed – rightly or wrongly – on the naivety with which Western advice was followed and Western ideas were adopted. In hindsight, some also cast doubt on the good faith of the West during those years.[43] Whatever the case, Russia is currently allergic to what it sees as Western arrogance.

Against this background, the AIV thinks the EU should exercise some restraint in its relationship with Russia and should not presume that it can tell the Russians how they should organise their society and their economy. The European Commissioner for External Relations and European Neighbourhood Policy, Benita Ferrero-Waldner, spoke wisely in her home country last April when she said 'we should be sure to talk to Russia as it is, rather than with Russia as we would like it to be'.[44]

The AIV believes this sentiment should guide us as a new relationship is shaped between the EU and Russia.

43 The doubt is greatly increased by suspicions of a foreign hand in the events in Kiev and Tbilisi a few years ago.

44 Benita Ferrero-Waldner, op. cit. George Kennan went even further in his speech, quoted by Rodric Braithwaite (former British ambassador to Russia) in his article 'Let the Russians sort out Russia' in the *Financial Times* of 11 March 2008: 'Give them time; let them be Russians; let them work out their internal problems in their own manner. The ways by which people advance towards dignity and their enlightenment in government are things that constitute the deepest and most intimate processes of national life. There is nothing less understandable to foreigners, nothing in which foreign influence can do less good.'

III EU-Russian cooperation since 1989

The disintegration of the Soviet Union and the accession of Central European countries to NATO and the EU

The fall of the Berlin Wall in 1989[45] is often seen as the end of the Cold War. In fact, however, secretary-general of the Communist Party and later president of the Soviet Union Mikhail Gorbachev had actually taken a new turn several years earlier that would thoroughly change the relationship between Eastern and Western Europe. The Russian economy had been in poor condition since the 1970s; the state-run economy was slowly grinding to a halt. The Soviet Union could no longer finance the arms race or its military presence in Afghanistan. Through a policy of cautious democratisation, economic reform in favour of a more open economy, the end of military intervention in Afghanistan and the abolition of the Communist Party's monopoly of power,[46] Gorbachev gave the Russians more freedom to take political initiatives and initiate economic activities.

Within a few months of the fall of the Berlin Wall, nearly all the Communist governments in Central Europe had been overturned and the countries turned as one to a democratic state system. The three Baltic States also broke with the Soviet Union. The Soviet Union was dissolved at the end of 1991, with the 12 remaining republics becoming fully independent. At the same time, the Commonwealth of Independent States (CIS) was established in Alma Ata as a loose confederation, not comparable to the old Soviet Union. The Russian Federation, the new name of the Russian republic, was generally recognised as the legal successor of the Soviet Union and membership of, for example, the UN Security Council passed seamlessly to it.[47]

In the meantime, Hungary, Poland and Czechoslovakia ended their membership of the Warsaw Pact. Their example was quickly followed by Bulgaria and, on 1 July 1991, the military organisation was officially disbanded. In 1999, Hungary, the Czech Republic and Poland became members of NATO, followed in 2004 by Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia and Slovenia. East Germany ceased to exist when it acceded to the

Federal Republic of Germany in 1990. This accession automatically made its territory part of both the EU and NATO. Other Central European countries also opted for EU membership and after a preparatory period the three Baltic States, the Czech Republic, Hungary, Poland, Slovakia and Slovenia became EU members in 2004 together with Cyprus and Malta. Bulgaria and Romania acceded in 2007.

45 On 2 May 1989 Hungarian border guards began dismantling the fortified border with Austria. Other breaches in the Iron Curtain dividing Western and Eastern Europe soon followed. The fall of the Berlin Wall on 9 November 1989 opened the border between East and West Germany.

46 Formally known as the Communist Party's 'leading role'.

47 The irony of history is that the UN membership of Ukraine and Belarus, which had been members since the UN's foundation, gained its first material significance when the two countries became independent.

Today, Croatia and Macedonia are EU candidate countries along with Turkey.[48] In addition, Ukraine, Moldova and Georgia have expressed an interest in joining the EU, but the Union is not putting their membership on the agenda.

The development of EU-Russian relations since the dissolution of the Soviet Union

In the wake of the dissolution of the Soviet Union, relations between the EU and Russia were initially modelled on a Trade and Cooperation Agreement (TCA) signed at the end of 1989. In 1990, the European Council in Rome resolved that closer ties with the Soviet Union were desirable so that the EU could open its doors to provide food aid and technical assistance[49] as a tragic fall in living standards began to spread across the region.[50] A year later, the Council asked the Commission to start negotiating an extension of the programme so that political and cultural activities could be financed as well as economic and financial cooperation.[51] These negotiations led to the signing of a PCA in 1994.[52] The PCA entered into force on 1 December 1997[53] for a period of ten years; it was extended for a period of one year in 2007.

The PCA with Russia is more comprehensive than the former TCA but not as comprehensive as the agreements signed with the Central European candidate countries at the time. Russia's accession to the EU was not considered because neither the EU nor Russia wanted it to be. Its membership is still not on the agenda. The EU highlighted respect for human rights in the PCA[54] and it was agreed that in 1998 the parties would together consider whether and when negotiation of a free trade area could begin.[55] The PCA also includes a framework for regular political dialogue,

48 Accession talks with Turkey have been under way for some considerable time. See AIV advisory report no. 37, *Turkey: Towards Membership of the European Union*, The Hague, July 2004 and AIV advisory report no. 9, *Towards Calmer Waters: A Report on Relations between Turkey and the European Union*, The Hague, July 1999.

49 Worth ECU 750 million and ECU 400 million respectively, see: European Council, Presidency Conclusions, Luxembourg, 28 and 29 June 1991.

50 Precise figures are not available because the Soviet Union did not collect such data but the decline in the population and life expectancy are strong indicators that the standard of living must have fallen very substantially in the 1990s.

51 European Council, op. cit.

52 Agreement on partnership and cooperation establishing a partnership between the European Communities and their Member States, of one part, and the Russian Federation, of the other, see the website: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:21997A1128(01):EN:NOT>.

53 Two years later, in 1999, PCAs were also signed with other former Soviet republics such as Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. A PCA was also concluded with Belarus but has not entered into force.
See the website: <http://ec.europa.eu/external_relations/enp/index_en.htm>.

54 The human rights clause made it possible to suspend aid to Russia during the Chechen war in 1999.

55 Agreement on partnership and cooperation, op. cit., see articles 1, 2 and 3.

with an EU-Russia conference at the highest political level twice a year to discuss both the political and economic transition.[56]

From the beginning, therefore, the relationship with Russia was cast in a different institutional framework and had a different political character than the EU's relationship with its other neighbours, which was shaped by the concept of the ENP.[57] Russia did not want to be thrown into the same pot as the EU's other neighbours but it did want to participate in the programmes the EU offers them. This means that the financial instruments available to ENP countries would also apply to the PCA with Russia.

Russia was initially wary of the EU's enlargement in Central Europe because it feared export competition from the former COMECON[58] countries, which would operate within the common market after acceding to the Union. It also feared that its own exports would be restricted by EU tariff walls. The EU showed its sensitivity to these issues. As a result, economic cooperation was the first to be agreed, with the goals of removing trade barriers, diversifying trade and working step by step towards a free trade area and membership of the World Trade Organisation (WTO). The framework of the PCA therefore focused on the economic transition towards a market economy as well as on human rights.

The 'common economic space' was not supplemented with three other spaces for long-term cooperation until the St Petersburg summit[59] in May 2003. The three other
- common spaces are:
- freedom, security and justice;
- external security;
- research, education and culture.

Agreement on giving more substance to these four common spaces was reached in 2005.

The layout of the four common spaces

There are major differences between the four common spaces, not only in the themes themselves but also in the instruments. With regard to the importance of the four spaces, the Russians could not be clearer: economic cooperation is by far the most important.

56 Agreement on partnership and cooperation, op. cit., see articles 6 and 7.

57 See AIV advisory report no. 44, *The European Union's New Eastern Neighbour*s, op. cit. and the EU website at: <http://ec.europa.eu/world/enp/index_en.htm>.

58 Council for Mutual Economic Assistance between the Soviet Union, Poland, East Germany, Czechoslovakia, Hungary, Romania, Bulgaria, Cuba and Mongolia.

59 For the relevant documents and a description of the activities in the four spaces, see the EU website at: <http://ec.europa.eu/external_relations/russia/index.htm>.

1. Cooperation in the common trade and economic space[60]

As already noted, the EU is Russia's main trading partner by far. More than half of all Russia's exports go to the EU; two-thirds of them consist of gas and oil. Russia is the EU's third largest trading partner, after the US and China. The EU's exports to Russia are more diverse and include machinery, chemicals, transport equipment, food and live animals. Trade in services is relatively small but growing gradually. Foreign direct investment (FDI) is growing rapidly. EU FDI in Russia in 2006 was estimated at about EUR 18 billion. This only partly reflects the improvement in the business climate, because much of the investment is made in the form of loans to state companies, particularly in the energy sector. The recent dispute between the BP energy group and its Russian partner TNK illustrates once more the problems foreign investors face in Russia. Although FDI in Russia amounted to EUR 24 billion, this is no more than 3% of gross national product (GNP). Foreign direct investment is lower than in, for example, Ukraine, and FDI in non-energy sectors has actually fallen sharply since 1999. The Russian investment climate has to be improved further; in particular, property rights must be protected more effectively. This is essential for the balanced development of economic relations between the EU and Russia. To date, economic relations have been sorely frustrated by lack of legal certainty. Lack of legal certainty also places more general restraints on trade and investment. The foreign debt of Russian companies is estimated at USD 400 million, not much less that the country's foreign reserves.

Four-fifths of Russia's exports consist of oil and gas, raw materials and semi-finished products. With prices on the world market for a third of Russia's GNP being vulnerable to wide fluctuations, Russia needs to diversify its economy to ensure sustainable economic growth. This will require a gradual integration into the world economy. A more open and integrated market with the EU would make a substantial contribution to this.

The common economic space should be seen in this context. So far, little of real substance has been achieved. Nevertheless, dialogue between the Russian government and the Commission services has started in many areas.[61] Talks are being held on, for example, investments, the protection of intellectual property, procurement and technical regulation (standards and the like). There has also been an energy dialogue since 2000. Dozens of official working parties have in any event gradually increased understanding of each other's regulations and the improved contacts may be important in future negotiations.

The mandate to negotiate a new PCA contains a long list of subjects in the field of trade and economic cooperation with a view to removing obstacles to trade and investment and achieving the maximum possible convergence of legislation. In this respect it is particularly important that Russia pick up the pace of WTO accession. WTO membership will obviously not resolve all the country's economic woes, but it is a precondition for a level playing field with clear and enforceable non-discrimination obligations and rules to settle trade disputes. Membership will also put an end to the use of trade restrictions for political purposes. WTO membership should precede the further deepening and widening of economic relations with the EU. However, it is still uncertain when Russia will have finalised the necessary preparations for membership.

60 The information in this section is taken from: IMF, Balance of Payments Statistics, Yearbook 2007 and the article 'Smoke and mirrors, Russia's economy', *The Economist,* 28 February 2008.

61 According to the Commission, talks are taking place in at least 50 working groups of Russian and European officials.

WTO membership negotiations therefore cannot be completed yet. The ball is clearly in Russia's court. Russia has raised a number of peripheral problems to delay matters, presumably under pressure from domestic interests that fear liberalisation. Fear of not being able to stand up to competition or of being swept away by dumping probably plays a part in this. However, the WTO negotiations will lead to detailed agreements on mutual obligations and associated timetables. Dumping will then no longer be possible, and timetables will be agreed for each sector or industry so that Russian companies can adapt to the new situation. The fears are therefore groundless. Nevertheless, Russia is exploiting a number of bilateral sticking points with certain member states in order to stall the negotiations.[62] The recent rise in nationalist tendencies might be a political factor that further delays membership. The AIV thinks future talks between the EU and Russia should give priority to Russia's WTO accession, since without it there is no prospect of widening and deepening economic ties with the EU.

Only when WTO membership has been achieved can a start be made on negotiating a Free Trade Agreement (FTA) covering all trade in goods and services, including energy products. As well as further liberalisation obligations, an FTA could also include WTO-plus provisions[63] on investments, procurement and cooperation on legislation. By definition, the negotiations will be conducted on the basis of equality with Russia. The Commission will act on behalf of the EU, thus minimising, if not eliminating, the risk of member states being played off against each other. As noted above, the negotiations must culminate in a detailed timetable of mutual obligations and agreements on the removal of trade barriers, dumping practices, transitional provisions and the like. Reaching this stage will require time and patience.

Another issue is the Energy Charter. Russia has signed the Charter but is refusing to ratify it (and the additional protocol on transit by pipelines). This needs to be discussed. Since many of the Charter's provisions are equivalent to those of the WTO, membership of the WTO could take the place of ratification of the Charter if the Charter did not also include rules on mutual energy investments that the WTO does not. Protection of investments is important for the development of a balanced, reciprocal relationship in the field of energy. Reciprocal rules on investment protection, particularly in the field of energy, must be agreed in an FTA as soon as Russia joins the WTO. The AIV therefore points out the importance of including specific rules on investment protection in an FTA with Russia.

Shortly before leaving office, the former Russian president signed a new law placing strict terms and conditions on foreign investment in 42 strategic sectors, including oil and gas, nuclear power, the mining of many metals, arms, the aerospace industry,

62 Poland withdrew its veto against the PCA negotiations in 2007 after Russia lifted its embargo on Polish meat imports; Lithuania did the same in 2008 (it wanted to use its veto to enforce normal use of an oil pipeline that Russia had closed in 2008 for 'maintenance work' and to secure Russia's legal assistance to clear up an attack in which 14 people were killed in 1991 and the murder of eight border guards shortly afterwards). The future accession of Serbia and the independence of Kosovo were raised at the meeting of the General Affairs and External Relations Council in Luxembourg (GAERC, 29 April 2008). In addition, a very close eye is being kept on events in Abkhazia and South Ossetia, two rebellious regions in the north of Georgia. Russia has indicated that it will expand its peacekeeping force to prevent an invasion by Georgia; Georgia is now threatening to block Russia's membership of the WTO.

63 These are agreements that go further than the ordinary WTO provisions and can be either permanent or temporary. Such agreements have already been reached with, for example, Australia and China.

infrastructure and defence.[64] The law does not prevent investments, but they must be approved by the Russian authorities and, additionally, a Russian party must hold a majority interest.

By contrast, neither the EU nor its member states have a generic intervention mechanism other than competition rules, and those rules allow intervention only in the case of specific infringements. Although this situation is unbalanced, foreign enterprises think the new Russian rules are an improvement on the former situation of uncertainty.

The energy sector is a promising area for mutually beneficial arrangements. Russia urgently needs investment and technology to maintain and increase its energy potential on the one hand and to diversify its very one-sided economy and upgrade agriculture on the other. EU enterprises would be willing partners provided measures were taken that guaranteed a minimum of reliable legislation and its enforcement. On the other hand, the EU must be open to Russian investments in its own energy sector. The obligatory unbundling of production and distribution initially proposed by the Commission could hinder reciprocal investment agreements in the gas sector. Perhaps the fact that the EU energy ministers weakened the unbundling obligation at the beginning of June will reflect the importance of such agreements. Much will depend, however, on details still to be worked out. The Dutch government should follow this matter closely.

2. Cooperation in the common space of freedom, security and justice
Cooperation in this space is also known as cooperation in Internal Security, Justice and Home Affairs. It includes the promotion of the rule of law, democracy and human rights and also provides for cooperation between police forces and judicial authorities. Both parties recognise the benefits of cooperating on such dossiers as human trafficking, child pornography, cybercrime and the exchange of counterterrorism information. On more than one occasion the EU has not confined itself to Russia but has also involved other members of the CIS in joint operations. This cooperation is based on the many common interests in the field of cross-border security, such as terrorism, the arms trade, financial crime, illegal migration and environmental crime. The fact that the EU member states are themselves open to criticism of their methods is an additional incentive for Russia to take this part of the current PCA seriously. In the AIV's view, the current cooperation in the fields of freedom, security and justice should be reviewed periodically to determine whether it is actually having the desired effect.

The EU's responsibility for the human rights situation in Russia is largely subordinate to the Council of Europe's primary responsibility for human rights. The part played by this organisation is therefore considered here. Russia became party to the European Convention for the Protection of Human Rights and Fundamental Freedoms (ECHR), and thus a full member of the Council of Europe, in 1996.[65] A condition for membership is respect for the rule of law and human rights, as laid down in the ECHR, the International Covenant on Civil and Political Rights (ICCPR) and the International Covenant on Economic, Cultural and Social Rights (ICESR), to which Russia is also party. These rights and freedoms, including freedom of expression, are minimum

64 See, for example: Economist Intelligence Unit, 'Russia economy: foreign investment's limits', 6 May 2008.

65 This international organisation has 47 member states, including all the member states of the EU. The EU itself can become a member only when the Lisbon Treaty is ratified, which has become uncertain since Ireland voted against it in the referendum of 12 June 2008. See also the Council of Europe's website: <http://www.coe.int/T/E/Com/About_Coe/Member_states/default.asp>.

standards that also apply to Russia. These conditions by no means prevent a member state, such as Russia, from going its own way when designing its new democracy.[66] A further condition is Russia's recognition of the jurisdiction of the European Court of Human Rights (ECHR),[67] recognition of the individual right of complaint and compliance with the ECHR's judgments.[68] Russia – the largest financial contributor to the ECHR – is the only one of the 47 member states that has refused to ratify the 14th Protocol to the ECHR, which provides for the modernisation of the Court's organisation. Ratification does not have high political priority in Russia, particularly now, when many cases of human rights violations – mostly relating to the Chechen war – have been brought against the country. Russia's attitude is undermining the credibility of this international institution. Ratification of the 14th Protocol should be one of the EU's specific goals in its contacts with Russia. The EU should address Russia on its systematic lack of respect for the most essential treaty obligations it has assumed rather than on individual violations (which are a matter chiefly for the Council of Europe).

Against this background, the AIV shares the international concern at Russia's compliance with its international obligations to protect human rights and at the degrading conditions in the Russian prison system, which is in urgent need of reform. Russia's questionable stance on the human rights laid down in the ECHR is serious. Russia may pay the compensation imposed by an adverse ECHR judgment, but it is in no hurry to make institutional improvements. In the AIV's opinion, it is both unwilling[69] and obstructive.[70] The situation is complicated by Moscow's failure to grasp that other countries pursue goals that are not directly in their own national interests. This is

66 See also AIV advisory report no. 33, *The Council of Europe: Less can be More,* The Hague, October 2003, and AIV advisory report no. 40, *The Parliamentary Assembly of the Council of Europe,* The Hague, February 2005.

67 Article 1 in conjunction with article 13, ECHR.

68 On 4 July 2008 the Russian president withdrew the Russian envoy to the ECHR following judgments by the Court requiring Russia to pay compensation in respect of violations in Chechnya. To date, Russia has had to pay EUR 4.3 million to victims of human rights violations who have taken their cases to the Court. Source: *NRC Handelsblad*, 7 July 2008.

69 See the report of the Parliamentary Assembly of the Council of Europe, 'Member states' duty to cooperate with the European Court of Human Rights', 9 February 2007, doc. 11183. The report reveals an alarmingly high number of complaints about obstruction by the Russian authorities, documenting 23 specific cases in detail.

70 Cases in which the Court has judged that Russia's failure to cooperate with the Court violates article 38 of the ECHR: 7615/02 Imakayeva v. Russia, 09/11/06, final 09/02/07; 74237/01 Baysayeva v. Russia, 05/04/07, final 24/09/07; 40464/02 Akhmadova & Sadulayeva v. Russia, 10/05/07, final 12/11/07; 57953/00 Bitiyeva & others v. Russia, judgment 21/06/07, final 30/01/08; 6846/02 Khamila Isayeva v. Russia, 15/11/07, request for referral to the Grand Chamber is still pending; 67797/01 Zubayrayev v. Russia, 10/01/08, request for referral to the Grand Chamber is still pending; 7178/03 Dedovskiy & others v. Russia, 15/05/08, not yet final; 29361/02 Kukayev v. Russia, 15/11/07, request for referral to the Grand Chamber is still pending; 57935/00 Tangiyeva v. Russia 29/11/07, request for referral to the Grand Chamber is still pending; 839/02 Maslova and Nalbandov v. Russia, 24/01/08, request for referral to the Grand Chamber is still pending; 7653/02, Kaplanova v. Russia 29/04/08, not yet final; 74239/01 Musayeva and others v. Russia, 26/07/07, final 31/03/08; 77626/01, Aziyevy v. Russia 20/03/08, not yet final.

particularly true in the case of universal human rights, which it looks upon with deep suspicion. Furthermore, Moscow no longer wishes to be lectured by foreigners. This attitude, however, should not be a reason for either the Netherlands or the EU not to speak out. The AIV therefore thinks Russia should be called to account for its failure to comply with the Court's judgments.

Russia has assumed international obligations through its membership not only of the Council of Europe but also of the OSCE, which has focused more on human rights as a part of its 'human dimension' since the Helsinki Final Act (1975).[71] The OSCE has among other things established specific procedures and mechanisms for elections and minority issues. In this respect, Russia has the same obligations as the other members, such as the EU member states. The AIV thinks Russia should definitely be held to account for the fulfilment of its obligations; and that the more Russia is also held to account from within, the more likely progress will be. We are convinced that the economic expansion and modernisation sought by Medvedev, in which economic cooperation, especially with the EU, can provide significant opportunities, will contribute to the long-term spread of civil society organisations in many areas of Russian life. Deeper roots for Russian civil society will feed support for respect for the rule of law in general. It should be noted though that current legislation seriously frustrates the operation of civil society organisations that depend on financing from abroad such as, but certainly not only, human rights organisations.

With regard to the free movement of people and visa requirements, the Schengen Agreement has been a sensitive issue for Russia. Although the masses were denied freedom of movement during the Soviet era, the accession of the Central European countries to the Schengen Convention has led to stricter border controls on the outer edge of the Schengen area.[72] Free movement between the former Soviet republics was possible particularly in the years following the dissolution of the Soviet Union. An arrangement for local border traffic, applying to people who wish to visit relatives for a short period of time or a market just over the border, would be an important step forwards and more could be done to bring one about. The arrangements made between Poland and Belarus, Poland and Ukraine, and Romania and Moldova are currently working well. Making them is not always easy, however. The regulation for the Russian enclave of Kaliningrad, for example, was difficult to negotiate but it, too, now works satisfactorily.

Russia claims it would like complete freedom to travel without visas between Russia and the EU. But how seriously should this claim be taken? Only a small percentage (less than 10%) of Russians have a passport and can therefore apply for a visa. Owing to the declining population and the growing availability of knowledge, Russia is extremely anxious about emigration by the highly educated. At the same time, the EU and Europe in general are increasingly popular as tourist destinations for Russians. The AIV believes that the visa regime with Russia should be negotiated on the basis of reciprocity with a view to speeding up the procedures and making them less expensive.

71 The Organisation for Security and Cooperation in Europe (OSCE), renamed in December 1994, is the continuation of the Conference on Security and Cooperation in Europe (CSCE). Unlike the Council of Europe, the OSCE has no founding treaty. At present, 56 countries participate in the OSCE's work, covering a space that extends from Vancouver to Vladivostok.

72 See AIV advisory report no. 44, *The European Union's New Eastern Neighbours*, op. cit.

The possibility of extending the validity of visas and of either exempting certain select groups from the visa requirement or creating a fast-track procedure for them should be considered. This last option would not make much difference to the EU because, provided all the forms are completed correctly, the procedure takes just a few days. Reciprocity, however, is important; it will force Russia to adapt its procedures.

3. Cooperation in the common space of external security
The Common Foreign and Security Policy (CFSP) and the European Security and Defence Policy (ESDP) are chiefly intergovernmental in nature. In mid-1999, the EU prepared a strategy paper on Russia (as provided for in article 13 of the EU Treaty) as part of the CFSP and with a view to Russia's involvement in the Kosovo conflict.[73] Russia clearly wants to be involved in the implementation of the EU's CFSP. In principle, it is willing to contribute to peacekeeping operations under the Union flag, at least in so far as they do not take place on the territory of the former Soviet Union. This is illustrated by the logistical support, modest though it may have been, it provided for the EU military mission in Chad. The Russian government seems to attach great value to a role in EU decision-making. It does not want to be presented with faits accomplis that offer it no alternative other than saying 'yes' or 'no' to EU requests for participation. That is why Russia advocates the establishment of an EU-Russia Council, more or less analogous to the NATO-Russia Council, where it sits at the table with all member states. Such an arrangement is out of the question for the EU, however, chiefly because it is contrary to the Union's treaty system.

It would probably be wise to agree practical forms of consultation that in any event take reasonable account of the Russia's wishes at operational level. The AIV suggests that the Netherlands seek a revision of the 1999 Common Strategy and the ad hoc conduct of practical talks as a way of dealing with specific situations when that appears beneficial to both parties.

The relationship with NATO is considered in chapter IV, which also looks at Georgia and Ukraine's wishes to join this treaty organisation.

4. Cooperation in the common space of research, education and culture
A limited number of initiatives have been taken in this space. The EU and Russia cooperated, for example, on the EU's Sixth Framework Programme for Research and Technological Development.[74] An example in the field of education is the European Studies Institute (ESI) in Moscow that the European Union and Russia set up jointly

73 Common Strategy of the European Union of 4 June 1999 on Russia, 1999/414/CFSP, see the website: <http://trade.ec.europa.eu/doclib/docs/2003/november/tradoc_114137.pdf>.

74 The Agreement on cooperation in science and technology between the Government of the Russian Federation and the European Community of 6 November 2003 provided for Russia's participation in the EU's Sixth Framework Programme for Research and Technological Development (FP6 2002-2006). The previous agreement, which entered into force in May 2001, lapsed on 31 December 2002. See press release IP/03/1509: 'EU and Russia sign renewed science and technology cooperation agreement'.

under the current PCA and that opened its doors at the end of 2006.[75] The Seventh Framework Programme for Research and Technological Development, which began in 2007, also includes a major programme for Russia. The EU and Russia set up a Permanent Partnership Council on Research to draw up the programme.[76]

This common space is in principle politically non-controversial and therefore lends itself to closer cooperation. Contacts between people in general and between professionals in particular (peer to peer) can make a positive contribution to better understanding between the European Union and Russia and also establish the trust necessary to undertake more demanding projects. Cooperation can be sought in areas where each party can learn from the other. How is Russia succeeding, for example, in developing an effective poverty and gender policy, as mentioned in chapter II, and how is it helping to achieve the Millennium Development Goals?

More can therefore be done in this common space. In the field of research, for example, multiyear programmes could be set up in areas of common interest. The target groups could be knowledge institutions or schools and universities. Since Russia is not an EU candidate country, it cannot take part in exchange programmes available to students and teachers in EU member states, such as the Erasmus, Socrates and Life Long Learning Programmes. The programmes offered by the EU as part of its Neighbourhood Policy are open to Russia, however, and the Union and Russia could also develop a programme for cooperation in higher education, with funds to finance student grants, teacher exchange programmes and joint education and research programmes (courses, bachelor and master's programmes, summer courses and the like). In tandem, the member states could take measures to strengthen cooperation with Russian higher education institutions. Universities, for example, could waive registration fees or provide funds for grants. In the field of culture, investments could be made in language programmes and courses in each other's history and culture. Exchange programmes for primary and secondary schools and youth organisations would also be beneficial. Exchange programmes could be set up for music, theatre, opera and ballet companies and museum collections as well. Finance could be sought where necessary from sponsors in relevant industries.[77] Last but not least, initiatives could be taken to encourage tourism to and from Russia. In this respect, the AIV favours simplifying the current visa regime, as indicated above with regard to the common space of freedom, security and justice.

75 The ESI is associated with the MGIMO, the Moscow State Institute of International Relations. The ESI board consists of EU representatives (as a rule, experts in aspects of European studies) and an equal number of Russians (representatives of the central government, universities and the Russian Academy of Sciences). The ESI develops postgraduate continuing education principally for Russian civil servants (central, regional and local authorities and implementing agencies). The teachers are drawn from both the EU member states and Russia itself.

76 The first meeting was held in Ljubljana on 26 May 2008. See: 'Joint statement of EU-Russia Permanent Partnership Council on Research', Ljubljana, 26 May 2008. There is also a sustainable development programme with Russia and Ukraine: SCOPE-EAST, as part of the EU Neighbourhood Policy; for more information see the website: <http://scope-east.net/?p=about_general>.

77 Several exhibitions of Russian art held in the Groningen Museum in recent years, for example, were co-financed by Gasunie.

The AIV notes that the member states, not the Union, are responsible for policy in the fields of education and culture. The EU does however have explicit complementary competence in the field of research, and it could also encourage joint cooperation programmes in education and culture. This would usually entail providing relatively small amounts of start-up finance. Nevertheless, the outcomes could be important and have a lasting impact.

Conclusion

Economic and trade relations are by far the most important areas for cooperation, as Russia agrees. These relations, however, have not been able to develop as hoped, because Russia must first become a member of the WTO. That, however, is outside the scope of the PCA. A number of beneficial projects have been put in train in the four PCA common spaces. The results, however, have clearly not met the policy ambitions, which were sometimes set too high. In the field of external security in particular little of substance can be seen. Cooperation in the common space of freedom, security and justice has been checked by Russia's growing opposition to what it sees as EU interference. In the 'soft sector', the common space of research, education and culture, the current cooperation could be stepped up. Contacts between people in general and professionals in particular (peer to peer) are useful and could make a concrete and relevant contribution to better understanding between the EU and Russia.

In the light of these conclusions, the AIV believes the goals to be set in a new agreement should reflect the extent to which the two parties actually feel able to work together in the various areas.

IV Common neighbours and the wider security context

The Senate requested advice on another subject as well: the EU's Neighbourhood Policy in the common neighbours Ukraine, Belarus and Moldova and the frozen conflicts in the countries of the southern Caucasus (Georgia, Armenia and Azerbaijan) and in Moldova. This chapter considers these issues and the more general security policy environment, including NATO's relationship with Russia. While the EU and NATO are two separate entities, NATO decisions affect the quality of the relationship between the West and Russia as a whole.

The question is, in what framework and at what level can the EU best hold talks with Russia with the goal of creating, in both parties' interests, the maximum possible stability on each other's borders while respecting the rights of the peoples concerned?

Cooperation regarding common neighbours

The AIV does not wish in any way to disguise the fact that relations with the common neighbours are perhaps the most problematic aspect of the relationship between the EU and Russia. Both parties clearly have an interest in stability on their borders. This is also recognised on the Russian side. In May 2007 the Russian Ministry of Foreign Affairs said that 'relations with the CIS countries [are] the chief priority of Russian foreign policy' and that 'Russia is interested in having friendly, prosperous, democratic and stable states along the perimeter of its borders'.[78]

It will be exceedingly difficult, however, for the EU to convince Russia that the EU's close ties with the former Soviet republics are not directed against Moscow and that the EU looks upon its ties with them as a matter of mutual interest and not, like Russia, as part of a zero-sum game. Russia is no exception to the rule that post-imperial powers must overcome substantial emotional resistance before they can reconcile themselves to the reality of their drastically reduced territory. Official Russian documents refer to the former Soviet republics as the 'post-Soviet space'. This term seems to have been chosen because it suggests that there is a single space that includes Russia where Russia calls the shots. Russian policy in the post-Soviet space is set and carried out largely by the members of the presidential administration and the Russian Security Council, not by the foreign ministry, although the ministry does have some influence on policy. The chief of the presidential staff is Sergei Naryshkin, who had previously been deputy prime minister and a KGB officer. The secretary of the Security Council is Nikolai Patrushev, who until recently was the head of the FSB.[79] The fact that both organisations are headed by *siloviki* is not without relevance to Russian policy in the post-Soviet space.

The goal of this policy is to restore and maintain Russia's dominance of the region through economic and, where possible, political integration, particularly in the fields of foreign affairs and security, two areas that Moscow is particularly keen on controlling.

78 Russian Ministry of Foreign Affairs, 'A survey of Russian Federation foreign policy', policy document translated from Russian, Moscow, May 2007, p. 23.

79 The Federal Security Service of the Russian Federation, the successor to the KGB.

This stance clashes with that of the EU, which, in accordance with the principles of international law, assumes that sovereign states determine their own form of government and what political organisations they wish to join.[80] Another country (in this case Russia) is not entitled to obstruct the exercise of such rights, although it can of course express an opinion on them and it would be unrealistic to demand that Russia refrain from taking any action. However, the question is always whether a particular action is admissible or not under international law.

The AIV would not venture to say much more than that certain actions such as threatening to use force are in any event unlawful. There will doubtless be a considerable grey area in any such assessment. It is even more difficult to decide whether an action is politically expedient. In other words, not everything that is legal is also wise. In day-to-day life, too, a reasonable person takes account of his neighbours' feelings, whether they are justified or not.

The AIV is convinced that potential conflicts with Russia on its external borders can only be prevented if the greatest possible account is taken of its legitimate interests and views. This must not mean, of course, giving the country a de facto veto over EU decisions. Nor may the EU avoid confrontation with Russia should Moscow ride roughshod over the former Soviet republics' right to political self-determination. The Netherlands and the EU must not compromise its principle that sovereign states decide for themselves what organisations they wish to join. The AIV expects it will be easier for the EU and Russia to resolve conflicts in neighbouring countries if the relationship between the EU and Russia delivers more mutual benefits across the board.

The further expansion of NATO is particularly relevant to the security situation in the post-Soviet space. Following the recent decision by the NATO summit in Bucharest that both Ukraine and Georgia can become members (albeit after a period of intensive preparation),[81] this issue has dominated the debate.[82] As a result of this step, which was intended as a compromise, however, the leaders of Ukraine and Georgia have redoubled their efforts to gain NATO membership and Russian unease and indignation

80 This is of course also the Dutch government's position. The foreign minister's two letters to parliament (see footnote 3) state that the EU's neighbours 'must have every freedom to take their own decisions'.

81 Bucharest Summit Declaration issued by the Heads of State and Government participating in the meeting of the North Atlantic Council in Bucharest on 3 April 2008. See article 23: 'NATO welcomes Ukraine's and Georgia's Euro-Atlantic aspirations for membership in NATO. We agreed today that these countries will become members of NATO. Both nations have made valuable contributions to Alliance operations. We welcome the democratic reforms in Ukraine and Georgia and look forward to free and fair parliamentary elections in Georgia in May. MAP is the next step for Ukraine and Georgia on their direct way to membership. Today we make clear that we support these countries' applications for MAP. Therefore we will now begin a period of intensive engagement with both at a high political level to address the questions still outstanding pertaining to their MAP applications. We have asked foreign ministers to make a first assessment of progress at their December 2008 meeting. Foreign ministers have the authority to decide on the MAP applications of Ukraine and Georgia.'

82 There are also other sources of potential conflict in the 'neighbourhood' dossier. They include the problem of the roughly 20 million ethnic Russians in the neighbouring countries, energy relations, the Crimea and the decommissioning of nuclear weapons at various Russian military bases.

have increased accordingly.[83] So far, the Netherlands, along with Germany and several other states, has rightly acted with caution and reserve. NATO must carefully weigh up the potential pros and cons of such an enlargement. Decisive factors are: the democratic content of the candidate countries, the military contribution they can make (they must be producers of security as well as consumers) and the repercussions on relations with third countries. Regarding the latter, there are two frozen conflicts in Georgia and it is not inconceivable that Russia will be involved in an active conflict at some stage. With this in mind, the AIV thinks the credibility of the NATO members' undertaking to assist each other against attack pursuant to article 5 of the NATO Treaty is clearly at stake.

Action regarding frozen conflicts

As noted above, Moscow's goal is to restore and maintain its dominance of the post-Soviet space. To achieve this goal, many means are considered appropriate. One of them is support for Russian or Russian-speaking minorities in the states concerned, which Russia gives in a variety of ways. Another is to exert pressure by supporting areas that wish to secede. These are Transdniestria, which has declared its independence from Moldova, and Abkhazia and South Ossetia, which have separated from Georgia. These are known as 'frozen conflicts' because although there is no armed conflict the underlying problems and tensions have been simmering for some time without a political solution. No country in the world, not even Russia, has responded to the declarations of independence with diplomatic recognition. Russian support for these areas reminds Moldova and Georgia that restoration of their territorial integrity will be impossible without cooperation from Moscow, and that they would be well advised to adopt policies that accommodate Russia.

An interesting difference has arisen in recent months in Russia's approach to Transdniestria on the one hand and Abkhazia and South Ossetia on the other. In the first dispute, Russia gives the impression that it favours the unification of Transdniestria with Moldova. Moldova has indicated that it will satisfy Russia's conditions by guaranteeing permanent neutrality and recognising Russian ownership of Moldovan companies and property 'sold' by the Transdniestrian 'government' to Russians. Neutrality means Moldova cannot become a member of NATO and Russia wants the US, the EU, the OSCE and Ukraine to guarantee Moldova's neutrality so that it is not able to join NATO at some point in the future. The Moldovan president, Vladimir Voronin, has also said his country would be willing to withdraw from GUAM, the regional organisation of Georgia, Ukraine, Azerbaijan and Moldova, which Moscow regards as anti-Russian.

83 See for example Stephen Cohen, 'Russia: the missing debate', *International Herald Tribune*, 3-4 May 2008. The AIV also notes that article 10 of the NATO Treaty permits NATO's enlargement with *European* countries that NATO invites to become members. According to most generally accepted definitions, Georgia is not in Europe but in Asia and therefore no more eligible for NATO membership than, say, Israel or Algeria. If the North Atlantic Treaty is not amended on this point, an inevitable consequence of Georgia's membership will be that Armenia and Azerbaijan must also be regarded as European countries. This is particularly absurd in the case of Azerbaijan (a country that was mostly part of Iran until the 19th century, with a population consisting largely of Muslim Turks, the majority of whom live over the border in Iran). Georgia and Armenia's contacts with Europe, or more properly only with Russia, also date from the 19th century, before which they were usually part of the Turkish or Persian Empire. The history of the three Transcaucasian republics is located entirely in Asia. If the word 'European' is dropped from article 10 of the NATO Treaty other countries, such as Australia, could also become members.

If the Transdniestrian leaders are coming under pressure from Moscow, the opposite is the case in Abkhazia and South Ossetia. Russian support for their 'governments' is steadily increasing. The goal is clear: the Moldovan line is being used as an example to Georgia.

In essence, the EU's Neighbourhood Policy is aimed at bringing neighbouring countries economically and politically closer to the EU's level, narrowing the prosperity gap as much as possible, increasing stability in the region and integrating these regions into the single market one step at a time. Russian measures sometimes run contrary to this policy. At the end of 2006, for example, when the World Bank, the IMF and Western donors raised USD 1.2 billion for Moldova, Russia closed its market to farm products from this predominantly agricultural country and increased its gas price to the highest level charged any former Soviet republic.[84]

In the Transdniestria dispute, the EU and the US are observers in the negotiation process between Chisinau and Tiraspol on the reunification of the country, and Russia, Ukraine and the OSCE are mediators. Owing to Russian opposition, the EU and US do not have mediator status. Russia accepted the EU and US as observers under pressure from Ukraine and Moldova in 2004 but it has tried since to activate the '5 + 2' framework as little as possible. Meetings were not held at all for several years as Moldova and Russia sought to reach a bilateral agreement.

Problems like those concerning Transdniestria, Abkhazia and South Ossetia are decided upon by heads of state and government. If the EU or the US want to have any influence on events, they must act at this level; acting at a lower level has proved ineffective. Western heads of state and government are reluctant to raise frozen conflicts with their Russian counterparts, though, out of fear that such a confrontation would harm bilateral relations. The EU's interest in resolving these disputes, however, is as clear as day: resolution will make a major contribution to stability in neighbouring countries and will also serve an economic interest. The House of Lords report referred to in the introduction to this report also urges that the EU hold in-depth talks with Russia on all aspects of European politics that have a bearing on their common neighbours, including former Soviet republics such as Ukraine and Georgia.[85] The AIV believes that an increase in EU activity in this area need not be confrontational. The space of external security provides every legitimate opportunity for the EU and Russia to work together on

84 For obviously political reasons, Russia banned imports of wine and other farm products from Moldova from March 2006 to November 2007, those from Georgia from March 2006 to the present (mineral water imports were also banned) and imports from Ukraine. Meat imports from Poland were banned between November 2005 and December 2007. See the websites:
<http://economie.moldova.org/stiri/eng/74333/>,
<http://www.kommersant.com/p-11498/r_500/wine_export_Moldova/>,
<http://news.bbc.co.uk/2/hi/europe/6194072.stm>,
<http://www.kommersant.com/p-11033/r_500/wine_export/>,
<http://uk.reuters.com/article/worldNews/idUKL0142079420071101?pageNumber=1&virtualBrandChannel=0>,
<http://www.ceps.be/files/NW/NWatch15.pdf>(p. 13),
<http://news.bbc.co.uk/1/hi/world/europe/4976304.stm>,
<http://www.euractiv.com/en/trade/russia-lifts-embargo-polish-meat/article-169365>.

85 House of Lords European Union Committee, op. cit.

a joint solution to these protracted conflicts. The AIV therefore thinks the EU High Representative for the Common Foreign and Security Policy should give priority to exploring possibilities for ongoing talks with Russia so that solutions can be found that do justice to the interests of all the parties concerned. If the Lisbon Treaty is ratified, the High Representative, as vice-president of the European Commission, would be in a position to use EU trade policy and development instruments to persuade the parties to moderate their stances.

Other security policy issues

The frozen conflicts, the position of Russian minorities in Estonia and Latvia, the disputed independence of Kosovo and disagreements about the implementation of the CFE Treaty are not the only disputes in the field of security policy. One of the most important ones is Russia's rejection of American plans to place an anti-missile shield in Europe. Until recently US missile defences were directed at China and North Korea, as evidenced by the location of radar facilities (Hawaii, Alaska and the West Coast of the US) and of missiles at the Grand Forks base in North Dakota. The conviction has been growing in the US in recent years – rightly or wrongly – that Iran will eventually become a nuclear power with an arsenal of delivery systems. Should this premise and the assumption that the US and Iran will remain deadly enemies be correct, current US strategy inevitably means it will not put off countermeasures. But should those measures take the form of the proposed missile shield? The AIV shares the widespread doubts about the technical feasibility and effectiveness of such a shield.

US countermeasures are governed by the expectation that Iran will direct intercontinental ballistic missiles against the US (Washington) not over the Pacific Ocean but over Europe.[86] Radar facilities and interceptor missiles should therefore be located on this route. The choice of the Czech Republic and Poland is thus reasonable, although other locations would also be suitable, such as Lithuania and parts of southern Russia. The selection of the Czech Republic and Poland has the benefit of improving the defence of the European part of NATO, which can have an added advantage in inducing the European states to accept the plans (as was the case at the last NATO summit).

Russia's strong and in many eyes excessive opposition is probably based on its desire to influence Western decision-making rather than on military or strategic grounds. The proposed missile defence system would have no major consequences for Russia. It is located too close to Russian missile bases to intercept Russian missiles aimed at the US. Furthermore, given the limited number of launch sites, it could be neutralised through saturation (the simultaneous launch of a large number of missiles). In other words, the US premise that a missile shield would be of value only against the emerging threat of a limited number of intercontinental and intermediate-range missiles[87] is in the AIV's view correct. The fact that the US has underestimated the political dimension of the initiative and accordingly given the Russians a chance to

86 Intercontinental ballistic missiles (ICBMs) are designed to launch nuclear warheads over a distance of more than 5,500 km. See the information from the US Department of State and Department of Defense, 'Proposed U.S. missile defense assets in Europe', Missile Defense Agency, 15 June 2007, see the website: <http://www.fas.org/irp/threat/missile/bmd-europe.pdf>.

87 An intermediate-range ballistic missile (IRBM) is designed to have a range of between 3,000 and 5,500 km.

score some easy points is another matter. Fortunately, some of the tensions have been eased with Putin's help. He approved the transport of civil goods over Russian territory for the ISAF[88] in Afghanistan, for example, and reached agreement with Poland on trade in meat. Russia has also been open to cooperation at the UN on Iran and the Palestine issue. In itself, the missile shield has no direct influence on EU-Russia relations. The Russian response shows that Moscow considers NATO its main interlocutor in this matter.

The AIV also notes that security policy has so far been conspicuous by its absence in the dialogue between the EU and Russia. This can be explained by the asymmetry in the balance of power. The EU, whose influence is founded chiefly on moral force ('normative power') and its arsenal of non-military instruments, is facing a Russia filled with a new sense of self-confidence. Russia too may not have any appreciable military strength in the sense of power projection (despite the quiet annual increase in its defence expenditure) but it knows how to make the most of its energy reserves. The AIV thinks that the only form of cooperation that Russia seeks with the EU in the field of security policy (and the only one that therefore has any chance of success) is in the field of peacekeeping missions.

Conclusion

The impasse in organising consultations with Russia to discuss security issues in neighbouring countries, including frozen conflicts, can only be resolved by unconventional means. The EU and NATO must also recognise that they have to improve their cooperation on security policy if they are to stop the current situation of Russia exploiting the fragmented policy and uncoordinated action of the West.

In this respect, the AIV poses the question whether it would be advisable in the circumstances to appoint three 'wise persons' from the Western countries to consult with Russia at the highest level on all the problems involving common neighbours, frozen conflicts and European security issues that involve both NATO and the EU. These wise persons could be former presidents, prime ministers and – possibly – ministers who command authority: one from the US, one from a large European country and one from a small European country. It would be essential for them to have a mandate from the EU member states to conduct negotiations at a level at which decisions are taken.

88 NATO International Security Assistance Force.

V Conclusions and recommendations: proposals for new avenues

Shaping the new relationship

The AIV concludes that the EU can work constructively with Russia in a number of areas of common or complementary interest, even if Russia continues to act assertively in the future. These fields relate principally to economic relations, and of course to energy supply in particular. Energy is a key sector of mutual interest to both parties. On the one hand, the EU is a major importer of Russian gas and oil and on the other it is a vital market for Russia. Russia's economy is still very one-sided but it is expanding as a result of the increase in oil and, consequently, gas prices. Three-quarters of foreign direct investment in Russia now comes from EU member states, and Russia badly needs Western technology to diversify its economy. There are therefore many openings for mutually beneficial developments and many opportunities for Western European enterprises, not only in the energy sector but also in agriculture and horticulture. The EU and Russia also have parallel interests in creating stable relations in countries on each other's borders and in combating terrorist groups and organised crime.

The AIV associates the word 'assertive', which is so frequently applied to Russia today, with a country's strong pursuit of its own interests, its imposition of strict conditions on cooperation and a drive to assert itself as a great power. However much the EU wishes to portray itself in the world as a 'post-modern entity' that has cast aside the rules of traditional power politics, it is facing a harsh reality in which positions of relative power between states still matter a great deal, governments at home tend to be judged on the results they get out of negotiations with other countries, and national prestige is a major source of influence. In the case of Russia, an assertive stance clearly entails demanding equality and reciprocity in any working relationship. This is particularly important for both the tone and the content of the new PCA between the EU and Russia.

The previous chapter showed that Russian representatives think the current PCA is patronising. With its regained self-image as a great power, Russia no longer wishes to be 'guided' by the EU on the path to democracy, the rule of law and a free market economy. The EU's assumption of such a role with smaller countries that have a realistic prospect of EU membership or a relatively low level of development (like most of the ACP states[89]) is understandable. It is also understandable that the EU adopted this attitude towards Russia during the disintegration of the Soviet Union and the sharp fall in living standards that accompanied the standstill of the Soviet economy. However, such an approach is misplaced towards a former superpower that is back on the road to recovery.

Russia has frequently made clear that it wishes to cast the treaty relationship between the EU and Russia in a new conceptual framework. This is a direct consequence of its desire (or demand) to be treated as an equal partner and to have the partnership anchored in an appropriate institutional framework. In effect, Russia is saying that it

89 These are the 79 countries in Africa, the Caribbean and the Pacific that are party to the Cotonou Agreement and accordingly enjoy certain trade preferences with the EU and are eligible for certain EU aid programmes.

does not want its relations with the EU to follow the pattern that the EU has developed for its neighbours. To the Russians, that pattern is asymmetrical and founded on the principle that Russia must conform as a junior partner to the EU's rules, standards and values. To the Russians, modernisation is not the same as Europeanisation. Russian's stance is reflected in its call for a strategic partnership and probably also explains why it prefers to speak of a 'treaty' rather than an 'agreement'.

How should the EU respond? Firstly, Russia does not aspire to join the EU. Given the importance and stature of Russia as a partner country, the relationship between the EU and Russia should be cast in a distinctive form. In the AIV's opinion, Russia should participate as an equal partner in the process of shaping and defining the new relationship. This naturally means that the EU must not only ask its members what they think is important but also be open to Russian viewpoints.

The same also applies to the *form* of the new arrangement. The AIV has examined the models the EU uses for cooperation with other large countries. As noted above, the existing PCA with Russia was originally modelled on the system of instruments open to the EU's neighbours (the ENP and the ENP instruments). However, with other countries like the US, the EU has other kinds of partnerships. In 1990 the EU and the US agreed a Transatlantic Declaration on EU-US Relations.[90] This declaration has been elaborated upon in:

- a New Transatlantic Agenda (in 1995);
- a Joint Action Plan (also in 1995); and
- an Action Plan for a Transatlantic Economic Partnership (in 1998).

The consultation is otherwise structured in the same way as that between the EU and Russia, with a semiannual meeting at the highest political level that is closed with joint plans and declarations on specific areas. Below that summit level, many forms of bilateral cooperation and contacts develop as the need arises.

To structure consultations, Moscow is calling for an EU-Russia Council similar to the NATO-Russia Council. However, the analogy does not hold true. NATO is a purely intergovernmental organisation in which governments take joint decisions. In the EU, however, government representatives cannot sidestep its institutional framework and take decisions among themselves. The AIV notes that there is *no* specific council in which all the member states sit at the table to consult with the US, or for that matter with other great powers such as China or Japan. A semiannual summit at the highest political level is however held with the US in the same way that one is held with Russia. If Russia wishes to be treated as a great power, it can demand the same procedural relationship as the US, no less but also no more. This means that the EU should be prepared for forms of cooperation and agreements that are compatible with its capacity for action and responsibilities within the existing treaty framework: it can conclude a framework agreement in which the practicalities of the common spaces for cooperation are worked out in sectoral agreements. A mandate will then be required for each of the common spaces. In accordance with the EU treaty framework, the common spaces for cooperation correspond to those in the current PCA.

90 See the website: <http://ec.europa.eu/external_relations/us/index_en.htm>. This page also presents all relevant documents and the declarations and plans for each summit.

Building blocks for a balanced relationship

Now that an answer has been given to the question of shaping the EU's future relationship with Russia, the AIV will put forward some ideas on fleshing out the content of the relationship. Whichever way the relationship with Russia is approached, energy interests will take centre stage. They are part of the common space of trade and economic cooperation, which is considered first below. There then follows a section on the common space of external security, with particular attention to the relationship with common neighbours and frozen conflicts. The next section considers the common space of freedom, security and justice, including such issues as domestic security, judicial cooperation, human rights and visas. This chapter closes by considering the common space of research, education and culture. Finally, we respond to the question on how the Dutch government and parliament can make a positive contribution to the relationship between the Netherlands and Russia and the relationship between the EU and Russia.

Recommendations

a. With regard to the common trade and economic space

Increased trade and private investment are in the interests of both the EU and Russia. It is therefore necessary to agree rules that create stable expectations and predictable behaviour. The rules should be agreed through Russia's membership of the WTO, not through EU legislation. The AIV views Russian accession to the WTO as a necessary precondition for the successful implementation of a new PCA, after which further widening and deepening of EU-Russia trade and economic relations can be pursued.

Recommendation 1:
For the successful implementation of a new agreement in the field of trade and economic cooperation, Russia must become a member of the WTO as soon as possible. The AIV therefore recommends that the EU adapt its negotiating strategy to this key fact.

Negotiation of WTO membership must satisfy the requirement of equality: the EU (i.e. the European Commission) is negotiating with Russia in this common space on behalf of its 27 member states. Furthermore, the negotiations are not general but specific, and detailed timetables will be agreed. This inevitably requires patience but that is not unusual (compare, for example, the negotiations with India). Everything apart from the removal of customs duties will remain negotiable after Russia becomes a member of the WTO, such as accounting standards, investment guarantees and harmonisation of certification procedures for goods that are imported into Russia. All non-discrimination legislation will apply to all commodities, including oil and gas, once membership takes effect.

It has become clear to the AIV that Russia cannot be expected to ratify the Energy Charter. When Russia becomes a WTO member, however, the Charter's provisions on trade will automatically enter into force. There is one shortcoming, however: investment protection can be secured only within the framework of WTO-plus negotiations on an FTA.

Recommendation 2:
Do not expect Russia to ratify the Energy Charter; include the clauses on investment protection (as provided for in the Energy Charter) in the WTO-plus negotiations with Russia. Include the reciprocal rules on the protection of energy investments in an FTA as soon as Russia becomes a WTO member. An FTA should be the ultimate framework for economic cooperation.

With regard to investments, Russia itself recently introduced certain rules. This is a positive move in the AIV's view, because rules are now in place where previously there had been none. Negotiating the whole catalogue of issues that are included in the chapter on economic cooperation in the current PCA would in our opinion be pointless. WTO membership should be seen as the primary goal and guiding principle. The AIV wants more, however, namely a free trade zone with Russia established in accordance with the negotiation mandate agreed within the EU. Again, until Russia becomes a WTO member no progress can be made in the field of economic cooperation beyond the current mandates of the official working groups.

Recommendation 3:
A free trade zone with Russia would entail not only the removal of customs duties but also WTO-plus issues such as rules on government procurement, harmonisation of taxes and harmonisation of the certification of goods imported into Russia. Therefore, widen the agenda from the abolition (or at least reduction) of tariffs to include the removal of non-tariff barriers.

The EU energy market has not yet been fully liberalised. One problem is the separation of production, transmission and supply of energy products (unbundling). At the beginning of June 2008, the EU energy ministers reached agreement in principle on the question of unbundling. Contrary to the European Commission's original proposals, it was agreed at the urging of France and Germany that there need be no formal unbundling of vertically integrated energy companies (ownership unbundling) as long as there are guarantees that the distribution networks are managed as separate units. The details still have to be worked out, however, and the European Parliament still has to take a decision. The details are not unimportant. The extent to which networks can be used as collateral in their parent companies' financing agreements and the ability to channel cash flow from the distribution companies to the parent companies are decisive issues. Nevertheless, this development in EU policy provides a potential solution for foreign investors like Gazprom, which are known for the far-reaching vertical integration of their production and marketing chains.

Recommendation 4:
The EU should seek reciprocal investment agreements with Russia in the energy sector. Such agreements could be based on the relevant provisions of the Energy Charter. A less stringent unbundling requirement could facilitate the conclusion of such agreements.

b. With regard to the common space of external security
In the AIV's opinion, the EU should definitely keep the door open to Russian participation in and logistical support for EU peacekeeping missions outside Europe. We see Russia's willingness to provide logistical support for the EU operation in Chad as a positive sign. With regard to Russia's desire for a say in the preparation and implementation of operations, practical arrangements could be made on a case-by-case basis. It is customary in international CFSP negotiations for the EU member states that do most of the work to be members of a contact group set up for that purpose. If Russia is willing to participate in a peacekeeping operation and if its contribution is substantial, nothing seems to stand in the way of its having a say in the structure, allocation of tasks and management of such an operation, that is, of its sitting at the table with the EU participants in an ad hoc contact group. This would not require a separate structure. There are no such structures in the UN framework, although there are ad hoc committees. When the UN Security Council decides upon a mission, a troop

contributors committee including all participating countries is formed for the duration of that mission to work out the details. Something similar should be possible for joint EU-Russian missions. Furthermore, every form of more extensive cooperation could be discussed at the regular semiannual EU-Russia summits.

Recommendation 5:
On the basis of practical arrangements such as ad hoc contact groups and contributors committees, Russia can be given a fitting voice in the implementation of joint EU-Russian peacekeeping missions. The EU should clear the way as need arises to establish such arrangements.

In addition to cooperation on international peace and security in general, the EU and Russia have shared interests regarding their common neighbours, even though Russia looks upon this area as a zero-sum game. In formal policy documents, the Russian government states that it, too, will promote the development of 'friendly democratic neighbours' in this common border area. With regard to security in the countries to Russia's west and south, the EU and NATO each has its own role to play. The measures the two organisations will have to take to increase stability in these countries require the closest possible coordination. Such coordination is virtually absent at present. In the EU, peace and security talks will increasingly hinge on the EU's High Representative for CFSP, provided the Lisbon Treaty is still ratified by all the member states. Centralising responsibility for traditional foreign policy and the common competences for external relations (trade policy and development cooperation) in one person's hands will provide opportunities for greater coherence in implementing the Neighbourhood Policy, including relations with the common neighbours.

As noted above, the EU and Russia share an interest in security and stability in their common neighbours. With regard to Georgia and Moldova, two countries in which there are frozen conflicts, talks are being held between the EU and Russia; the EU even appoints special representatives for the two areas each year. There is therefore a channel for these important talks but they do not take place at a level at which decisions are taken, namely the highest political level. This must be improved.

The EU should not compromise its principle that sovereign states should decide for themselves what international organisations they do and do not wish to join. This is relevant in the light of Georgia and Ukraine's application for membership of NATO. Geographically the former country may not be part of Europe, but politically it belongs to our part of the world. One question that needs to be answered is whether the formulation of article 10 of the NATO Treaty, which provides for the accession of *European* states, needs to be amended. The AIV thinks that while the two countries have a right to apply for membership, NATO is not obliged to grant them membership. The NATO countries have their own responsibility in this respect. They should carefully consider whether the security situation in Eastern Europe and the Caucasus would benefit from further enlargement of the alliance. One major consideration will obviously be the impact on the relationship with Russia in the longer term.

Recommendation 6:
The Netherlands should insist at EU level that substantive talks based on a common EU position are held on the EU and Russia's common neighbours. Any 'new style' High Representative whom the EU appoints should investigate how talks with Russia can best be organised, in both parties' interests, to achieve greater stability in the countries concerned.

c. With regard to the common space of freedom, security and justice

The parties concerned think cooperation with Russia in the field of domestic security is generally satisfactory. This is particularly true of police and criminal justice cooperation on human trafficking, child pornography and cybercrime. The AIV notes that there are also no complaints on the EU side regarding the exchange of information at strategic level to combat terrorism, prevent the proliferation of weapons of mass destruction, etc. The parties also recognise that they have common interests in combating financial crime, illegal immigration and environmental crime. With regard to the Schengen borders, further cooperation is being established on border controls. The results of joint projects in this area should be analysed, however, as little is known yet about their practical effect.

Recommendation 7:
The AIV recommends that the EU be urged to do a midterm review of the existing cooperation in the areas referred to above and use the findings to continue the cooperation in a pragmatic and vigorous manner.

Visa procedures are a sticking point in EU-Russia relations in the field of domestic security. Exemption from the visa requirement in particular is politically sensitive and is a long-term matter.

Recommendation 8:
The AIV recommends that the EU and Russia simultaneously speed up visa procedures for each other's nationals, extend the validity and lower the cost of visas, and seek to exempt certain select groups from the visa requirement.

In the field of human rights, the Netherlands and the EU have access to all the legal instruments they could wish for. There is therefore no need for new rules. Russia is after all a member of the Council of Europe, a party to the ECHR, a member of the OSCE and a party to the most important human rights instruments – and all these ties inevitably entail obligations. What is lacking is Russian compliance with its treaty obligations. European countries require care in raising the subject of human rights with Russia. Claiming to know all the answers is counterproductive. It is also important that civil society organisations in Russia obtain the freedom to protect the fundamental rights of Russian citizens. Russian legislation makes it difficult to maintain contacts with foreign organisations and, especially, accept funds from them. This particularly affects human rights organisations but certainly others as well. The AIV nonetheless expects the long-term diversification and modernisation of the Russian economy will contribute to a broader swathe of society standing up for compliance with the rule of law and an end to legal nihilism. In the longer term this will probably also be the most effective approach.

Russia can in any event be expected to respect the standards for human rights and their protection laid down in the ECHR. Addressing Russia as a responsible stakeholder could increase the likelihood of its respecting these standards. Insisting on the ratification of the 14th Protocol, which provides for the modernisation of the Court, should be seen in this light. Modernisation is urgently needed with a view to the performance of the Council of Europe's legal system. Pragmatic support, for instance for the reorganisation of Russia's judiciary and the reform of its prison system, would also be a push in the right direction.

Recommendation 9:
The EU must continue to insist on Russia's greater observance of human rights and compliance with the judgments of the European Court of Human Rights. Incidentally, the Council of Europe, not the EU, is the most direct channel for holding Russia to the Convention for the Protection of Human Rights and Fundamental Freedoms (ECHR). In addition, Russia should be reminded, by the EU among others, that it shares responsibility for this organisation. The member states of the Council of Europe must persist in their efforts to persuade Moscow to cooperate on reforming the application procedure under the ECHR.

d. With regard to the common space of research, education and culture

The 'soft' sector is particularly suitable for strengthening cooperation between the EU and Russia. Contacts between members of the public, students and professionals can create trust and clear the way for more far-reaching joint projects. To this end, the EU could use its complementary competence in the field of research, as applied in the new Seventh Framework Programme for Research and Technological Development, for Russia's benefit. Education and culture are essentially responsibilities of the member states, but the Union could also provide incentives – for example in the form of start-up funds – to step up cooperation in these fields. Cooperation could be cast in both a general and in a more specific framework. The former would include umbrella programmes, for example in the field of primary, secondary and higher education. This would require a selection mechanism for the allocation of funds. The latter could be approached on a sector-by-sector basis. In addition to using the Framework Programme for Research, priority should be given to cooperation on higher education, language teaching and knowledge of each other's history and culture. An interesting subject for research would be Russia's gender and poverty policy.

Recommendation 10:
The AIV recommends that the exchange of pupils, students and teachers from educational and scientific research institutions and from cultural, language and history institutions be encouraged.

Such exchange programmes would also encourage tourism from and to Russia.

What the Netherlands could contribute

One of the main problems in implementing EU policy on Russia is how to coordinate actions undertaken on EU institutions' authority and in their name with the bilateral relations maintained by the EU member states. A sense of proportion should be kept, however. It is an illusion to think that member states, especially the larger ones, can be forced to accommodate themselves in full to a common EU policy. But much could be gained if bilateral relations were aligned with at least some of the common positions that together form a general policy framework for the relationship with Russia. The Netherlands seems to be in a good position to build bridges between the policies of, in particular, the larger member states and the common policy at EU level.

Recommendation 11:
The Netherlands should try to help create a general policy framework at EU level that sets guidelines for the member states' relations with Russia. An effective means would be to have the EU agree a new Russia strategy that recognises the momentous changes that have taken place in Russia.

The Netherlands is one of the largest investors in Russia. The investments have been made chiefly by larger enterprises and the AIV believes there are still missed opportunities for small and medium-sized enterprises. Vast undeveloped regions in Russia have enormous potential for agriculture and horticulture. The Netherlands could take advantage of its world leadership as an agro-industrial nation by actively contributing to increased food production in Russia. In view of rising food prices and the impact they are having particularly on the poorest people in the world, such a policy would complement Russia's efforts to reduce poverty and achieve the Millennium Development Goals. The EU and Russia have parallel interests in this area.

Recommendation 12:
The Netherlands is a major investor in Russia but, as Russia improves the protection available to investments, it could do more to encourage investments by small and medium-sized enterprises, especially in the agriculture and horticulture sectors.

Finally, the Netherlands should continue and, where possible, strengthen the programmes already in place to improve the administration of justice and the quality of public administration in Russia and to encourage academic, artistic and cultural exchanges. Parliamentary visits at national level to and from Russia should discuss not only current policy issues such as human rights but also the exchange of experience with the operation of parliaments in the EU member states and Russia.

In summary, the AIV believes Russia should first become a member of the WTO before any meaningful progress can be made on trade and economic cooperation between the EU and Russia. A good relationship would also serve our common interest in increasing security in Europe, particularly in the EU and Russia's common neighbours. We can work together to find solutions to the frozen conflicts in the countries concerned. The Netherlands must work on putting both points at the centre of debate in the EU.

Annexe I

Request for advice

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Senate of the States General

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Mr F. Korthals Altes
Chairman of the Advisory Council
on International Affairs
Postbus 20061
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Date 22 February 2008
Our ref. 140343/u/HesM/EN

Dear Mr Korthals Altes,

Meeting in joint session on 5 and 12 February 2008, the Senate's Foreign Affairs, Defence and Development Cooperation Committee (BDO) and European Cooperation Committee (ESO) discussed submitting a request for advice to the Advisory Council on International Affairs (AIV) on the relationship between the European Union and Russia.

Pursuant to section 17 of the Advisory Bodies Framework Act and section 2 of the Advisory Council on International Affairs Act, I am writing to ask the AIV for advice on EU-Russian relations.

Background

Russia is the European Union's largest neighbour, but at the same time it is also the *other* neighbour of the Union's eastern neighbours (Belarus, Ukraine, Moldova, and – if Turkey joins someday – Georgia, Armenia and Azerbaijan). For the past few years Russia has been pursuing a distinctly assertive foreign policy, prompted in part by sharp increases in the strategic value of their stocks of fossil fuels, especially natural gas. Whereas previously the EU had been virtually the only customer, it must now share the field with Japan and emerging economies like China and India. The geopolitical arena is further complicated by the deployment of an anti-missile shield in the eastern part of the Union, the possible accession of Serbia to the EU and Kosovo's unilateral declaration of independence. This means that the EU-Russia relationship should be seen in a broader context – that of the CIS and the United States – and in the light of the relationship with NATO.

The existing Partnership and Cooperation Agreement between the EU and Russia will lapse this year. Both parties are interested in concluding a new agreement, though they have different ideas about the content. Russia has indicated its interest in new strategic underpinnings, without specifying what form these would take, while most EU member states would prefer to model any future agreement on the old PCA, which is based on the four common spaces. The EU's extensive package of programmes and resources in the area of economic integration and in the area of good governance, democratisation and human rights is open to all its neighbours, including Russia. The neighbours are free to choose the sectors in which they would like to work with the EU. Following governmental and parliamentary discussions in the country in question, the partner states' preferences are then translated into a cooperation programme for which the PCA forms the legal basis. Once the PCA has been concluded, the EU will conduct a baseline survey, and then monitor progress on an annual basis.

Concerns exist about the reversal of democratisation processes, restrictions on the freedom of the press and the refusal to prosecute human rights violations, especially in 'frozen' conflict zones. Against such ground, it is questionable what role the Council of Europe and the OSCE can play and how effective the European Court of Human Rights can be. Another concern is the one-sided economy and the sluggish pace at which Russia is opening its markets. Since the disintegration of the Soviet Union, poverty has risen significantly and the population is shrinking at an unprecedented rate.

Another important question is what new opportunities strengthening ties with Russia might create. Examples include the expansion of food production in this vast country and improving the Union's energy supply security.

The relevant questions are:

- What scenarios are conceivable for nurturing the relationship between the EU and Russia, assuming that the latter's foreign policy moves towards (i) a constructive partnership with the EU and (ii) an autonomous, assertive policy with geopolitical ambitions?
- In these two scenarios how does Russia view working with the EU in the areas of peace, security and justice (especially counterterrorism, democratisation, free media, respect for human rights and frozen conflicts)?
- What does each scenario mean for the economic partnership with the EU (especially with respect to open markets and economic diversification, including the expansion of food production)? And what do these scenarios mean for energy supplies to the Union and its individual member states?
- What do the scenarios mean for the EU's relationship with common neighbours, particularly Ukraine (with its wish to join the EU), but also Belarus, Moldova and the countries of the southern Caucasus? And what kind of opportunities do the scenarios present for resolving the frozen conflicts in places like Moldova, Georgia, Armenia and Azerbaijan?
- What instruments can the EU use in each of the two scenarios? The existing European Neighbourhood Policy (ENP) provides a key framework; all its programmes and funds are open to Russia. What types of projects could be undertaken and under what conditions? How can a balance be struck between carrots and sticks in each of the scenarios?

- How can the Dutch government and parliament make a positive contribution to the relationship with Russia and the relationship between the EU and Russia in the two scenarios?

The Senate looks forward to hearing your thoughts on these matters.

Yours sincerely,

(signed)
Yvonne E.M.A. Timmerman-Buck
President of the Senate

List of persons consulted

Persons consulted in The Hague

Head of External Affairs Division (DIE-EX), European Integration Department, Ministry of Foreign Affairs
Stefan van Wersch

Director, Southeast and Eastern Europe Department (DZO), Ministry of Foreign Affairs
Kees Klompenhouwer

Member of staff for Eastern Europe (Russia, Ukraine and South Caucasus), Economic Affairs Section, Permanent Representation of the Netherlands to the EU
Mark Jacobs

Director, Clingendael International Energy Programme; professor of Geopolitics and Energy Management, Groningen University
Coby van der Linde

President of Energy Delta Institute, Groningen; previously president of the International Gas Union and of Eurogas (the world and European organisations for the gas industry respectively) and CEO of N.V. Nederlandse Gasunie
George Verberg

Persons consulted in Brussels

Head of Mission, Permanent Delegation of the Netherlands to NATO
Herman Schaper

Dutch representative to the Political and Security Committee of the European Union
Robert Milders

Deputy Head of Unit, Relations with Russia, Northern Dimension Policy and Nuclear Safety, DG External Relations, European Commission
Michael Webb

Council of the European Union, Russia Adviser
Carl Hallergård

Permanent Mission of the Russian Federation to the European Union
Nicolai Kobrinets, deputy head of mission
Andrey Panyukhov, counsellor
Igor Sevastiyanov, senior counsellor
Vladimir Epaneshnikov, senior counsellor

Persons consulted in Moscow

Carnegie Endowment
Dr Dmitri V. Trenin, senior associate

Centre for European Security
Dr Tatyana G. Parkhalina, director

Centre for the Development of Democracy and Human Rights
Yuri Dzhibladze, president

State Duma
Andrey Klimov, chairman, Subcommittee on European Cooperation

Ministry of Foreign Affairs of the Russian Federation (MID)
Alexander Grushko, deputy minister
Mikhail Evdokimov, deputy director, European Cooperation Department
Vasily Koltyshev, attaché, First European Department
Vladimir Naidenov, Senior Advisor Benelux, First European Department

Moscow State Institute of International Relations (MGIMO)

Mark Entin, director, European Studies Institute

Mikhail T. Marchan, deputy director

Delegation of the European Commission to Russia

Marc Franco, ambassador

Timo Hammaren, head of Economics and Trade Section

Taneli Lahti, head of Political Section

Young Russians consulted

Vsevolod Bolshakov

Ilya Konstantinovich Haripov

Larisa Sadovnikova

Aleksei Tolstik

Vadim Terehov

Darya Chesnokova

Dutch businessmen consulted

Maarten van den Belt, VISA CMEA, general manager

Marc van der Plas, KPMG Russia, partner and head of Corporate Finance

Maarten Pronk, Fortis, country manager, Russia

Bob Steetskamp, Campina A.G., corporate director

Herman Verstraeten, Unilever Russia, president

Jacob Westerlaken, Rosgosstrakh insurance, CEO

Dinner guests

Nadezhda Arbatova, Institute of World Economy and International Relations

Andrej Benedejãiã, ambassador of Slovenia

Dmitry Bogachev, Stage Entertainment Russia

Konstantin Eggert, BBC correspondent

Pavel Felgenhauer, journalist

Justin Harman, ambassador of Ireland

Wim van der Harst, Salvation Army

Grigory Yavlinsky, leader of the Yabloko party

Alexandr Kramarenko, director of Foreign Policy Planning Department, MID

Michel Krielaars, NRC-Handelsblad correspondent

Fyodor Lukyanov, editor, *Russia in Global Affairs*

Mark, archbishop of Russian Orthodox Church Outside of Russia

Andrey Melville, professor, MGIMO

Antonio Mennini, apostolic nuncio to Russian Federation

Andranik Migranyan, member of Public Chamber

Roger Munnings, KPMG

Natalia Narochnitskaya, Institute for Democracy and Cooperation

Alexander Panov, rector, Diplomatic Academy, MID

Sergey Ryabkov, director, European Cooperation Department, MID

Frank Schauff, CEO, Association of European Businesses in the Russian Federation

Margarita Simonyan, editor-in-chief, TV station Russia Today

Andrew Somers, president, American Chamber of Commerce in Russia

Nikolay Spassky, deputy director, Federal Atomic Energy Agency

Andrey Zagorsky, professor, MGIMO

Discussion of the energy theme:

Helmer Horling, Gasunie
Erik Houlleberghs, Exxon Mobil
Jörg Kirsch, German embassy
Geoffrey Lyon, American embassy

Involvement of the Dutch embassy in Moscow

Jan Paul Dirkse, ambassador
Jos Douma, deputy head of mission

Laura Birkman, Agriculture, Nature Management and Food Quality Section
Ed Hoeks, consul-general, St Petersburg
Thymen Kouwenaar, head, Education, Culture and Science Section
Olga Ovechkina, assistant, Political Section
Marinus Overheul, head, Agriculture, Nature Management and Food Quality Section
Richard Roemers, Economic Affairs Section
Peter Verheijen, deputy head, Economic Affairs Section
Gerben Visser, Interior and Kingdom Relations Section
Erik Weststrate, Political Section

Some facts about the Russian Federation[91]

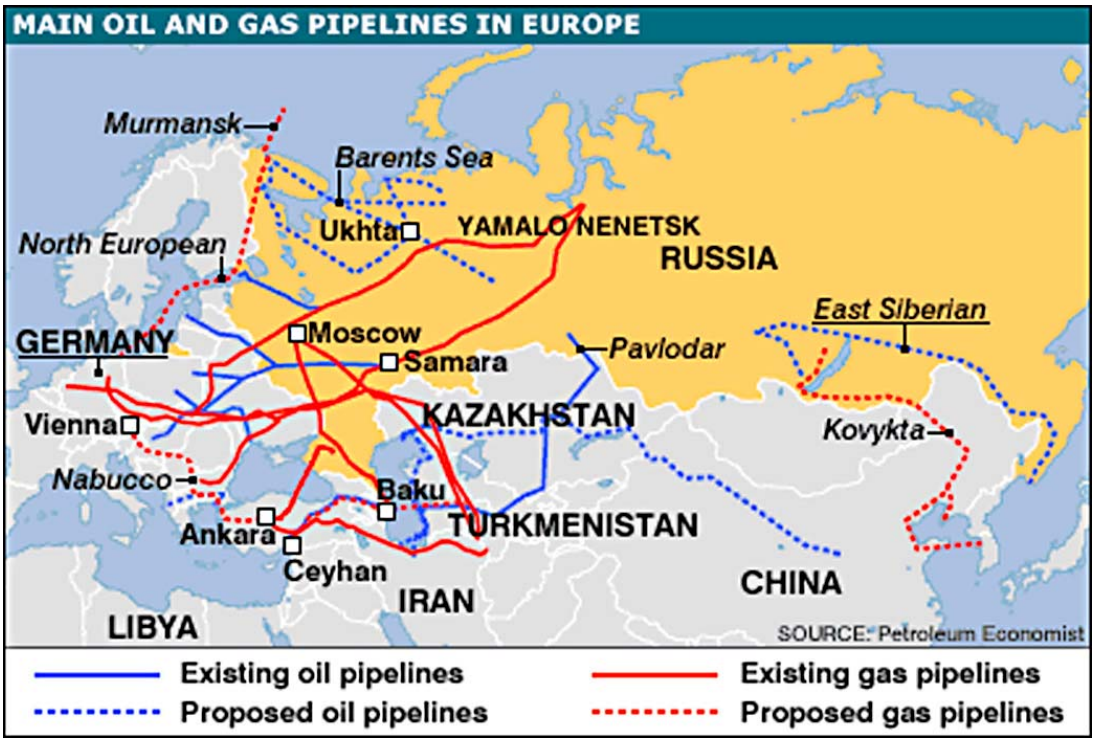
Surface area	17,075,200 km^2
Population size	142.1 million (2007); 142.8 million (2006)
Population decline	-0.474% (2008 estimate)
GNP	EUR 780 billion (2006)
GNP per capita	EUR 5,460 (2006)
Gini coefficient (income distribution)	41.3 (September 2007)
Inflation (consumer prices)	8.1% (2007)
National budget	revenue USD 299 billion (2007) expenditure USD 262 billion (2007)
Military expenditure	3.9% of GNP (2005)
Public debt	6.2% of GNP (2007)
Foreign debt	USD 384.8 billion (2007)

Russia is a member of the UN Security Council, the G8 (since 1998), the OSCE and the Council of Europe, is a partner of NATO (since 1997), and is making preparations for WTO membership.

Export value	EUR 230.5 billion (2006); of which EUR 137 billion to the EU 25 (60%); of which EUR 91.1 billion in energy products (66%)
Export products	oil and oil products, natural gas, timber and timber products, metals, chemicals and civil and military industrial products
Export partners	China 5.4%, Germany 8.4%, Italy 8.6%, Netherlands 12.3%, Turkey 4.9%, Ukraine 5.1%, Switzerland 4.1% (2006)
Import value	EUR 104.6 billion (2006); of which EUR 71.9 billion from the EU 25 (69%)
Import products	machinery, consumer goods, medicines, meat, sugar, semi-finished metallurgical products
Import partners	China 9.7%, Germany 13.9%, France 4.4%, Italy 4.3%, Japan 5.9%, Ukraine 7%, South Korea 5.1% (2006)

91 Sources: DG Trade, Russia, EU bilateral trade and trade with the world, 7 August 2007, see the website: <http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113440.pdf>; IMF, 'World Economic Outlook database', April 2008; World Bank, 'World Development Indicators database', April 2007; CIA, *The World Factbook*, Washington DC: 2008.

Map of the main gas pipelines and production areas in the Russian Federation and neighbouring countries[92]



92 Source: <http://news.bbc.co.uk/nol/shared/spl/hi/guides/456900/456974/img/1152550748.gif>.

List of abbreviations

AIV	Advisory Council on International Affairs
BDO	Foreign Affairs, Defence and Development Cooperation Committee of the Dutch Senate
CDA	Christian Democratic Alliance
CEI	European Integration Committee (of the AIV)
CEO	Chief executive officer
CFE Treaty	Treaty on Conventional Armed Forces in Europe
CFSP	Common Foreign and Security Policy
CIA	US Central Intelligence Agency
CIS	Commonwealth of Independent States
COMECON	Council for Mutual Economic Assistance
DIE	European Integration Department, Ministry of Foreign Affairs
DIE/EX	External Affairs Division of the European Integration Department
DZO	Southeast and Eastern Europe Department, Ministry of Foreign Affairs
DZO/OE	Eastern Europe and Central Asia Division of the Southeast and Eastern Europe Department
ECFR	European Council on Foreign Relations
ECHR	Convention for the Protection of Human Rights and Fundamental Freedoms
ECHR	European Court of Human Rights
ENP	European Neighbourhood Policy
ESDP	European Security and Defence Policy
ESI	European Studies Institute
ESO	European Cooperation Committee of the Dutch Senate
EU	European Union
FDI	Foreign Direct Investment
FSB	Federal Security Service of the Russian Federation
FTA	Free Trade Agreement
GAERC	General Affairs and External Relations Council of the European Union
GNP	Gross National Product
GUAM	Georgia, Ukraine, Azerbaijan and Moldova
G8	Group of eight leading industrialised nations
IMF	International Monetary Fund
ICCPR	International Covenant on Civil and Political Rights
ICESCR	International Covenant on Economic, Social and Cultural Rights
KGB	Committee for State Security, former Soviet intelligence agency and secret police
MGIMO	Moscow State Institute of International Relations
MID	Ministry of Foreign Affairs of the Russian Federation
NATO	North Atlantic Treaty Organization
OECD	Organisation for Economic Cooperation and Development
OSCE	Organisation for Security and Cooperation in Europe
PCA	Partnership and Cooperation Agreement
TCA	Trade and Cooperation Agreement
UN	United Nations
UNDP	United Nations Development Programme
WTO	World Trade Organisation

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