POST-CRIMEA SHIFT IN EU-RUSSIA RELATIONS:
FROM FOSTERING INTERDEPENDENCE TO MANAGING VULNERABILITIES
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Kristi Raik and András Rácz
Editors
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<th>Full Form</th>
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<tbody>
<tr>
<td>APC</td>
<td>Armoured personnel carrier</td>
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<tr>
<td>APEC</td>
<td>Asia-Pacific Economic Cooperation</td>
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<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<tr>
<td>BSR</td>
<td>Baltic Sea Region</td>
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<td>BSTF-OC</td>
<td>Baltic Sea Task Force on Organised Crime</td>
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<tr>
<td>CERT-EU</td>
<td>Computer Emergency Response Team of the EU</td>
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<td>CBC</td>
<td>Cross-border cooperation</td>
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<td>CBMs</td>
<td>Confidence building measures</td>
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<td>CBR</td>
<td>Central Bank of the Russian Federation</td>
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<td>CDP</td>
<td>Capability Development Plan</td>
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<td>CDPF</td>
<td>Cyber Defence Policy Framework</td>
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<td>CDU</td>
<td>Christian Democratic Union of Germany</td>
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<td>CEE</td>
<td>Central and Eastern Europe</td>
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<td>CFSP</td>
<td>Common Foreign and Security Policy</td>
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<td>CIS</td>
<td>Commonwealth of Independent States</td>
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<tr>
<td>CSCE</td>
<td>Conference on Security and Cooperation in Europe</td>
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<td>CSDP</td>
<td>Common Security and Defense Policy</td>
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<td>CSO</td>
<td>Civil Society Organisation</td>
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<td>CTA</td>
<td>City Twins Association</td>
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<tr>
<td>EAEU</td>
<td>Eurasian Economic Union</td>
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<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
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<td>ECSC</td>
<td>European Coal and Steel Community</td>
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<td>ECT</td>
<td>Energy Charter Treaty</td>
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<td>EDA</td>
<td>European Defence Agency</td>
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<td>EEA</td>
<td>European Economic Area</td>
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<td>EEAS</td>
<td>European External Action Service</td>
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<td>EEC</td>
<td>European Economic Community</td>
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<td>EFTA</td>
<td>European Free Trade Association</td>
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<td>EIB</td>
<td>European Investment Bank</td>
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<td>ENISA</td>
<td>European Union Agency for Network and Information Security</td>
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<td>ENI</td>
<td>European Neighbourhood Instrument</td>
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<td>ENPI</td>
<td>European Neighbourhood and Partnership Instrument</td>
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<tr>
<td>ERDF</td>
<td>European Regional Development Fund</td>
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<tr>
<td>ESCO</td>
<td>European Cyber Security Organisation</td>
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<td>ESDP</td>
<td>European Security and Defense Policy</td>
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<td>ESPO</td>
<td>Eastern Siberia – Pacific Ocean oil pipeline</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<td>EU MS</td>
<td>European Union Member States</td>
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<tr>
<td>FAC</td>
<td>Foreign Affairs Council</td>
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<td>Acronym</td>
<td>Full Form</td>
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<td>------------------------------------------------</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>G7</td>
<td>Group of Seven</td>
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<tr>
<td>GDP</td>
<td>Gross domestic product</td>
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<tr>
<td>GRU</td>
<td>Main Directorate of the General Staff of the Armed Forces of the Russian Federation, also known as the G.U.</td>
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<td>HFC</td>
<td>Hybrid Fusion Cell</td>
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<tr>
<td>iFDI</td>
<td>Inward Foreign Direct Investments</td>
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<tr>
<td>IFV</td>
<td>Infantry fighting vehicle</td>
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<tr>
<td>INF</td>
<td>Intermediate-Range Nuclear Forces Treaty</td>
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<td>LNG</td>
<td>Liquefied natural gas</td>
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<tr>
<td>MFA</td>
<td>Ministry of Foreign Affairs</td>
</tr>
<tr>
<td>MIC</td>
<td>Military-industrial complex</td>
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<tr>
<td>MVD</td>
<td>Ministry of Interior of the Russian Federation</td>
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<tr>
<td>NATO</td>
<td>North Atlantic Treaty Organisation</td>
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<tr>
<td>NCB</td>
<td>National Central Bureau</td>
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<tr>
<td>ND</td>
<td>Northern Dimension</td>
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<tr>
<td>NDEP</td>
<td>Northern Dimension Environmental Partnership</td>
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<td>NDPHS</td>
<td>Northern Dimension Partnerships in Public Health and Social Well-being</td>
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<td>NDPTL</td>
<td>Northern Dimension Partnerships in Transport and Logistics</td>
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<tr>
<td>NDPC</td>
<td>Northern Dimension Environmental Partnership</td>
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<tr>
<td>NGO</td>
<td>Non-Governmental Organisation</td>
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<tr>
<td>NCIRC</td>
<td>NATO Computer Incident Response Capability</td>
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<tr>
<td>NIS Directive</td>
<td>Directive on security of network and information systems</td>
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<tr>
<td>oFDI</td>
<td>Outward Foreign Direct Investments</td>
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<tr>
<td>OPCW</td>
<td>Organisation for the Prohibition of the Chemical Weapons</td>
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<tr>
<td>OSCE</td>
<td>Organisation for Security and Co-operation in Europe</td>
</tr>
<tr>
<td>PCA</td>
<td>Partnership and Cooperation Agreement</td>
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<tr>
<td>PESCO</td>
<td>Permanent Structured Cooperation</td>
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<tr>
<td>PfM</td>
<td>Partnership for Modernization</td>
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<tr>
<td>RCISCC</td>
<td>Russian Centre for International Scientific and Cultural Cooperation</td>
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<tr>
<td>SALW</td>
<td>Small arms and light weapons</td>
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<tr>
<td>SAM</td>
<td>Surface-to-air missile</td>
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<tr>
<td>SIAC</td>
<td>Single Intelligence Analysis Capacity</td>
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<tr>
<td>SIPRI</td>
<td>Stockholm International Peace Research Institute</td>
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<tr>
<td>SMEs</td>
<td>Small and medium-sized enterprises</td>
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<td>SPD</td>
<td>Social Democratic Party of Germany</td>
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<tr>
<td>SSRC</td>
<td>Scientific Studies and Research Centre</td>
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<tr>
<td>UAV</td>
<td>Unmanned Aerial Vehicle</td>
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<td>UEC</td>
<td>Universal Electric Cards</td>
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<tr>
<td>UOKiK</td>
<td>Office of Competition and Consumer Protection of Poland</td>
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<tr>
<td>USD</td>
<td>United States Dollar</td>
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<td>USSR</td>
<td>Union of Soviet Socialist Republics</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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Chapter 1

INTRODUCTION: COMPETING PERSPECTIVES ON INTERDEPENDENCE

Kristi Raik

The relationship between the EU and Russia is characterised by a considerable degree of interdependence. Despite mounting tensions in recent years, both sides continue to depend on each other in a number of fields, including energy, trade, finance, technology, cross-border cooperation and, perhaps most importantly, security. In the 1990s and 2000s, the EU’s approach to Russia was inspired by a liberal understanding of positive interdependence. Economic ties and interaction in different fields was expected to contribute to regional stability and security and possibly even democratisation in Russia. For a short while around the time of the end of the Cold War, the idea of positive interdependence, expected to lead to no less than integration, was also cultivated by Moscow.\(^1\)

However, looking at the relationship today, one has to admit that the expected positive effects of interdependence have not materialised. Since the outbreak of the conflict over Ukraine in 2014, the rise of geopolitical competition between Russia and the West has pushed Europeans to reassess their approach. In this changed security environment, several EU member states have highlighted the need to reduce the vulnerabilities created by dependence, notably (but not only) caused by the importation of Russian energy. For its part, Russia has been keen to reduce its dependence on Europe, for instance

\(^1\) See the chapter by Sherr in this volume.
in the financial sector or with regard to food imports, cut by the countersanctions imposed by Russia on the EU. On the other hand, interdependence can still be seen as a stabilising factor that imposes constraints on both parties. Furthermore, mutual ties offer tools to influence the other side, and function as a source of leverage and an enabler of economic statecraft. Indeed, the sanctions imposed by the EU (and the US) have an effect on the Russian economy precisely because of the existence of economic interdependence.

This report aims to map EU-Russia interdependences and, in some issues, one-sided dependences in difference sectors, and analyse the related perceptions and approaches on both sides. In particular, it explores changes since the landmark year of 2014. The conceptual starting point is a broad understanding of interdependence, referring to “situations characterized by reciprocal effects among countries or among actors in different countries”. The report shows that each side has adopted a more cautious, if not suspicious, attitude towards interdependence and developed new ways of managing its own dependences. In particular, the links between economic ties and security have been reassessed on both sides.

The change on the EU side is particularly notable, as expectations related to positive interdependence have been downgraded and a whole new agenda of resilience has emerged, motivated by the realisation that connections and dependences cause vulnerabilities that need to be reduced and managed. One can perhaps even talk about a paradigm shift from the liberal, normative expansion of the post-Cold War era towards a more realist emphasis on resilience and self-protection, which is a reaction to the return of power politics and geopolitical competition in the surrounding world. It would be a step too far, however, to claim that the EU has abandoned liberal ideas about the virtues of interdependence with Russia, which go

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hand in hand with the importance of institutions, multilateralism and norms-based cooperation. Germany in particular continues to underline the importance of dialogue and the idea that “purposefully excluding Russia is the wrong strategic signal”, as declared by chancellor Angela Merkel at the Munich Security Conference in 2019.³

To explore these shifts as well as continuities, the following are the main questions addressed throughout the report. What are the main areas of interdependence between the EU and Russia, and what has changed in each area since 2014, when the Ukraine crisis ushered in a new period of confrontation in the relationship? To what extent is interdependence a curse or a blessing? How do different actors on both sides understand EU-Russia interdependence and seek to manage it? Does the liberal assumption about the positive impact of economic interdependence on security hold true? How should the EU address the related vulnerabilities?

Before exploring these questions from the perspective of different actors and issue areas, this introductory chapter lays out the conceptual background. First, it examines the core ideas of the liberal interdependence paradigm, which experienced its heyday during the post-Cold War era. Then it turns to realist understandings of geopolitics and geo-economics, which have resurfaced in since 2014. The introduction ends with a short overview of the main body of the book.

**Post-Cold War Paradigm of Liberal Interdependence**

During the post-Cold War era, the foreign policies of Western powers were strongly influenced by the idea that increasing commercial ties and economic integration have a positive impact on security

³ Merkel, 2019, at 34:15.
and stability. The US, relying on its hegemonic power, acted as the guardian of the liberal international order, with free markets as one of its key components.\(^4\) The institutional infrastructure of this order, including the UN, the Bretton Woods institutions and NATO, was of course well established by that time. During the Cold War, the functioning of these institutions had been adapted to the bipolar international system. The collapse of the Soviet Union led to a new situation of unipolarity in which there were no notable contenders for different aspects of the liberal order, including the market economy, democracy and the rule of law.

Hence, the period was characterised by a rapid spread of economic globalisation, which was promoted by Western countries and many international institutions on the basis of liberal assumptions about the positive effects of globalisation. Apart from economic gains, increased economic interaction was expected to contribute to security. Analysis of the links between different components of liberal order, notably democracy, peace and trade, has long roots in liberal thinking. Immanuel Kant claimed that democracies do not go to war against one another and that trade contributes to peace.\(^5\) Since the 1970s, interdependence theorists have had an important role in conceptualising global change, arguing that economic interdependence increases the cost of using military power and reduces incentives to do so.\(^6\) Trade links have also been seen to reduce the importance of territorial divisions between states and even to weaken the political loyalties of people to the nation-state.\(^7\) Increasing trade has encouraged and necessitated the strengthening of international norms and institutions, contributing to peace and stability. Altogether, from the viewpoint of economic liberalism, international security can be seen as a factor that is influenced by the degree and nature of economic interaction between states.

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\(^4\) See, for example, Ikenberry, 2011.

\(^5\) Kant, 2005 [1795].


\(^7\) Griffiths, 2011, p. 29.
When economic ties are strong, win-win logic is expected to prevail over zero-sum conflict in international relations.

European integration provided (and still provides) support for the idea that closer economic ties can indeed contribute to peace, security and welfare. The European Coal and Steel Community (ECSC) and European Economic Community (EEC) were both established in the 1950s in an effort to secure peace through binding European nations together economically. In accordance with the theory of liberal interdependence, economic integration made power politics and military force redundant among EU member states. The aim to enhance security through economic integration became the “founding myth” of the EU, which for example framed the eastward enlargement process after the Cold War.\(^8\)

The EU tried to develop its post-Cold War relations with Russia on the basis of the same ideas. Its approach was motivated by a wish to reject the geopolitical logic of confrontation and draw Russia into the paradigm of positive interdependence and norms-based cooperation. The idea that trade contributes to positive interdependence, commitment to shared norms and institutions, and perhaps even gradual democratisation, used to be an important driver of the EU’s Russia policy. Pragmatic engagement was also expected to build mutual trust and nurture peace and stability. In the early 2000s, it was a view broadly shared in the EU that “Russia has largely given up its empire, joining the rest of Europe as a post-imperial state. … Russia seems to have abandoned its imperialist gains and its imperialist ambitions.”\(^9\) It was commonplace in the EU to play down authoritarian developments in Russia and cling to the assumption of the positive impact of pragmatic engagement.\(^10\)

In the hope of promoting democratisation and peaceful relations through engagement, the EU was reluctant to see Russia as a

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\(^8\) Schimmelfennig, 2003, pp. 265–266.
\(^9\) Cooper, 2003, p. 54.
\(^10\) Raik, 2016.
different kind of actor, more attuned to the logic of realist power politics than that of liberal interdependence and keen to re-establish its “great power” status, which had crumbled in the 1990s. The optimistic expectations on the EU side gradually vanished towards the late 2000s. It became increasingly evident that Russia did not embrace liberal values and or wish to be subsumed into Western-led norms and institutions. Russia’s expectations about integration based on equal partnership turned out to be incompatible with the EU’s pre-existing normative framework. Russia increasingly turned towards the goals of strengthening its own sphere of influence and revising the European security architecture accordingly. Geopolitical realism was defined by many observers as the dominant paradigm in Russian foreign policy, which meant that there were fundamental differences between the EU and Russia as international actors. EU policies seemed to fuel Moscow’s resistance to what the latter perceived as the West imposing its norms. Russia increasingly resisted and rejected EU norms regarding both domestic politics and the international order. It defended its own model of “sovereign democracy” and pursued its own regional integration projects, notably the Eurasian Economic Union (EAEU).

Thus, the EU’s efforts to foster interdependence and practical cooperation with Russia as a means of promoting security, stability and perhaps even the incremental democratisation of in Russia have failed to produce the desired results. One can even note more broadly that the pacifying impact of economic integration, exemplified by the EU itself, has not extended beyond the borders of the Union and, by extension, the EEA (European Economic Area), with perhaps the only exception being the countries of the Western Balkans, which are on the way to EU membership.

In fact, this should not be surprising in light of the rich academic work on the conditions under which interdependence does or does not...

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11 E.g. Light, 2008; Gomart, 2006.
not produce the desired political effects.\textsuperscript{12} The nature and implications of interdependence vary: it can be complex, benign and supported by shared values and norms, or a source of vulnerability that is interlinked with power politics and geopolitical tensions. Complex interdependence, as developed within the EU, is characterised by numerous ties in different issue areas and at different levels, an absence of hierarchy among issues, and multiple channels of communication. Under such conditions, military force plays a minor role. Interstate relations are complemented with transnational relations at the level of governmental subunits, non-governmental organisations and individuals. International transactions take various forms, including flows of money, goods, people and information across borders.

The nature of the interdependence between the EU and Russia has always been asymmetric and thus more prone to conflict than to cooperation.\textsuperscript{13} Indeed, in the conditions of asymmetric interdependence, win-win logic does not necessarily prevail. The classics of interdependence theory do not limit the concept of interdependence to situations in which reciprocal effects bring mutual benefits. On the contrary, dependences can be used as a tool of influence against the other side, especially in asymmetric relationships.

The connection between interdependence and (in)security has recently become a subject of critical debate among European foreign-policy analysts.\textsuperscript{14} Interdependence is now understood as more problematic, but it has also reached an unprecedentedly high level, which distinguishes today’s world from historical relationships between major powers. Clearly, a nuanced analysis of the virtues and risks of interdependence is needed in order to design policies that find the right balance between pursuing cooperation and managing vulnerabilities. A realist reading of interdependence sheds light on the negative aspects.

\textsuperscript{12} E.g. Keohane & Nye, 1987.
\textsuperscript{13} Krickovic, 2015.
\textsuperscript{14} Leonard, 2016.
REVIVAL OF REALIST GEOPOLITICS AND GEO-ECONOMICS

As noted above, Russia’s foreign policy has often been aligned with ideas of geopolitical realism rather than liberal assumptions about norms-based interstate cooperation. In recent years, the idea of liberal interdependence has been challenged more broadly by realist understandings of the return of geopolitics and the rise of geo-economics. In scholarly as well as policy discussions of international politics, the shift to geopolitical realism has marked the end of the post-Cold War era. The EU has still maintained the concept of liberal norms-based order as a centrepiece of its global strategy, while other major powers – not just Russia but also the US and China – build their polices on a world-view that is, rather, in line with realist theory.15

The classical geopolitical approach focuses on the impact of geographical factors on international relations. In policy debates, it is commonplace to merge the classical approach with a realist understanding of international politics.16 Thus, the concept of geopolitical conflict is commonly understood as competition over spheres of influence between major powers. In a realist reading, zero-sum logic dominates in international relations, with states competing over military, economic and political power at the cost of their adversaries. Conflict may temporarily stall if major powers establish an equilibrium or balance of power but, as the distribution of power changes over time, this leads to the appearance of a revisionist power that disrupts the equilibrium again.17

In line with the realist approach, military power has experienced a revival in European security since Russia’s annexation of Crimea. During the post-Cold War era, the national defence concepts of many

15 Raik et al., 2018.
17 Raik & Saari, 2016.
European countries shifted focus from territorial defence to geographically distant crisis-management duties. The use of military force by Russia against Ukraine urged a return to a more traditional defence agenda. At the same time, the rise of the concept of hybrid threats pointed to the multiple instruments used by Russia alongside military force. The new conflictual dynamics of state-level relations started to constrain cooperation and interaction at lower levels too and in different issue areas, even if these were not directly affected by the conflict over Ukraine, as described in various chapters of this book.

Instead of viewing trade as an independent factor that can have a positive effect on security, a realist approach highlights the primacy of security-related concerns in the conditions of an anarchic international system. In this line of thought, economic interaction is subordinated to security interests. Hence, from a realist perspective on zero-sum competition between major powers, interdependence is not seen as positive per se, but as a source of vulnerabilities as well as opportunities. The latest Russian and US security strategies both express a reserved view on interdependence insofar as it constrains one’s own independent agency and capacity to pursue national interests. The US security strategy of 2017 reflects a shift towards a more competitive vision of global politics, where zero-sum logic prevails. Hence, the US aims to maintain its capacity to act irrespective of its global interdependences and to use those asymmetric interdependences that are favourable to it in competition with those actors who challenge US interests.

While the relevance of military power has experienced a revival especially in great-power rivalry, geostrategic use of economic power has also been a notable aspect of the return of power politics. Some analysts have even argued that economic means play the primary role in 21st-century great-power contestation. The importance of economic statecraft is supported by the rise of China and the state capitalist model of development, as practised by China, Russia and others.
Furthermore, increased focus in international politics on the scarcity of resources suggests the rise of zero-sum economic competition. The concept of geo-economics as the geostrategic use of economic power has specifically criticised the post-Cold War liberal paradigm that rejected the logic of conflict and replaced it with a positive notion of interdependence.\textsuperscript{18}

Russia has demonstrated on various occasions that it is indeed ready to weaponise the dependences of its partners and neighbours, for instance by using their dependence on Russian energy as a tool of (geo)political influence. The Eurasian integration project is meant to further enhance economic ties, while Russia remains by far the largest and dominant party among the EAEU members. At the same time, the EU’s economic power can also be interpreted through the lens of geo-economics: the EU is shaping the strategic environment not just in its own neighbourhood but on a global scale via free trade agreements, and uses its economic leverage through conditionality policies. Similarly, the EU and US sanctions against Russia make use of the asymmetric situation of dependence of the Russian side on the US-dominated global financial system.\textsuperscript{19}

However, as noted above, the EU continues to view interdependence in rather positive terms. The liberal, open system is to be maintained and protected against so-called hybrid threats – a concept that by definition points to the asymmetric use of various tools of influence by the adversary. The EU defines hybrid threats as a “mixture of coercive and subversive activity, conventional and nonconventional methods (i.e. diplomatic, military, economic, technological), which can be used in a coordinated manner by state or non-state actors to achieve specific objectives while remaining below the threshold of formally declared warfare”.\textsuperscript{20} The EU’s response to hybrid threats is founded

\textsuperscript{18} Vihma, 2018.

\textsuperscript{19} See the chapter by Deák in this volume.

\textsuperscript{20} European Commission, 2016a.
on the concept of resilience, understood as a “capacity to withstand stress and recover”. Critical infrastructure and civil preparedness play a key role in ensuring and improving resilience of European countries and societies. A new emphasis on the resilience of the EU and its neighbouring countries against hybrid threats signals a policy shift towards a less idealistic vision of European security.

The highly disruptive use of hybrid methods by Russia against Ukraine in 2014 has been followed by an upsurge in disinformation, interference in elections and other types of pressure against a number of Western countries. Such actions are intended to destabilise open, democratic societies and undermine Western unity and values. The high level of connectivity and openness of Western societies can be used by adversaries as a source of vulnerability. Societies are closely interconnected by transnational networks and flows (of people, goods, energy, information, money), which have grown exponentially during the post-Cold War era of globalisation.

These networks and flows have been developed as a source of major new opportunities, but in the conditions of increased geopolitical and geo-economic contestation attention has turned more to the related vulnerabilities. The level of digitalisation and technological advances of contemporary societies distinguish today’s hybrid threats from similar methods used during the Cold War. Modern technologies provide tools for new forms of power politics such as cyber-attacks against electricity systems and the spread of disinformation via social media. At the same time, interdependence still demands cooperation. The level of resilience of each country primarily depends on national measures, but in an interconnected world states have to cooperate in order to ensure the security of networks that are vital for their welfare and day-to-day functioning.

21 Ibid.
22 See the chapter by Tammsaar in this volume.
AN OVERVIEW OF THE CHAPTERS

The rest of this book is divided into three parts. The first analyses the perspectives of the EU and Russia on mutual dependence, pointing to differences between the sides’ perceptions and changes that have occurred since the Cold War era. The second part examines the nature and degree of interdependence in different issue areas, from trade to police cooperation. The third part draws conclusions and takes a look at the future of the EU-Russia relationship.

In Chapter 2, Stefan Meister explores Germany’s approach to interdependence since the times of Willy Brandt’s Ostpolitik. Germany is the only EU member state singled out in the report at such length, due to its central role in the EU’s policy on Russia. On the one hand, Meister traces the roots and longevity of Germany’s belief in positive economic interdependence. On the other, he highlights the loss of mutual trust and transformation of the relationship from strategic partnership to strategic competition as a result of the Russia-Ukraine conflict. Germany’s approach to Russia since 2014 has been inconsistent and lacks long-term vision, as it tries to combine elements of the old “change through trade” thinking, which is behind the Nord Stream 2 project, with a new awareness of the EU’s vulnerabilities and security challenges.

In Chapter 3, Katrin Böttger tackles the concept of positive interdependence in the EU’s policy towards Russia, arguing that the concept was over-emphasised in the key documents of EU-Russia relations in the post-Cold War era and never lived up to its promises. The EU can be criticised for having mixed transformational, integrationist and foreign-policy instruments in its approach to Russia. In order to manage the still-existing interdependences, the relationship must be based on an acknowledgement that Russia is not on a transformational path to becoming a democracy similar to EU member states.
Igor Gretskiy looks at Russia’s view of interdependence with Europe from the era of Mikhail Gorbachev to that of Vladimir Putin. The author argues that the experience of the collapse of the USSR is a critically important factor in explaining “why the prospects for building positive interdependence with the EU were sacrificed to geopolitical ambitions”. In the 1990s, the huge economic imbalance between the EU and Russia and the failure of the latter’s domestic reforms inhibited comprehensive cooperation. Russia was trying to prioritise security issues in the relationship with the EU as a way to maintain the image of a great power. This paved the way for a stagnation in EU-Russia relations and the rejection of the paradigm of positive interdependence by the current Russian elites, whose careers began in the late 1980s.

James Sherr’s analysis takes a closer look at the Russian perspective on the security dimension, which has played a crucial role in the evolution of European-Russian relations. He traces the process through which Gorbachev’s policy, which equated Russian and Western security interests, was gradually replaced with one that largely juxtaposed them, partly due to failures on the Western side to respond to Russia’s aspirations during the “Romantic era” that followed the Cold War. Similarly to Gretskiy, Sherr concludes with a pessimistic observation that a relationship of positive interdependence aimed at win-win outcomes is not compatible with the confrontational approach pursued by the current Russian leadership.

The chapter by Rein Tammsaar, which concludes the first part of the book, directs our attention to the EU’s efforts to manage its vulnerabilities and increase its resilience in the post-2014 new security environment. Tammsaar characterises the change in the EU’s approach as a paradigm shift towards a more “realist” and sober understanding of the nature of international relations, and of Russia’s policy vis-à-vis Europe. The concept of resilience plays a central role in the EU’s response to external manipulation and malicious interference.
Tammsaar looks at the steps taken by the EU in three key areas: hybrid threats, strategic communications and cyber security.

The second part of the book explores interdependences in seven areas. It starts with an overview by Heli Simola of interdependence in trade, which is somewhat limited – with one important exception: the energy sector. While the EU has aimed at increasing economic cooperation, Russia has gradually shifted focus towards economic self-sufficiency since the early 2000s, and more strongly since 2014. At the same time, the effects of political confrontation since then on trade flows have been moderate.

The chapter by Anke Schmidt-Felzmann is dedicated to energy interdependence, which is asymmetric in nature and thus prone to creating tensions. Schmidt-Felzmann takes a critical look at ties between energy companies, conflict over the EU’s energy market rules, and controversial aspects of the Nord Stream 2 project. In Chapter 9, András Deák looks at the financial sector, where interdependence has created vulnerabilities particularly for the Russian side. Western sanctions have highlighted these vulnerabilities and led to efforts by Russia “to securitise new segments of its economy and develop new forms of resilience”, notably by increasing sovereignty over its payments system.

In Chapter 10, András Rácz focuses on interdependence in the particularly sensitive field of the defence industry. During most of the period since the Cold War, Russia’s military industry sector has been striving for autarky and trying to minimise its dependence on the technologically more advanced products of Western companies. This began to change in 2007–12, when defence minister Anatoly Serdyukov undertook major reforms including the development of close partnerships with defence companies in EU member states in order to reduce Russia’s technological backwardness. However, since then Russia has returned to the emphasis on autarky. Since 2014, links in the defence industry have been severely reduced due to political confrontation and sanctions.
Ludo Block examines the area of police cooperation, where the impact of political tensions has been somewhat more limited. Since 2014, law-enforcement cooperation between Russia and EU member states has decreased, but the level of interdependence and effectiveness of cooperation was always low. The law-enforcement agencies of some EU member states continue to cooperate closely with their Russian counterparts, based mainly on long-standing personal relationships, while other member states make informal use of these contacts.

In chapter 12, Boris Kuznetsov and Alexander Sergunin look at the more positive area of cross-border cooperation (CBC), where active ties between different types of actors have contributed to complex interdependence. Many Russian regions and municipalities value CBC as an instrument for solving local problems and ensuring sustainable development. In spite of the tense geopolitical environment, EU-Russia CBC appears to be a useful and effective instrument in building practical cooperation and trust.

The second part concludes with an analysis by Anna Tiido of the Russian-speaking communities in the EU. While these communities contribute to people-to-people contacts, the positive aspects of such ties have been overshadowed in recent years by efforts by the Russian state and its media to instrumentalise “compatriots” in spreading Russian narratives in the EU and occasionally using them to stir up instability and protest against their host countries. However, only a small proportion of Russian-speakers in the EU are likely to be receptive to such a role.

In the third part, András Rácz and Kristi Raik sum up changes in the level and nature of interdependence since 2014 and assesses that the preconditions for positive interdependence have further weakened. Finally, Kadri Liik discusses the way ahead, arguing that the EU and Russia need to go through a process of reconceptualisation of the relationship, as there is no way back to “business as usual”.

22
Part I

The EU’s and Russia’s Approaches to Interdependence
Chapter 2

From Ostpolitik to EU-Russia Interdependence: Germany’s Perspective

Stefan Meister

With the Russian annexation of Crimea and the war in eastern Ukraine, followed by Western sanctions and Russian counter-sanctions, German decision-makers had to learn that economic and energy interdependence not only creates win-win situations but also means vulnerability. The reaction was a shift from the dominance of the economy in German policy on Russia to a securitisation and politicisation of relations with Moscow. The support for Nord Stream 2 proves that German elites have only partly learned their lessons, and still believe in positive economic interdependence and the mantra of Ostpolitik, that peace and stability in Europe is only possible with, but not against, Russia.

The roots of the German New Ostpolitik\(^1\) at the end of the 1960s and 1970s were based on a realistic assessment of the contemporary situation in East Germany and Eastern Europe, which was regarded as the precondition for rapprochement with the Soviet Union. “Change through rapprochement” primarily meant the recognition of Germany’s eastern border combined with the acceptance of the Polish state in its post-1945 borders and East Germany as a matter of fact. This policy, aimed at achieving peaceful coexistence between the two blocs in Europe, was linked with the offer to develop economic relations with the Soviet Union. Growing energy and economic relations

\(^1\) Görtemaker, 2004.
with Western Europe was in the USSR’s interests and from a German perspective could create a situation in which Moscow had no interest in a military confrontation because of economic benefits. As a result, positive economic interdependence was defined by the West German government under Willy Brandt as an important element for peace in Europe.\(^2\) Germany’s current discussion about the benefits of Nord Stream 2 has its roots in the Ostpolitik of the 1970s, even if economic interests dominate the calculation.\(^3\)

The German Ostpolitik of the 1990s and 2000s was based on the assessment that Russia would become a democracy and market economy like the West and that the support for economic modernisation would expedite “positive” social and political change in Russia. However, this assumption was not only a German misperception but also an overall Western mindset, most prominently argued by Francis Fukuyama with his “end of history” theory. Even if Germany had developed a special relationship with Russia, based on steady growth of trade up to 2012 as well as a social and political network, change through trade did not work out with the Putin regime. While German elites were thinking in terms of positive interdependence, win-win situations and steady change in Russia towards the Western democratic system, the Russian ruling elites gradually gave up the idea of integrating with the West and adopting the Western model. What prevailed in their thinking was a more neo-realistic understanding of interdependence perceived as vulnerability, win-lose as the key pattern in international relations, and the threat of losing control over its domestic situation as a result of the liberalisation and democratisation of Russian society.\(^4\)

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\(^2\) Kling, 2016.

\(^3\) *Frankfurter Allgemeine Zeitung*, 2019.

\(^4\) Surkov argues that Russia is not Europe and that only President Putin knows, what the Russian people want, which underlines how far the Russian intellectual discourse has developed from liberal democracies (Surkov, 2019).
The Russia-Ukraine conflicts, culminating in 2014 in the annexation of Crimea and a war in parts of the Donbas region, mark the moment when both Germany and Russia learned that interdependence also means vulnerability: EU and US economic sanctions have hit the Russian economy. Russian counter-sanctions, dependence on the supply of Russian gas, and its military activities keeps Germany and other EU member states vulnerable to Russian action.

Germany’s support for economic sanctions against Russia was a major shift in German-Russian relations. For the first time since the end of the Cold War, Berlin was willing to pay an economic cost to respond to Russian aggression. Compared to the Russo-Georgian war in 2008, Ukraine seemed much closer to the EU than the South Caucasus. With the return of Vladimir Putin as president in 2012, the partnership for modernisation ended and all hopes in president Medvedev became obsolete. Furthermore, the downing of Malaysian Airlines flight MH 17 played an important psychological role in shifting the German approach. Trade with Russia nearly halved between 2014 and 2016, in part because of these sanctions. Despite these developments, with the support of the Nord Stream 2 gas pipeline German decision-makers were unwilling to give up Germany’s approach of positive interdependence. But the main lesson learned from the Russia-Ukraine conflict is that economic interdependence does not prevent the current Russian leadership from challenging the security situation in other European countries. President Vladimir Putin is willing to pay an economic price for Russia’s geopolitical interests.

This chapter will discuss the different concepts of interdependence in Germany and Russia, the legacy of German Ostpolitik, energy and social interdependence as crucial elements of German-Russian relations, and key trends since 2014 with the Russia-Ukraine conflict as a key driver in the alienation between Berlin and Moscow.
DIFFERENT CONCEPTS OF DEPENDENCE

According to Keohane and Nye, “dependence means a state of being determined or significantly affected by external forces”. With this in mind, interdependence means “mutual dependence” or, in other words, “reciprocal effects among countries or among actors in different countries”. The German approach to interdependence means that mutual dependence can lead to growing cooperation and trust, and create a win-win situation for both sides. Contrary to this approach, Keohane and Nye do not limit the term “interdependence” to situations of mutual benefit. Interdependence can also be used as a “weapon” against the other side, with energy dependence as a bargaining tool or with the rise of sanctions as a key instrument of US foreign policy. Vulnerability means an “actors’ liability to costly effects imposed from outside before policies are altered to try to change the situation”. The lesson learned from the Ukraine conflict is that, in respect of EU sanctions and Russia’s counter-sanctions, interdependence in the current context of asymmetric relations and conflicting views on European security order primarily means vulnerability.

Furthermore, Keohane and Nye argue that asymmetries in dependence provide sources of influence for actors. Less dependent actors can use interdependence when bargaining over power or issues of interest. This means that interdependence provides power resources to actors. Germany is a very important market for Russian gas and oil exports, but this is no longer the case with Ukraine. Germany is by far the most important gas market for Gazprom worldwide (ahead of Turkey) with more than 53 billion cubic metres (bcm) in 2017 which gives the countries companies a strong bargaining position with

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6 Ibid., p. 11
7 Ibid., p. 9.
Gazprom. Direct exports to Ukraine were only 2.4 bcm in 2017. In terms of Ukrainian politics, therefore, the transit pipeline from Russia to Europe is not only an important source of revenue through transit fees (around $3 billion in 2017), but also a bargaining tool with regard to Moscow’s hegemonic policy. If Ukraine loses this leverage after Nord Stream 2 and Turk Stream have been built, the country will be much more vulnerable and might more easily become the victim of a new military attack by Russia. As a study by Oxford Energy shows, if Nord Stream 2 and Turk Stream are built there will be very limited need for gas flowing through Ukraine to the EU.

Germany and other Western countries interpreted interdependence as a driving force for globalisation and multilateralism following the East-West conflict which contributed to the strengthening of rules-based order. By contrast, the Russian leadership has distanced itself from the rules- and norm-based order and favours an interest-oriented approach with concrete projects, especially since the beginning of the 2000s. The regulation of transnational economic and social activity has been a driving pattern of Western policy until recently. As one of the economic winners from globalisation, Germany has an interest in multilateralism and the regulation of international political and trade relations. For Russian elites, ad hoc cooperation such as building pipelines (e.g. Nord Stream) or supporting the nuclear agreement with Iran would serve common interests because of concrete profits. But they would still be based on cost-benefit calculations along national interests or the maintenance of power. While Moscow accepts economic interdependence as being beneficial, it has no interest in the regulation of relations or making them law-based. As the Russian elites instrumentalise the Russian legal system

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8 Gazprom Export.
9 Gazprom, 2017. However, much more Russian gas was exported via reverse flow from the EU.
10 Sharples, 2018.
11 Libman, Stewart & Westphal, 2016, pp. 18–19.
in their power interests at home, so they interpret the EU approach to regulation as an interest-oriented policy against Russia.\textsuperscript{13} From this perspective, the EU’s regulatory policy has a negative impact on common projects, for instance in the energy field, and makes mutually beneficial bilateral deals much more difficult. The EU’s Third Energy Package and unbundling policy is a good example. As a consequence, the Russian way of thinking stands in contrast to the German multilateral, rules-based order and it was only a matter of time until the two visions clashed.

**THE LEGACY OF OSTPOLITIK**

Germany is a key country in the EU’s relationship with Russia, due to its size, its economic power and interests and the legacy of history. The “German question” – meaning a divided Germany – was key to Europe during the Cold War. As a result, West German elites had a special interest in relations with the Soviet Union and its socialist satellite states. The New Ostpolitik of Willy Brandt and Egon Bahr of the 1970s was a reaction to this situation. The vision of a peaceful European order was based on recognition of the Soviet Union as the key counterpart for a new policy on Germany and Eastern Europe. Accepting the outcome of World War II also in terms of borders was linked to the goal of an official agreement on the non-use of violence.\textsuperscript{14} On the basis of mutual interests, economic and social interdependence should help to create peace and stability in Europe. For Brandt, peaceful coexistence meant mutual acquiescence and respect for differences and different policy concepts.

At the same time, it was crucial for him to act from a position of strength, meaning the ability of the West to defend itself. Here the US and NATO were the guarantors for the security of West Germany;

\textsuperscript{13} Libman, Stewart & Westphal, p. 19.

\textsuperscript{14} Schöllgen, 1999, pp. 101–2.
only strong assertiveness can be the basis for peaceful coexistence.\textsuperscript{15} In parallel with the negotiations about a European peace treaty in the context of the New Ostpolitik and the Conference on Security and Cooperation in Europe (CSCE), in 1970 the West German leadership agreed with the Soviet Union on a gas-for-pipe deal, which was embedded in German Ostpolitik. Concrete economic cooperation was perceived as a major element of the policy of “détente”.\textsuperscript{16} Oil trade and the gas-pipe deal should help to balance economic interests with the Soviet Union and to create interdependence to prevent war. “Change through rapprochement”, the key phrase of the new Ostpolitik before 1989, was developed into “change through interweavement” (“Wandel durch Verflechtung”) and a “partnership for modernisation” in the 1990s and 2000s.

With unification, the “German question” ceased to exist, but Berlin remained key to the eastward enlargement of the EU and relations with Moscow. Germany’s Russia policy after 1991 reflected a reinterpretation of “change through rapprochement”, which was seen as an important contribution to ending the East-West divide, along with a sense of gratitude to the Soviet/Russian leadership for its acceptance of German unification. This first became visible with the German concept of a strategic partnership with Russia in the 1990s, which was upgraded to the partnership for modernisation in 2008. This concept was transferred to the EU level in 2010, aiming to support Russia in its economic and judicial reforms and the development of civil society.\textsuperscript{17} The eastward enlargement of the EU and NATO created a new reality in Europe. But the German goal was more far-reaching, tying Russia closely to the other countries and institutions in Europe.

\textsuperscript{15} Merseburger, 2012, p. 440.
\textsuperscript{16} West Germany supplied the Soviet Union with pipes to build gas pipelines from Siberia to Central and Western Europe and would receive gas for 20 years as payment (Schöllgen, p. 104).
\textsuperscript{17} European External Action Service, 2010.
beside its membership of the OSCE and the Council of Europe.\textsuperscript{18} The German elites believed that peace and stability in Europe could only be achieved with Russia and not against it – meaning Russian integration into Europe, which has become a long-term goal.\textsuperscript{19}

The interim presidency of Dmitry Medvedev (2008–12) brought high hopes in Germany that a substantial modernisation and reform process in Russia would take place. All the signals from Medvedev in criticising the shortcomings of the existing political and economic model seemed to prove the German assessment that Russia would slowly develop in the direction of democracy, market economy and the rule of law. The German partnership for modernisation was an upgrade of the Ostpolitik of the 1970s aimed at driving political and social change through economic modernisation. In a speech in Ekaterinburg in 2008, foreign minister Frank-Walter Steinmeier of the Social Democratic Party described Russia and Germany as natural partners for modernisation and argued that mutual economic and social interweavement would be beneficial for Russia, Germany and the EU.\textsuperscript{20}

With the return of Vladimir Putin to the presidency (his third) in 2012, it became clear that a real modernisation of the Russian economy and the opening-up of the political process was not in the interests of the ruling regime. The consequences of political competition and the rule of law could be to lose power and access to rent-seeking options based on corruption. The mass demonstrations in Moscow, St Petersburg and several other Russian cities in 2011–12 against Vladimir Putin’s return as president were taken by the German elites as evidence that political change was taking place among the growing middle class. For the Russian elites, they were interpreted as a threat

\textsuperscript{18} Voigt, 2014, p. 3.

\textsuperscript{19} This mantra of German Ostpolitik is a consensus, especially in the SPD, and one of the last statements by former foreign minister Frank-Walter Steinmeier at a meeting of members of the German-Russian Forum in March 2014 in Berlin. Auswärtiges Amt, 2014.

\textsuperscript{20} Auswärtiges Amt, 2008.
to their hold on power and a sign that they had to stop any trend towards a so-called “colour revolution” at home.

Economic, social and political interweavement therefore apparently did not prevent the Russian leadership from annexing Crimea and intervening in eastern Ukraine. The result was a fundamental loss of trust and alienation between the German and Russian elites.

ENERGY AND THE ECONOMY AS THE BACKBONE OF GERMAN-RUSSIAN RELATIONS

Russia has become an important market for German products, especially with the rise in energy prices and consumption in the 2000s. Germany is Russia’s most important trading partner in the EU and ranks second in the world behind China. In 2012 German-Russian trade totalled around 80 billion euro but by 2016 it had nearly halved (to 48 billion euro) due to lower oil and gas prices as well as the sanctions in both directions. Russia’s importance as a market for German exports fell from 11th position in 2012 to 14th in 2017.21 In terms of German trade to the east, in 2018 Russia was far behind Poland and the Czech Republic.22 However, Russian energy companies are Germany’s most important suppliers, providing more than 50% of natural gas23 and 37% of oil (both for 2017).24

The German-Russian relationship over natural gas has been embedded in broader political concepts of détente, confidence- and trust-building measures during the East-West confrontation as part of a policy of economic interdependence, as already mentioned.25

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21 Ost-Ausschuss–Osteuropaverein, 2019, pp. 5–6.
24 Bundesministerium für Wirtschaft und Energie, n.d.
the Cold War this relationship was primarily focused on national regulations, but with the EU’s regulation of the gas market in the context of the Third Energy Package the rules of the game changed substantially: the European Commission’s main goal was lower prices through unbundling and increased competition. Through this policy, the EU has become a major factor in the German-Russian gas relationship. In addition, the global market in LNG became more flexible and the new German energy transition (Energiewende)\textsuperscript{26} put the business model of the German energy companies under pressure. As a result, business relations became more complex, unstable and uncertain in a more competitive environment.\textsuperscript{27}

The whole discussion about Nord Stream 2 cannot be understood without this changing environment. The EU’s regulatory role has shrunk the room for manoeuvre in the energy field for both Russia and Germany. At the same time, NATO and EU enlargement and new regulation of relations with the countries of the neighbourhood shared with the EU has alienated Russia. The EU policy of unbundling vertically integrated energy companies and the regulation of access to the pipeline network had a direct impact on Russian rents and the stability of the energy business. The perception by some EU member states of Russia as a threat and the existing dependence on Russian oil and gas of mostly eastern member states, as well as the gas supply crisis in 2009, led to stronger regulation of the gas relationship with Russia. The results included the Gazprom rule in the Third Energy Package with the regulation of the OPAL pipeline linking Nord Stream with the Central European distribution system and the abandonment of projects such as the South Stream pipeline.\textsuperscript{28}

\textsuperscript{26} As a reaction to the nuclear disaster in Fukushima, the German government decided on a complete energy transition from coal, oil and nuclear power to renewable energy and greater energy efficiency. See Federal Ministry of Economic Affairs and Energy, n.d.

\textsuperscript{27} Bros, Mitrova & Westphal, pp. 6–7.

\textsuperscript{28} Libman, Stewart & Westphal, p. 20.
Before unbundling and the development of alternative infrastructure, Gazprom used its bargaining power with Eastern and Central European countries to negotiate higher prices for gas because of the lack of alternative sources of supply. Furthermore, since the 2000s the Russian leadership has increasingly used energy dependence as an instrument of power in its neighbourhood. For Belarus and Ukraine, in the 2000s negotiations over oil and gas prices have become a key instrument to impact policy in these countries and to keep them in Russia’s sphere of influence. 29

Meanwhile, for Germany all this was not a problem because of the size of its market and alternative options for supply and therefore Germany companies had a much better bargaining position than Central Eastern European countries. As a result, until 2014 there was a different (threat) perception of Russia in Germany than in many eastern and south-eastern member states of the EU. Russia proved to be a reliable supplier of energy and only the conflict with Ukraine changed this dominant perception (even the gas dispute between Russia and Ukraine in 2009 was more interpreted as a conflict with Ukraine than with Russia). Until the Russian action in Ukraine, politicians such as former Chancellor Gerhard Schröder, who worked for Gazprom, played an important role in the German political and public discussion of Russia and bilateral energy relations. 30

**Social Interdependence**

Social relationships have a strong impact on German-Russian relations. A large number of institutions and programmes are the foundation of constant social exchange such as municipal partnerships and youth, university, school and cultural exchanges. 31 The

30 Deutschlandfunk, 2012.
31 On the number of social exchanges, see Deutscher Bundestag, 2016.
Deutsch-Russisches Forum (German-Russian Forum, or GRF), founded in 1993, provides a broad foundation for social exchange among societies but also between businesspeople and politicians.\(^{32}\) It is active in sports, the arts and youth exchange, and organises informational events about Russia. The GRF provides the secretary of the Petersburg Dialogue, established by Gerhard Schröder and Vladimir Putin in 2001 as a bilateral platform aimed at improving regular civil society exchange linked with top-level government consultations. As in the economic sector, the key concept for the German side was to help Russia “modernise” or develop its civil society. One outcome of this policy was the establishment by the Russian government of the Civic Chamber, a civil society consultative institution.

Increasing social exchange and interdependence should help to improve cooperation with Russia, build trust and integrate Russian society and elites into Europe. As part of this policy, a bilateral youth office was developed with France after World War II, and with Poland after the end of the Cold War. Historical commissions have been built up, and commissions for common schoolbooks created.\(^{33}\) In addition to many beneficial projects for social and youth exchanges organised by the GRF and the Petersburg Dialogue, both institutions also became platforms for high-level exchanges. It was a top-down approach rather than bottom-up, which was from the beginning funded by companies and the two states. This was especially in the interests of the Russian side, which wanted to control and decide which members of their civil society participated in the meetings.

These institutions became important instruments for influencing German leaders from the Russian side in a regular exchange. When, after growing public pressure also in the context of the Ukraine

\(^{32}\) Deutsch-Russisches Forum, n.d. (a)

\(^{33}\) Gemeinsame Kommission für die Erforschung der jüngeren Geschichte der deutsch-russischen Beziehungen, n.d.
conflict, the German Chancellery decided to stop linking the Petersburg Dialogue to government consultations and changes in the composition of delegations to genuine civil society actors were forced by the German side, a parallel institution (the Potsdamer Begegnungen, or Potsdam Meetings) was upgrated in the context of the GRF. Here again, a more exclusive elite exchange took place with very limited public attention, with foreign minister Steinmeier as a key speaker for instance in 2016. At the regional and local levels too, platforms for exchange have been established such as the “Russia Day in Mecklenburg Vorpommern” organised by the government of Mecklenburg Vorpommern, the state chamber for industry and commerce, and the Ostinstitut Wismar. In addition to their role as a platform for exchange, such events have become an influential instrument also for the Russian side. Mecklenburg-Vorpommern is the federal state in which the Nord Stream pipelines arrives, and is thus one of the key states which promotes the implementation of Nord Stream 2 and improving relations with Russia on the regional and federal level of Germany.

TRENDS SINCE 2014

The annexation of Crimea and the war in eastern Ukraine marked a watershed in German-Russian relations. Undermining the European security order and the Russian leadership’s aim to renegotiate the relationship with the West has transformed German-Russian relations from strategic partnership to strategic competition. Germany’s role in the Russia-Ukraine conflict, particularly negotiating the two Minsk agreements together with France in the Normandy

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34 Deutsch-Russisches Forum, n.d. (b)
35 Auswärtiges Amt, 2016.
36 Russland-Tag in Mecklenburg-Vorpommern, 2018.
37 The minister-president of Mecklenburg-Vorpommern, Manuela Schwesig (SPD), argues for more cooperation with Russia and the lifting of sanctions. See Nordkurier, 2018.
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Format, shifted a high-intensity war into a low-intensity one in eastern Ukraine and reflects the key role Germany still plays in respect of the EU’s Russia policy. At the same time, the complete loss of trust between the German and Russian leaderships, and Chancellor Angela Merkel leading the EU sanctions against Russia, is a substantial shift in the German approach towards Russia. For the first time since the end of the Cold War, German elites were willing to pay a price to punish the Russian leadership’s aggression against Ukraine. Undermining the European security order, multilateral institutions and international agreements such as the Treaty of Paris or the Budapest Memorandum is against the interests of German leaders because it weakens the multilateral order.

For the first time in 25 years, Russia has become a security risk in the German debate and economic interests have been replaced by politics and security as the dominant factor in relations with Moscow. The German economy had to accept sanctions because of political calculations, and Germany deployed soldiers as part of the NATO multinational battlegroup in Lithuania to contain a potential Russian aggression. The main lesson learned for German elites was that, despite substantial economic, energy, social and leadership relations, the Russian elite is willing to use military aggression against its neighbours if its interests are seriously challenged. As one of the key leaders in the EU, Angela Merkel can talk to president Putin about the situation in eastern Ukraine, Russian disinformation campaigns and economic relations at the same time, but this will not stop Russian actions against its neighbours and the EU. The anti-German and anti-Merkel campaign in the Russian media and the support of those parties in Germany and the EU that undermine the political institutions and trust in them have led to further alienation in German-Russian relations.\(^{38}\) There seems to be no way back to a strategic partnership in current circumstances.

\(^{38}\) Meister, 2016.
In Germany there is a consensus among the elite that relations with Russia have changed and that there is no longer any trust, but there is no elite and social consensus over how to respond to this new situation. It divides the German public and political debate on Russia and is challenged by the political culture and traditions of German foreign policy in general and its Eastern policy. Despite this shift, a majority of German society is still in favour of a more cooperative approach towards Russia.

According to a poll by the Körber Foundation in 2018, Russia comes after France and the US as the most important partner for Germany and 69% of Germans want to have more cooperation with it rather than less (compared to 78% in 2017). 48% of Germans describe Russia as a dangerous country, compared to 79% of Poles, for instance. In a different poll by the same organisation in 2017, 45% of Germans favoured weakening or abolishing the sanctions against Russia.

There is a clear split in German society and parts of the elites on how to deal with a more aggressive Russia. A majority still supports a cooperative approach, more compromise and less provocation towards Russia. This is the context into which Nord Stream 2 would fit.

The relationship with Russia is a very emotional topic in Germany, and every politician who criticises the Russian leadership or recognises the limits and realities of cooperation is attacked in public, as happened to the current foreign minister, Heiko Maas. In his inaugural speech as foreign minister in March 2018, Maas criticised the Russian leadership, saying it “defined its politics in distinction if not antagonism to the West”. Unlike his two predecessors, Frank-Walter Steinmeier and Sigmar Gabriel, he did not speak about a gradual

39 Körber-Stiftung, 2018, p. 34.
40 Körber-Stiftung, 2017.
41 Ibid., p. 9.
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lifting of sanctions if there were some success over eastern Ukraine. In the context of the recent re-election of Vladimir Putin, Maas criticised the lack of political competition and argued that he expected more “constructive contributions” from Russia over Crimea and eastern Ukraine than in the past.\textsuperscript{42} He has been much criticised for these words in his party (the SPD), and as a result he later softened his rhetoric. More left-wing SPD politicians, like Ralf Stegner (a deputy head of the SPD) and the deputy leader of the SPD contingent in the Bundestag, Rolf Mützenich, argued that no problem in Europe and the world could be resolved without Moscow’s involvement and advocated the intensification of contacts with Russia and not a worsening of relations. Germany should improve economic ties with Russia and sanctions were not the best policy for the EU. Many members of the SPD were irritated with Maas’s policy on Russia and his distancing from Willy Brandt’s Ostpolitik, while arguing that he became a politician “not because of Brandt but because of Auschwitz”.\textsuperscript{43}

But Brandt’s Ostpolitik has become an important part of the SPD’s identity, especially for the older generation, as one of the most successful policy concepts the German social democrats contributed to post-war West German foreign policy.

A position paper by the SPD faction in the Bundestag illustrates the dilemma the party is facing.\textsuperscript{44} On the one hand, it recognises that European security has to be based on agreed norms and binding international law, not on the power of the strong. Furthermore, the document argues that the Russo-Georgian war of 2008, the annexation of Crimea by Russia and the military conflict in parts of Ukraine’s Donbas region have worsened the security situation in Europe. On the other hand, however, the resolution calls for more cooperation in the modernisation of Russia and for the stabilising impact of economic

\textsuperscript{42} Die Zeit, 2018.

\textsuperscript{43} Monath, 2019.

\textsuperscript{44} SPD Bundestagsfraktion, 2018.
contacts on political relations. The new catchword in the relationship with the east is “connectivity”, which should increase through economic relations and communication, and decrease tension. This fits into the tradition of positive interdependence with other countries, including Russia and China. Besides more civil society cooperation, the paper argues for the intensification of relations with Russia in the context of the Eurasian Economic Union and even the Collective Security Treaty Organization. This is exactly the transformation of the discussion on the German Ostpolitik of the 1970s into the current debate but without a military reassurance.

In his speech at a reception of the Ost-Ausschuss–Osteuropaver eins der Deutschen Wirtschaft in January 2019, foreign minister Maas argued that Nord Stream 2 would not increase dependence on Russia, and “[did] not reflect a German-Russian Sonderweg” (separate path).\textsuperscript{45} He argued strongly against the US policy under Donald Trump of undermining the rules-based international order and using trade and sanctions policy as a key instrument of foreign policy. This showed how pressure within the SPD has softened the foreign minister’s rhetoric.

Meanwhile, German political support for Nord Stream 2 has become a litmus test for some EU member states of whether there is really a fundamental change in German policy on Russia. While Chancellor Merkel argued for several years that it was a purely economic project, the political impact has become so evident that she could no longer ignore the role of “political factors”.\textsuperscript{46} The German government, including the Chancellor, has underestimated the divisive implications of Nord Stream 2 in the EU and the political implications for Ukraine.\textsuperscript{47}

\textsuperscript{45} Auswärtiges Amt, 2019.

\textsuperscript{46} Die Bundesregierung, 2018.

\textsuperscript{47} Meister, 2019.
The support for Nord Stream 2 was primarily due to the domestic logic of the project, which was the result of a bargaining process among the political parties and decision-makers as well as German business. With political pressure from the business community and from the federal states (Länder) that benefit from the project, like Mecklenburg-Vorpommern and Brandenburg, the SPD and the Christian Democratic Party (CDU, the governing party of Angela Merkel) seemed to agree that they would not interfere in the implementation of the project. Moreover, the former SPD Minister of Economic Affairs and Energy who later became foreign minister, Sigmar Gabriel, even supported the project directly when he argued at a meeting with president Putin in October 2015 in Moscow that he would try to ensure that it “remain[ed] under the competence of the German authorities” regarding legal issues, in order to limit “opportunities for external meddling”.48 Gabriel did not clarify what exactly he meant by external meddling, but it is very likely that he was talking about the EU institutions. This policy reflects the mix of economic interest, domestic bargaining and the understanding that economic ties with Russia can still create a positive political environment despite growing controversy with EU partners. Furthermore, it stands in contrast to German support for Ukraine, because building Nord Stream 2 would undermine Kyiv’s bargaining position with Moscow and weaken its economy through the loss of transit fees.

Ostpolitik 2.0: Interdependence Reloaded

Against the background of these developments, foreign minister Heiko Maas’s argument for a new European Ostpolitik becomes implausible. As a reaction to pressure from his own party, Maas now argues that a new European Ostpolitik is not only a Russia policy but also a policy towards the other post-Soviet countries, with Russia at the core of this

48 President of Russia, 2015.
new approach. It should not only include cooperation with Russia in the interest of all European countries, but also formulate offers to the members of the Eastern Partnership.\textsuperscript{49} The key point about this new European Ostpolitik is not a new policy towards Russia and Eastern Europe, but the more systematic involvement of the EU’s central and eastern members and the Baltic states in a new policy towards the east. It remains unclear what the new substance of this policy is. There is no new offer or change in the German approach, except more consultations with the EU’s central and eastern members and no new instruments like sanctions to impact Russia. But Nord Stream 2 seems to prove the opposite, i.e. that Germany did not consult with central and eastern members over the policy, and thus it may undermine a united EU approach towards Russia and support for Ukraine.\textsuperscript{50}

From a German perspective, the Russian annexation of Crimea, the war in eastern Ukraine and Russian disinformation campaigns have changed the basis of bilateral relations. Trade and energy relations have not prevented Russian elites from waging a war in Europe. Even if Chancellor Merkel played a crucial role in stopping the high-intensity war in eastern Ukraine and maintaining contacts with the Russian leadership, the loss of trust between German and Russian elites is fundamental.

Hence, Germany’s approach of positive interdependence with Russia was replaced by the recognition of vulnerability in terms of trade, energy supply and security. The post-2014 German approach to Russia is two-fold: cooperation where possible, and containment where necessary.\textsuperscript{51} In fact, it reflects a new policy on dealing with Russia, but lacks a concept and vision for medium- and long-term policy towards the country. It reflects the Cold War approach towards the

\textsuperscript{49} Auswärtiges Amt, 2018.

\textsuperscript{50} Meister, 2019.

\textsuperscript{51} Voigt, 2014. Karsten Voigt has been one of the leading SPD figures on foreign policy in recent decades. He still advises the SPD contingent in the German Bundestag.
Soviet Union, which was much more a status quo power, but will not work with Putin’s Russia, which is a revisionist one.

The new European Ostpolitik of Heiko Maas does not change this situation; it is more focused on the EU’s internal policy than a reflection of a new German and EU Ostpolitik. It makes no conceptual contribution on how to deal with Russia and is argued as processual policy. Despite some fundamental changes in the German perception of Putin’s Russia, projects like Nord Stream 2 reflect the tradition of the change through interweavement or “change through trade” approach. This did not work with the partnership for modernisation, and it is unlikely to work with the growing energy interdependence with Russia. Moreover, Putin’s Russia is not the Soviet Union.

The inconsistency of Germany’s policy on Russia and Eastern Europe confuses partners in the EU and gives the Russian leadership opportunities to influence German politics and divide the Union. US president Donald Trump’s use of Nord Stream 2 to negotiate a trade deal with the EU is another element of this game, but it primarily shows how interdependence can create vulnerability in different directions and how much German action on one side (support for Nord Stream 2) is connected with consequences on others (reaction by the US, the EU and Ukraine). Furthermore, Trump makes US policy much more like Putin transactional, because he also undermines the multilateral liberal order and replaces win-win thinking by winner-loser bargaining. While the German public and elites seem to be more critical of Donald Trump over this approach, they are less so with Vladimir Putin.

As long as there is no consistent approach on Russia, Germany will undermine its leadership role in the EU on policy towards the east without winning more room for manoeuvre in Russia. Ironically, this policy not only increases opportunities for the Russian leadership to influence German domestic policy but also weakens Germany’s position as the key EU country for the Russian leadership.
Chapter 3

INTERDEPENDENCE AS A LEITMOTIF IN THE EU’S RUSSIA POLICY: A FAILURE TO LIVE UP TO EXPECTATIONS

Katrin Böttger

The great importance of EU-Russia relations is based on many (geo-)economic, energy-related, political and cultural connections between the EU and its member states on the one side and Russia on the other. This relevance has manifested itself in the past in the policy known as “Russia first”, pursued above all by Germany, which has been criticised particularly by Central and Eastern European member states, but also by representatives from countries of the Eastern Partnership, notably the associate countries: Georgia, Moldova and Ukraine. Due to the Ukraine crisis and the annexation of Crimea violating international law, EU-Russia relations reached a low point after having already deteriorated over several years. This leads to the need for the EU to re-evaluate its medium- and long-term approach towards Russia. However, this re-evaluation has been hindered by the fact that the conflict in and over Ukraine has required the EU’s full attention in the short term.

One element of the EU’s conflictual relationship with Russia is the geopolitical competition between the Union and its Eastern Partnership

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1 The author would like to thank Friederike Augustin for supporting her in the research for this paper. It was developed in the framework of the project “The European Union and Russia in Eastern Europe and the Southern Caucasus: Integration rivalry between East and West?” funded by the Otto Wolff Foundation.
on the one hand and Russia and the Eurasian Economic Union on the other. However, the origins of the discord seem to go much deeper, including misunderstandings over the relationship dating back to the end of the Cold War.²

A recurring approach to conceptualising the dynamics of EU-Russia relations is the notion of interdependence. This chapter focuses on the question of what role interdependence plays as a leitmotif in the EU’s Russia policy. I argue that, besides concrete mutual dependences primarily based on geography and energy supply, the concept of positive interdependence was overemphasised in the key documents of the EU-Russia relationship and never lived up to its promises. To illustrate this argument, the chapter analyses EU-Russia relations and the role of interdependence³ in three phases that range from cooperation to confrontation.

First, it looks at a rather short phase of assumed positive interdependence at the beginning of the 1990s, followed by a period when both the EU and Russia assumed a complementarity of interests.⁴ It was expected that, in line with the beliefs of liberal interdependence, economic ties would be able to contribute to regional security and stability.⁵ The Partnership and Cooperation Agreement (PCA) was negotiated and concluded during this time. During the second phase, in the 2000s, relations gradually deteriorated from an attitude of cooperation to one of confrontation, due to political circumstances and differing perceptions.⁶ One of the highlights of the cooperation that took place in an atmosphere of positive interdependence was the

² Mearsheimer, 2014; Delcour & Kostanyan, 2014.
³ “Interdependence” is not a normative term and has no bias. It is neutral and refers to the partners being dependent on each other to some degree. However, political relations are largely shaped on the perception of mutual dependence, not always on objective facts and figures.
⁴ Timmermann, 1996.
⁵ Rácz & Raik, 2018.
⁶ Timmermann, 2008.
peaceful resolution by the EU and Russia of the Kaliningrad question in 2003 (see below). Third, during the final phase of deep crisis starting in 2013, a negative connotation of interdependence gained ground, culminating in the debate about the Nord Stream 2 project.\footnote{See Chapter 1.}

While the EU did have an independent policy on Russia, it was always conceptually intertwined with the European Neighbourhood Policy. Both were based on the EU’s aim to transform its neighbourhood in the wake of enlargement by engaging and integrating the neighbouring countries if not as members, then at least as partners. More specifically, the “ENP-plus” was conceived to prevent an integration- and security-related vacuum in the area between the EU and Russia. In addition, it aimed to increase Europeanisation in a region where Russia and the US once competed exclusively.

In the end, the EU’s hopes for a rapid process of transformation in Russia were not fulfilled.\footnote{Gutschker, 2006.} Instead, Russia adopted an increasingly negative attitude towards a transformation according to Western models, particularly after Vladimir Putin returned to the presidency in 2012. Furthermore, Russia’s reaction to the establishment of the Eastern Partnership revealed an integration rivalry.\footnote{Fischer, 2007.} Thus, new dividing lines could be perceived in Europe, while Russia at the time appeared nonetheless willing to at least cooperate on a project level in the Eastern Partnership.

Since the beginning of the Ukraine crisis, the divergence of understandings of benefits and constraints or even threats of relationships with Russia have become more visible and more pronounced, for which the discussions surrounding Nord Stream 2 are a good example, as they reflect the dominant role of Germany in the shaping of the EU’s Russia policy.
Positive Interdependence and Cooperation

After the fall of the Berlin Wall and the break-up of the Soviet Union, relations between the EU and Russia had to be redefined. Thus the PCA, which entered into force on 1 December 1997, can be considered a landmark moment launching and institutionalising EU-Russia relations, as well as giving them a legal basis. While this agreement covered many areas of cooperation comprehensively, its only reference to interdependence relates to the field of environmental protection, thus giving the impression that the agreement serves a general, rather than an operational or political, purpose.

Complementary to the concept of interdependence, the PCA emphasised historical links, common values, partnership and cooperation. It underlined bilateral and international issues of mutual interest and assumed continued political and economic reforms in Russia in the event of its full implementation. It did not set out specific issues of mutual interest but, rather, offered a loose framework for cooperation. However, it did establish dedicated institutions such as the Cooperation Council, which in the declaration of its first meeting reiterated these general aspects.

The notion of interdependence thus seems to be closely intertwined with that of progress in transformation, which is based on the positive experience with this concept in the EU integration process from the start. The development of EU-Russia relations in the 1990s must be seen in the context of the enthusiasm surrounding the idea of reuniting Europe by including the CEE countries into the process of European integration. This was viewed as a path-dependent process of both internal transformation and inclusion into the EU based on these conditions.

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11 Ibid., p. 2.
12 Ibid., p. 2.
on mutual interests and a significant degree of interdependence. The EU’s 1999 Common Strategy on Russia\textsuperscript{13} states that “Geographical proximity as well as the deepening of relations and the development of exchanges between the Union and Russia are leading to growing interdependence in a large number of areas” (emphasis added).\textsuperscript{14} Which elements a “Common European Home”\textsuperscript{15} should consist of and which areas this growing interdependence covers was again not spelled out.

However, after the EU adopted the Common Strategy, which was one outcome of the European Council in Cologne in 1999, Russia reacted by arguing in its “Medium-term Strategy towards the European Union” that it was a world power stretching over two continents that should value and uphold its independence.\textsuperscript{16} Overall, the strategy has a similarly positive and constructive tone as the PCA and the EU’s Common Strategy, while at the same time underlining Russia’s own strong position and its ability to cooperate with the EU on an equal footing and on the basis of reciprocity.\textsuperscript{17} Thus it can be concluded that, while interdependence was mentioned in the documents, it was less a statement of fact and more an aspiration for future relations based on a cooperative approach from both sides.

One issue that was on the agenda between the EU and Russia during this time was the question of how to enable Russian citizens living in the Kaliningrad enclave to travel to mainland Russia, since they would have to transit through either Polish or Lithuanian territory which, with those countries’ accession to the EU, would become EU territory and part of the Schengen area, and which had up to that point been visa-free. In November 2001, the EU and Russia agreed on

\textsuperscript{13} European Union, 1999.  
\textsuperscript{14} Ibid., p. 3.  
\textsuperscript{15} Friedrich Ebert Stiftung Scenario Group EU + East 2030, 2014.  
\textsuperscript{16} Russian Federation, 1999.  
\textsuperscript{17} Ibid.
simplified so-called “facilitated travel documents” that were cheaper and easier to obtain than visas.\textsuperscript{18} This compromise was considered balanced and constructive by both sides.\textsuperscript{19}

One important element in this phase was the annual EU-Russia summit meetings, since they provided a framework to focus on the current state of the relationship and at the same time offered the opportunity to set the course for its future development. While certain topics were determined by pressing political situations, others remained on the agenda for several years. The latter included the question of visa liberalisation, which was a core Russian interest at the time, as well as energy-related issues, which are of great importance as a factor creating mutual interdependence, with one-third of the EU’s oil and gas imports coming from Russia and oil and gas making up almost 70\% of Russian exports.\textsuperscript{20} While visa-free travel would have been beneficial for business and an instrument for socialising the Russian population, the issue was dismissed, mostly due to continuing instability in the Northern Caucasus.\textsuperscript{21} The issue of Russia’s accession to the World Trade Organization was successfully concluded in 2012 and therefore disappeared from the agenda. Taking a closer look at the most important topics in EU-Russia relations during that period, it becomes clear that the priorities for the two sides—visa liberalisation for Russia, and liberalisation of the energy market for the EU—were different and were not only less relevant for the other side but even faced resistance. Despite lip service to this effect, therefore, there were not many common goals to pursue on the basis of mutual interdependence.

Instead of acknowledging these different priorities, the Joint Declarations of the EU-Russia summits time and again overemphasised

\begin{flushleft}
\textsuperscript{18} O’Rourke, 2002.
\textsuperscript{19} Spiegel Online, 2002.
\textsuperscript{20} Westphal, 2014.
\textsuperscript{21} Emerson, 2013.
\end{flushleft}
phrases such as “reaffirming”, “strengthening our strategic partnership” and “reconfirm our commitment to further strengthen our strategic partnership”. The summit in St Petersburg in 2003 also introduced the four “Common Spaces” (the economy; freedom, security and justice; external security; research, education and culture) intended to deepen the relationship in view of the EU’s eastern enlargement a year later. The mutually agreed Common Spaces replaced the EU’s unilateral 1999 Common Strategy.

**Gradual Disenchantment and Deterioration of Relations**

Interdependence featured prominently in the following year’s documents, such as the Joint Statement on EU Enlargement and EU-Russia Relations, which notes that the “interdependence of the EU and Russia, stemming from our proximity and increasing political, economic and cultural ties, will reach new levels with the enlargement of the EU”. This joint statement stands in stark contrast to Russia’s reaction to the Association Agreement that the EU signed with Ukraine ten years later in 2014.

In its 2004 assessment of relations with Russia, the European Commission suggested “build[ing] a genuine strategic partnership on the basis of positive interdependence”, “moving away from grand political declarations and establishing an issues-based strategy and agenda”. At the same time, indicating an increase in tension, the Commission for the first time criticised Russia for not complying

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26 European Commission, 2004a, p. 2.
27 Ibid., p.7.
with “universal and European values”.28 The term “positive interde-
pendence” was referred to as a vision that would be based on shared
values. In order to promote those shared values, the EU initiated sev-
eral new formats, such as the Human Rights Consultations. Russia
seemed to comply with most of the proposals of the new formats but
set its own conditions, which eventuallywatered down the EU’s ini-
tial intentions and allowed Russia to avoid the EU’s political leverage.

The second half of the 2000s were characterised by gradual disenchant-
ment with and deterioration of relations, especially during Vladimir
Putin’s second term, which culminated in the war with Georgia in
2008. Dmitry Medvedev’s ensuing presidency was perceived as a relief
for the West’s liberal approach to relations with Russia, which pro-
vided a justification to put aside the doubts over the Russo-Georgian
war. Under Medvedev many in the West thought that real change was
about to begin, bringing new hope for the liberal interdependence
theory. However, the EU’s own perception of relations with Moscow
had changed. The EU-Russian Partnership for Modernisation of 2010
gave up on the idea of political convergence through the democratisa-
tion of Russia, which had been present in the PCA.

In addition, new formats concentrated on economic and energy issues
underlining the interdependence and requiring cooperation. A joint
report on EU-Russian energy relations adopted in 2010 began with
the statement that “The EU and Russia are interdependent energy
partners”.29

This more positive outlook lasted until Putin returned to the pres-
idency in 2012. Crimea was not a sharp and unexpected turning
point—changes had begun earlier, especially after Putin’s return. The
transformation processes that could be observed in Eastern Europe
(the Orange Revolution in Ukraine, the Rose Revolution in Georgia)

28 Ibid., p.7.
unsettled Russia’s leaders, as they wanted to avoid similar developments in their own country. At the same time, they had been facing increasing protests to prevent the cutting down of parts of the Khimki Forest outside Moscow for the construction of a motorway to St Petersburg. At the Yalta European Strategy Conference in September 2013 the Russian representative, Putin’s adviser Sergej Glasjev, threatened to support the division of Ukraine if it followed through with signing the EU Association Agreement.\textsuperscript{30} It was now increasingly understood on the EU side that relations with Moscow had been guided by a unilateral European understanding of an integration process that was not shared by the Kremlin.

**WORSENING RELATIONS AND DEEP CRISIS AFTER THE ANNEXATION OF CRIMEA**

The last EU-Russia summit before the Ukraine crisis took place in Yekaterinburg in June 2013. Like earlier meetings, it reflected the different areas of interests of the two sides, but was also characterised by a new pragmatism.\textsuperscript{31} In hindsight, the participants seemed resigned since they were unable to make progress in their respective priority areas. A second EU-Russia summit of 2013 was supposed to take place in Brussels in December, but was postponed to January 2014 and shortened. The mood reached a low point due to many contested points of discussion, such as Russia’s support for Syria’s president, Bashar al-Assad, and alleged lack of progress on the part of the EU over negotiations on visa liberalisation. The Ukraine crisis was officially not on the agenda; rather, the Eastern Partnership and its possibilities for economic cooperation between the EU and Russia were discussed.\textsuperscript{32}

\textsuperscript{30} Yalta European Strategy, 2013.
\textsuperscript{31} Goncharenko, 2013.
\textsuperscript{32} Gotev, 2014.
However, the issue that dominated was, of course, the fact that president Viktor Yanukovych had refused to sign the previously negotiated Association Agreement. This was a major setback for the EU’s relations with Ukraine, for which many EU officials put the blame on Russia. It was agreed at the summit that the effects of the Deep and Comprehensive Free Trade Area between the EU and Ukraine would be analysed by economic experts from both the EU and Russia who would then also consider a possible common free trade area. The two sides ultimately agreed to postpone the implementation of the DCFTA by 15 months. The next EU-Russia Summit was planned for June 2014 in Sochi but was cancelled due to the further escalation of the Ukraine crisis, particularly the annexation of Crimea. The EU declared it was not planning bilateral summits for the foreseeable future.

The long and diverse list of topics discussed at these summits underlines the manifold interdependencies between the EU and Russia that govern their relations. At the same time, the Ukraine crisis shows that one of the central interdependencies lies in the area of “intermediate Europe”, i.e. relations with the countries geographically situated between the EU and Russia. While constructive compromise had been possible in the past, such as over the Kaliningrad question, in the case of Ukraine there was no resolution to the conflict in sight.

Despite the deep crisis in the EU-Russia relationship since the annexation of Crimea, many circumstances that had given hope in the 1990s—such as geographical proximity and economic and energy-related interdependence—continue to exist and must be taken into consideration in the EU’s policy towards Russia. One difficulty lies in the fact that the EU has mixed transformational, integrationist and foreign-policy instruments in its approach to Russia. While these different instruments do need to be in the EU’s toolbox, it would make sense to separate them more clearly.

33 Emerson, 2014.
34 European Union, n.d.
As a first step, the EU should define its interests vis-à-vis its eastern neighbours, notably in the fields of foreign policy, security and energy supply. Only on this basis can it develop rules for the relationship with Russia. Only by developing medium- and long-term interests can it aspire to achieve them instead of merely reacting on an ad hoc basis.\(^\text{35}\)

In this process it is important to acknowledge the different positions of EU member states. These steps require a politicisation of the EU’s foreign policy, i.e. an increased political awareness reaching beyond the discussion paper of 19 January 2015 by Federica Mogherini, the EU’s High Representative for Foreign Affairs and Security Policy, in which the lifting of sanctions and the reintroduction of the EU-Russia dialogue were named as the most important Russian interests.\(^\text{36}\)

In a second step the EU should seek an exchange not only with the countries of the Eastern Partnership but also with Russia on how relations could be developed and which priorities should subsequently be pursued. In order to do this, the EU-Russia summits would need to resume. These should be founded on the attempt to reopen channels in order to be able to deal with and possibly resolve the many frozen conflicts in the region and should not exclude these from the bilateral relationship, as was the case in the past.\(^\text{37}\) In particular, bridges between civil society organisations and universities should not be abandoned.

The effects of the crisis can also be seen in the EU Global Strategy, which underlines that “[m]anaging the relationship with Russia represents a key strategic challenge”.\(^\text{38}\) It continues to underline that the EU will be strengthened and will enhance the resilience of its eastern neighbours. However, it also acknowledges that “the EU and Russia are interdependent” and draws the conclusion that the EU will

\(^{35}\) Meister, 2013.

\(^{36}\) Reuters, 2015; Liik, 2015; EURACTIV, 2014.


\(^{38}\) European Union, 2016, p. 33.
“engage Russia to discuss disagreements and cooperate if and when our interests overlap”.39

CONCLUSION: A BLEAK OUTLOOK

The EU and Russia expressed a strong commitment to have a fresh start in their relationship after the dissolution of Soviet Union, with both parties having high hopes in the development of an equal partnership. Hence, during the 1990s documents show a strong emphasis on historical links, shared values and common interests as a basis for EU-Russia relations. The need to cooperate was justified by history rather than considered to be a result of mutual dependence. From 2000, the relationship became increasingly institutionalised, mainly as a result of the EU’s attempts to put relations on a more stable and predictable footing. This reflects the EU’s overall strong belief in and commitment to multilateralism. However, its efforts to impose binding multilateral formats and measures conflicted with Russia’s increasing emphasis on preventing external actors from interfering in its internal affairs and the inviolability of national sovereignty.

During the second phase of gradual disenchantment described above, the EU’s enlargement eastwards contributed to increasing political interdependence, which, however, was perceived not as positive but rather as worrying for having the potential to become increasingly conflictual, for instance resulting in a conflict over the newly structured neighbourhood between the EU and Russia. At the same time, the EU’s growing criticism of Russia’s failure to respect the “shared values”—which were intended to provide the basis for positive interdependence—increased tensions. A more positive perception of interdependence prevailed in the economic and energy sector, where increased institutionalisation (through four “Common Spaces”,

39 Ibid.
Roadmaps, Energy Dialogue and the Partnership for Modernisation) arguably contributed to the stabilisation of economic relations.

During the latest phase of deep crisis, since 2014, energy trade and other economic ties have been largely maintained in spite of political tensions and sanctions.\textsuperscript{40} Thus, 2014 shows a clear break only in political relations, as most diplomatic formats were suspended and have not so far resumed. Economic relations, however, have not enabled the EU to have the expected political influence on Russia.

While the outlook might seem bleak, it has at least become clear that, in order to govern the interdependence between the EU and Russia, it must be acknowledged that Russia is not on a path to transformation that would make it like other European democracies. The EU should define its interests and acknowledge the existing interdependences before formulating its future policies.

\textsuperscript{40} See the chapter by Simola in this volume.
“Interdependence” is a relatively new word in the Russian political elite’s vocabulary. During the Soviet era, for ideological and political reasons, it was never applied in respect of the European Communities. First, from its very birth in 1917, the Soviet state positioned itself not only as an alternative but as an antagonist to the European order and values. The Bolsheviks’ leader and ideologist, Vladimir Lenin, flatly denied any chance of establishing a durable and stable format of economic cooperation in Europe, and considered it hostile to the very essence of the Socialist revolution.¹ This view became a dogma for the next generations of Soviet rulers, who, up to the very last years of the USSR’s existence, were deeply sceptical and even disdainful of continental economic integration. Second, after the Second World War the Soviet leadership refrained from cooperating with the West for tactical reasons. Joseph Stalin was deeply convinced that the world socialist revolution was an objective outcome of global economic development and, hence, to defeat capitalism it would be enough to keep a distance and wait until the bourgeois countries annihilated each other.² In general, the Soviet leadership under Stalin regarded the confrontation between two opposing and self-sufficient economic systems as an intrinsic characteristic of international relations.

¹ Lenin [1969], pp. 352–524.
From the mid-1960s, the Kremlin’s attitude to the European Economic Community (EEC) began to soften gradually. By that time, some members of the Politburo clearly understood that it would be impossible to achieve a significant increase in labour productivity and economic effectiveness solely through intense propaganda. While paying official visits to the US and Germany in May–June 1973, Leonid Brezhnev acknowledged that without close cooperation with the West a meaningful improvement in the standard of living of Soviet citizens would be virtually impossible.³ However, until the beginning of perestroika, not a single Soviet leader approached the EEC to foster such cooperation. Even when Mikhail Gorbachev came to office and pushed the USSR through profound changes, he used the term “interdependence” primarily in relation to Washington, not Brussels, and exclusively with regard to security issues, as a synonym for the superpowers’ responsibility for the world’s future.

In this chapter, the author depicts and analyses the evolution of the concept of interdependence in Russia’s foreign policy from Mikhail Gorbachev to Vladimir Putin. This period seems justified because, unlike Central and Eastern European countries, Russia did not experience a large-scale change of elites after the collapse of the USSR. Today, the Kremlin’s behaviour on the international stage is defined by people whose careers began in the late 1980s. Their ideas about the correct model of society, and their views on international relations, were shaped under the huge influence of epochal events that challenged the Cold War order. This is critically important not only for understanding the reasons for Russia’s foreign policy since Crimea, but also for answering the question of why the prospects for building positive interdependence with the EU were sacrificed to geopolitical ambitions.

GORBACHEV’S “COMMON EUROPEAN HOUSE”

Mikhail Gorbachev’s ascent to power was followed by a true revolution in Soviet foreign policy. For the first time, a Soviet leader decided to recognise the EEC as a political subject of international relations. At the core of Gorbachev’s European policy agenda was the idea of a “common European home”, the framework of which was initially formulated by the Communist Party Secretary General during a visit to Paris in September 1985. Speaking on French television, he said: “France and the USSR have different views on human values, but there is a common interest: to live in peace and avoid nuclear war”.4 In fact, Gorbachev proposed a grand bargain with the West: preserving spheres of influence, as well as reducing the number of nuclear warheads for the sake of peaceful coexistence. Objectively speaking, the arguments presented by the Soviet leader to justify the concept of a “common European home” did not follow from the state of international relations in the mid-1980s. The level of threats that existed at that time did not require an urgent and hasty universal liquidation of nuclear weapons. Gorbachev’s initiatives looked particularly unusual and revolutionary in comparison with how confidence-building measures were built smoothly, without sudden jumps, after the Cuban missile crisis.

The concentration of nuclear and conventional weapons in Europe in the mid-1980s undoubtedly carried a potential threat to both European and global security. Some three million armed men were deployed on either side of the Iron Curtain. At the same time, the balance of military forces had a “deterrent effect”: whoever started a war with the use of a nuclear weapon, the outcome was absolutely evident – mutually assured destruction. The Cuban missile crisis had also demonstrated that governments in the West and in the USSR were well aware of the devastating consequences of even a limited nuclear conflict; that is, nobody was seriously going be the first to launch ballistic missiles

against each other. But Gorbachev was clearly in a hurry. The Kremlin’s hasty nuclear disarmament was due primarily to domestic economic factors. In 1980–6, military spending accounted for more than 30% of the state budget, while world oil prices fell by half. In every subsequent year, the Soviet economy needed more and more resources to maintain large-scale military projects, which led Gorbachev to simultaneously give up the Brezhnev Doctrine and abandon the arms race. He wanted not to put an end to the Cold War confrontation, but only to put it in cold storage. It was critically important for Gorbachev to make the USSR’s foreign policy less costly amid the harsh economic slump. That is, his “New Thinking” programme was aimed not at profound transformation of the Soviet approach to international security issues, but to retain the geostrategic status quo on the continent by profitably selling the nuclear threat to the West.

It wasn’t easy for European leaders to give credence to the radical shift in Moscow’s foreign policy amid a backdrop of the ongoing Soviet occupation of Afghanistan and its extensive military presence in the “people’s democracies”. To many in Europe, therefore, it seemed that the New Thinking paradigm and the “common European home” were nothing more than another blatant Kremlin provocation. More simply, what was lacking in Europe at the time to embrace Gorbachev’s initiatives immediately was trust. Meanwhile, time worked against Moscow. In 1987, Gorbachev published his book *Perestroika: New Thinking for Our Country and the World*, in which the concept of “common European home” was presented in a substantially adapted form – “human values” and “interest” were switched around.\(^5\) Gorbachev’s new vision was based on the perception of Europe as a continent where capitalist and socialist economic models coexisted with each other, jointly standing against global threats, the most dangerous of which was a nuclear war. Consequently, the Soviet leader proposed to build a “common European home” on universal human

\(^5\) Gorbachev, 1987.
values, such as human life and the environment. Hence, Gorbachev’s formula for rapprochement with Europe was, little by little, drifting from neorealism to becoming more liberal on international security.

Ultimately, despite a widely shared scepticism about the Soviet initiatives, Western governments took them favourably, signing one treaty on the reduction of strategic or conventional weapons after another, and providing substantial economic help to the declining communist state.\(^6\) There was a common understanding in Europe that the Soviet regime’s economic troubles might negatively affect its ability to keep control over its own stockpiles of nuclear weapons. In fact, the West became a hostage of the crumbling Soviet empire, and therefore did everything possible to ensure that the USSR would not lose its regional monopoly on the possession of a nuclear arsenal. This is actually the main reason why Western leaders provided enormous political and financial support to Gorbachev in his efforts to preserve the integrity of the country. Such an apparent “interdependence” with Europe in the field of security gave the Kremlin a chance to save face on the world stage, preserving its image of a “great power” that determined the world’s fate. If the West hadn’t responded positively to Gorbachev’s unilateral disarmament initiative, it could well look like a humiliating surrender by the Kremlin in the hopelessly lost Cold War and would have put Moscow in an even more difficult position.

**YELTSIN: NEW RUSSIA, OLD VISION**

When the Soviet Union collapsed, it seemed that the era of mutual estrangement between Europe and Russia was gone for good. The Kremlin’s new tenants certainly preferred to be among the winners of the Cold War, not the losers. At the beginning of the 1990s, despite the widespread nostalgia for the Soviet Union in society, the Russian

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\(^6\) Newnham, 1999.
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government constantly reaffirmed its obligations under the Conference on Security and Co-operation in Europe (CSCE) Paris Charter, which proclaimed democracy as the only system of government on the continent and defined the further development of the market economy as a common objective. As it turned out, this was not enough for a real breakthrough in relations between Europe and Russia. Many European politicians considered Boris Yeltsin, a former Communist Party functionary, and his team of “young democrats” to be advocates of European values in Russia. Nevertheless, European governments were cautious about the Russian president’s autocratic instincts and the shaky democratic institutions of a country that had overcome totalitarianism not very long before.

However, Russia’s biggest problem was large-scale corruption. Most companies did not pay any taxes and the state budget was overburdened with social expenditure. In April 1992, the G7 announced that it would allocate 24 billion USD to support market reforms in Russia. At the same time, Russia’s financial authorities were extremely ineffective in reining in capital flight, as some 10–15 billion USD was siphoned from Russia to Swiss bank accounts in 1992. This caused serious doubts over Yeltsin’s ability to control the activities of Russian financial institutions. The Europeans’ confidence in Russia’s ability to successfully adopt the market economy model and consolidate democracy was gradually melting away. Jacques Attali, president of the European Bank for Reconstruction and Development, repeatedly warned the Kremlin that all financial aid to Russia would be suspended if the government could not bring the economic situation under control and didn’t continue with market reforms.

Meanwhile, Yeltsin was searching for additional sources of loans, as he started a series of official visits to European countries. He tried to convince their leaders that he was the only Russian politician who

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could guarantee the irreversibility of democratic and market transformation. Apparently, Yeltsin mistakenly supposed that the West would ignore corruption in Russia and would not stop providing Moscow with money, since the vast territory to the east of Europe had ceased to be a source of threats and Europeans had to pay to sustain the status quo. In his speeches to European audiences, the Russian president repeatedly exploited this thesis, presenting himself as the only bulwark to revanchist forces that were eager to reverse the process of democratisation. Yeltsin’s behaviour was very much inspired by the experience of his predecessor, to whom the West was grateful for alleviating tensions in the field of security and provided the Kremlin with generous financing as a result. Most Russian political elites believed that security interdependence could be converted into money through a “no-threats-for-loans” formula. That assumption was completely wrong because, for the European establishment, there was a huge difference between the USSR and Russia. Yeltsin’s commitment to democratic values might be doubtful, but he was obviously a leader who thought rationally, as he did not look like a fanatic obsessed with ideological dogma ready to destroy the “hydra of imperialism” with nuclear missiles. Predictably, therefore, Yeltsin’s visits to European capitals didn’t meet his expectations.

Yeltsin’s unavailing trips put him in a rather precarious situation at home. Opposition media noted ironically that the leader of a country that claimed great-power status in international affairs had gone cap in hand to Europe, but all he received was humiliation. Ahead of the coming decisive battle for power with parliament, the image of a weak politician could have cost Boris Yeltsin his political career. Ultimately, in October 1993, he successfully (but, according to the Russian Constitutional Court, unlawfully) suppressed the resistance of the pro-communist Supreme Council, but two months later communists and national extremists won a convincing victory in the parliamentary elections. Thus, the Russian electorate sent a clear signal of wide discontent with Yeltsin’s reforms and the way his team was
implementing them. People were getting more and more nostalgic for the Soviet past. Widespread intransigence vis-à-vis the West was back again in socio-political life as a manifestation of heightened patriotic sentiment.

This was probably the most important turning-point in Yeltsin’s foreign policy. Market reforms were unpopular among a population accustomed to total state care. The Kremlin’s attempts to shift the costs of reform to the West and international financial institutions were therefore unsuccessful, while carrying this heavy burden by itself might soon lead the Russian leadership to political bankruptcy. Prime minister Yegor Gaidar’s experience testified that being a reformer without a financial cushion meant losing any chance of a successful political career. Of course, Boris Yeltsin was not ready to take such a risk. Instead, he gradually began to incorporate popular nationalist ideas and slogans into his agenda. Against the background of mass frustration over the reforms, the role of foreign policy as an effective tool of influence on people’s minds began to grow rapidly. Anti-Americanism and imperialist messianism returned to the official Russian discourse as the Kremlin began to warn Washington that expanding its sphere of influence would lead Russia to retaliate for its defeat in the Cold War.\(^8\) In a country where about 30% of the population was below the poverty line, such a rhetoric was probably the easiest way to gain political capital. No wonder, therefore, that this logic was shared by absolutely all leading political forces in Russia. As Alexey Pushkov once put it: “Any tenant of the Kremlin who hands over the topic of Russia’s greatness to the opposition risks changing places with that opposition very quickly”.\(^9\)

The European Union had a special place on post-Soviet Russia’s foreign-policy agenda. The Kremlin believed that the end of the Cold War confrontation would reduce the demand of European states for

\(^8\) Rossiyskaya gazeta, 1996.

the American security umbrella, and consequently impair transatlantic ties. That is to say, once the threat from the Soviet Union no longer existed, the Europeans would have no reason for continued dependence on the only remaining superpower.10 Moscow sought to use this situation for rapprochement with the EU in order to counterbalance the US as a security provider. For this purpose, in the late 1990s Russia promoted the idea of a geopolitical triangle between Moscow, Paris and Berlin. As the Russian foreign ministry repeatedly emphasised, the key motive for Moscow’s active engagement in this project was the desire to establish a “multipolar world that prevents any possibility of domination by one power”.11

Within the paradigm of such joint opposition to Washington, the Russian elite proposed the idea of strengthening interdependence between the EU and Russia through the intensive exchange of Russian natural resources for European technology and investment.12 Even the leader of the Communist Party, Gennady Zyuganov, considered a strategic union of the EU and Russia against America to be “the most promising and competitive enterprise of the 21st century with everything at its disposal: technology, culture, raw materials, traditions and much more”.13 However, comprehensive cooperation with Europe could not become a reality with Russia’s huge corruption and inefficient institutions. Even at the end of Yeltsin’s rule, the EU’s main questions to Russia were why a state rich in natural resources was still unable to pay its debts, and where the revenues from Russian oil and gas went.14 Besides, the degree to which Russia needed European investment and technology was disproportionately greater than the EU-15’s dependence on Russian resources.15 And it was Russia

that needed to achieve some minimum quality of economic parameters to make the EU-Russia “equal partnership” a reality, as there was an enormous gap between the two counterparts’ economic potential.

Moscow considered prioritising security issues in the EU-Russia relationship to be the only way to somehow reduce the imbalance in economic potential and to match the image of a “great power”. It is therefore not surprising that, at all levels of the Kremlin bureaucracy, partnership with the EU was regularly defined as a strategic dimension of Russian foreign policy with security issues at the top of the agenda.\footnote{Ivanov, 2000, p. 106.}\footnote{Diplomaticheskiy vestnik, 1999.} Moreover, Russian officials were always extremely sensitive about the way Brussels prioritised bilateral problems. A good example is the adoption of the Common Strategy on Russia at the EU summit in Cologne in June 1999. The Russian establishment felt extremely flattered as this was a first-of-its-kind document adopted specifically for Russia.\footnote{Pushkov, 1998.} Amid the economic crisis, a sharp decline in Yeltsin’s popularity ratings and the ongoing impeachment process in parliament, it was critically important for the Kremlin to demonstrate confidence in the international arena. Moscow responded with the adoption of a similar document, which was mainly devoted to security and strategic stability issues. Russia took this diplomatic exchange of courtesies as a symbol of Brussels’ readiness to solve the most important problems on the continent without the Americans; and, of course, it gave the Russian leadership hope that the EU would be very helpful in regaining “great power” status.\footnote{Likhachev, 2000.} That is, in fact, why Moscow took a neutral stance on EU enlargement, while frowning on NATO’s.
Putin’s Early Pragmatism

Yeltsin’s abrupt decision to step down and appoint Vladimir Putin as his successor on Russia’s political Mount Olympus rather stunned Europe. The new president’s personality and his views on international relations were a complete mystery, since he had never taken part in elections and rarely touched upon foreign-policy issues when speaking publicly. No one had any idea in which direction Russia would go under the leadership of a former KGB officer, who had a law degree from a country that had for decades neglected the rule of law. Of all the European leaders, only the UK’s Tony Blair took the opportunity to meet Putin in person before the March 2000 presidential elections – and not one of them attended the new Russian president’s inauguration. Meanwhile, from the first days of his tenure Putin spoke a lot about the need to bring Russia and the EU closer together. According to him, although Russia faced serious obstacles on the way to democracy, it had already made its strategic choice in favour of real integration with Europe. European governments took Putin’s early statements cautiously. Western politicians who had met him in person during the initial period of his presidency praised his European business-like manner when conducting negotiations and good command of two European languages, but none of them felt able to describe Putin as an advocate of European values.

Indeed, Putin and his entourage hardly shared the European understanding of democracy. They merely perceived the EU as a source of innovative technology and loans, which Russia’s oil-dependent economy desperately needed. The 1998 economic crisis had made it clear that, without comprehensive reform and Western help, Russia could at any moment find itself in a difficult situation. The government therefore persistently sought to attract European foreign direct investment by high-tech corporations. To this end, the Russian president was extremely active in strengthening personal contacts with

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European heads of state and government like Germany and France, and neglected cooperation with the EU institutions. In fact, under the early Vladimir Putin, Russia continued to adhere pragmatically to the paradigm of “resources in exchange for technology and investment”. The EU countries that led in technological innovation and disposed of significant financial opportunities were upgraded to the status of strategic partners. But, especially after the “Yukos affair”, few large companies were willing to risk investing serious money in Russia, since private property and investments did not look guaranteed or secure. Meanwhile, the Russian government couldn’t help but notice that German and French business activity in Russia was much lower than in the Czech Republic, Poland, Latin America and China.

Despite the European companies holding off from investing in Russia, supporting good personal relations with European leaders proved effective in political terms, as it was Paris and Berlin that helped Putin to overcome mutual alienation between Russia and the EU over the war in Chechnya. In early 2000, US Secretary of State Madeleine Albright warned Putin that his aggressive policy in Chechnya would lead Russia to international isolation. However, Putin successfully managed to avoid such a scenario by winning Jacques Chirac and Gerhard Schröder round. In the autumn of the same year, the Chechen problem was finally resolved at the Russia-EU summit in Paris, when Putin acknowledged the need for political dialogue with the insurgent republic while Jacques Chirac, Romano Prodi and Javier Solana condemned terrorism in all its forms and manifestations. This meant the EU fully sided with Putin, who believed that in Chechnya Russia fought not against self-determinists but against religious fanaticism and international terrorism.

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Between 2003 and 2005, the Russian establishment’s perception of the EU underwent profound changes. The first factor was the 2003 war in Iraq, which brought Moscow considerable political and economic dividends. Amid the disagreements within NATO over participation in the military operation against the regime of Saddam Hussein, the Kremlin appeared to strengthen relations with the leading European countries significantly. Vladimir Putin was well aware of France’s and Germany’s reluctance to follow Washington in its military intervention, and sought to resuscitate the idea of an anti-American geopolitical axis in Europe between Moscow, Berlin and Paris. But after Gerhard Schröder left office in 2005, this project was off the table. Along with the decrease in oil production in Mexico, the UK and Indonesia, the hostilities in Iraq catalysed a rise in world oil prices. As a result, an abundant flow of petrodollars spilled into Russia, allowing the government to raise public spending exponentially and contributing greatly to Putin’s image of a successful manager of the country. Between 1998 and 2008, the price of Brent crude increased by a factor of more than 13, providing Russia with an opportunity to gradually pay off its debts to the London and Paris clubs of creditors, while people’s real incomes grew by a factor of 4.4. Russian billionaires began to buy real estate and other assets in Europe. Gold and foreign exchange reserves grew rapidly and reached a historical record of 598.1 billion USD.24 Since there was now enough money in Russia, European investment was no longer so important, although European innovative technology was still in great demand.

The second factor was the 2004 round of EU enlargement. Among the newcomers were countries with which Russia had very complicated relationships. Nevertheless, the Russian political establishment was convinced that their membership would have no effect on the nature of Moscow’s relations with Europe, as the extensive network of Putin’s personal contacts with “great powers” would be able to alleviate and

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24 Central Bank of Russia, 2008.
eventually neutralise any risks. In fact, Russian decision-makers completely ignored the trend towards a gradual strengthening of the EU institutions. Immediately after their accession to the EU, Poland and the Baltic states began to exert considerable influence on east-facing aspects of EU foreign policy through the Union’s institutions. This was manifested during the settlement of the 2004 political crisis in Ukraine. The key role in the negotiations between the parties to the conflict was played by the Polish president, Alexander Kwasniewski, and his Lithuanian counterpart Valdas Adamkus, while Polish MEPs were the most active in drafting resolutions on Ukraine and observing the presidential election process. Notwithstanding Putin’s expectations, Chirac and Schröder took a neutral stance over the 2004 Orange Revolution. For the Kremlin, the victory of Ukrainian opposition leader Viktor Yushchenko was a serious foreign-policy defeat. Moscow worried that events in Kyiv could trigger a demand for change within Russian society. The EU’s actions to legitimise the outcome of the Orange Revolution caused irritation in the Kremlin and were regarded as interference in the Russian sphere of interest. Thenceforth, EU enlargement began to be perceived in a negative way, and Brussels was considered a geopolitical opponent totally dependent on Washington.25 The attractiveness of the EU’s legal framework and living standards came to be regarded as a tool for Brussels to project its power abroad. Since Russia had no alternative project able to compete with the EU, Moscow elites believed they should rely on military and information tools to fight for influence.

These foreign-policy shifts were fully reflected in the notion of “sovereign democracy”, presented by the deputy head of the Presidential Administration, Vladislav Surkov, with a somewhat different take on the EU. According to him, Russia’s main goal was to not fall out of Europe, so as not to lose the source of technology without which modernisation of the Russian economy would be impossible. Most importantly – and not a single Kremlin politician had done this before – Surkov questioned the

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attractiveness of the most successful integration project in the world: European integration. Such a vision was rapidly incorporated into the Russian official discourse. If previously the Kremlin’s representatives believed Russia couldn’t afford both conflict with the EU and international isolation, the fiasco in Ukraine led Russia to proclaim sovereignty as a fundamental value, and dependence on the West as its antithesis. If anything, Putin’s public speeches became very similar to those delivered by the leaders of countries that had not found their place in a globalised world. But, unlike them, for the first time in its history Russia could rely on huge gold and foreign exchange reserves.

From the mid-2000s, the term “interdependence” began gradually to disappear from Putin’s statements on the EU. And with the advent of Dmitry Medvedev this trend was preserved, since he never referred to the EU and Russia as partners sharing common European values. Moreover, after the Russo-Georgian war of 2008 and the subsequent failure of negotiations on a new Partnership and Cooperation Agreement, this kind of rhetoric simply became irrelevant. In this atmosphere, the Partnership for Modernisation (PfM) initiative appeared. Compared to previously adopted roadmaps, this project was much more strictly tied to specific objectives of Russia’s modernisation, primarily in the economic and technological spheres. As Arkady Moshes argues, it was a less ambitious framework than the so-called “Common Spaces”, as there was a rollback from the institutionalised scheme of EU-Russia cooperation to individual projects.26 But this is exactly what the Kremlin strived for, since the subject of socio-political transformation was taken off the EU-Russia agenda. In essence, the PfM corresponded closely to the Kremlin’s take on interdependence with the EU, which was just about selling resources in exchange for European technology. Nonetheless, this initiative has never been realised, because, objectively speaking, there were few opportunities to do this amid the growing crisis of trust between the parties.

A Game-changer: Annexation of Crimea

A turning-point for EU-Russia relations came in 2014, when Russia illegally annexed Crimea, and subsequently was excluded from the G8, as both the EU and the US introduced sanctions on selected Russian officials and state-owned enterprises. In response, Moscow imposed restrictions on the importation of agricultural goods from the EU and significantly altered its foreign-policy vocabulary. In 2016, Putin signed off a new Russian foreign-policy strategy that, for the first time in Russia’s post-Soviet history, labelled the EU enlargement as a “geopolitical expansion”, which allegedly caused the crisis in relations between the West and Russia. Such an expression had never before been applied in the context of the EU, either in official Russian documents or in speeches by top officials. But from that moment on, Moscow began to consider openly the EU as a military-political bloc and its geopolitical enemy. Invoking the example of Kosovo, Kremlin officials persistently lambasted Brussels for “double standards” and hypocrisy with the caveat that the EU had taken an “anti-Russian” stand on the Crimea issue under significant American pressure. As Russian foreign minister Sergey Lavrov put it, the EU was subjected to heavy-handed discipline imposed by Washington through its envoys in European capitals to make sure that “anti-Russian sanctions” were adopted.

In this respect, the outcome of the 2016 US presidential election was extremely important for the Kremlin. Although Trump’s victory has not been followed by the lifting of sanctions imposed over Russia’s violation of Ukraine’s territorial integrity, it has solidified the Russian establishment’s belief that the US will no longer dominate international relations. In the meantime, the new American president had a shock effect on Europe, as he sowed doubt about Washington’s

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27 President of the Russian Federation, 2016.
security and defence guarantees. This was also evidenced by the desperate tone of Donald Tusk’s call for unity and solidarity within the EU.\textsuperscript{30} Hence, it has become common among Russian politicians to speak about the EU’s disintegration and the forthcoming end to American preponderance on the international stage. Ironically, if not for Russia’s wars against Georgia and Ukraine and its other foreign-policy adventures, the “Trump effect” might have opened a window of opportunity for EU-Russian cooperation. Of course, Russia could in no sense be viewed by the Europeans as a substitute for the US. But the Kremlin might have benefited against the background of Donald Trump’s lambasting of NATO. For instance, this could at least have revived discussions on the European security architecture. Had that been the case, the post-Soviet Russian ruling elite would probably have come close to fulfilling its strategic goal of dividing the West. Today, however, practical possibilities for rapprochement between the EU and Russia are very limited, as Russia is not perceived as a reliable partner in the security sphere due to its military conflicts with neighbouring countries, poison attacks and hostile cyber operations.

The annexation of Crimea also had consequences for the perception of the EU in Russian society. According to surveys, for the first time in the history of bilateral relations, EU sympathisers were outnumbered by those with a negative attitude to the Union. In 2010, the proportion of Russians who believed their country should work to become a member of the EU reached 55%, but by 2014 it had fallen sharply to around 15%.\textsuperscript{31} The Russian state media undoubtedly contributed greatly to this shift in Russian public opinion by creating and broadcasting a very unattractive image of the EU. The main efforts of the Kremlin’s propaganda machine were and remain focused on discrediting the successful integration project. More importantly, it interpreted the sanctions imposed on individual Russian politicians and firms as restrictions on the whole of Russian society to share responsibility for


\textsuperscript{31} Gudkov, 2015.
the Crimea annexation with every Russian citizen. From the collapse
of the USSR through to 2014, interdependence with the EU was taken
well by the Russian population in the context of improving the quality
of life by adopting the best European practices. But after the annexa-
tion of Crimea, it became increasingly perceived as a sign of weakness.
Some Russians even consider positive interdependence with the EU
to be impossible and even dangerous. And, of course, it’s not the EU
that is to blame for this: it’s all about the specific political regime in
Russia. The negative image of the “expanding” EU helps the Russian
government to distract the Russian population from the lack of prog-
ress in economic modernisation at home. Real household income has
been declining for an unprecedented five consecutive years, the coun-
try’s financial reserves continue to be depleted and taxes are being
gradually raised, while prospects for economic growth remain uncer-
tain. According to Credit Suisse, 1% of Russia’s richest families hold
74.5% of national wealth.\(^{32}\) No wonder that in his public statements
Putin prefers to stick to foreign-policy issues, skilfully manipulating
the older generation’s traumas and phobias caused by the abrupt col-
lapse of the Soviet Union.

Still, the current level of confrontation between the West and Rus-
sia is much lower than during the Cold War era. The period of post-
Soviet transformation made Russia, in contrast to the Soviet Union,
more interdependent with the EU, and more integrated in the world
economy. On the one hand, this forces many European governments
to reckon with a powerful national business lobby that has interests
in Russia. The EU’s sanctions against Russia are therefore bound to be
more symbolic than an effective tool to tackle the subversive activities
of the “difficult Eastern partner”. Specifically, the EU’s list of banned
individuals is considerably shorter than the American one, ensur-
ing that Putin’s close associates feel welcome in Vienna and Berlin.
On the other hand, the existing level of EU-Russia interdependence

\(^{32}\) Kersley & Koutsoukis, 2016, p. 148.
devalues and deters Russia’s potential threat to Europe. The Russian establishment has repeatedly voiced the intention to target nuclear weapons on prospective NATO members, be it Finland or Sweden. However, it is difficult to take them seriously. For instance, Montenegro, a recent NATO newcomer, is one of the most attractive countries for Russian officials and businessmen to invest in real estate. In addition, Russian elites used to send their children to prestigious British and French universities, as well as keeping their savings in Swiss banks. If Switzerland joined the EU or Finland joined NATO, Putin’s response would not go further than militant and aggressive rhetoric, because, unlike the Soviet nomenklatura, the Russian kleptocracy has much to lose in the event of a direct armed conflict.

**CONCLUSION**

We should recognise that stagnation in EU-Russian relations is a long-term trend, and one can hardly expect that, in an atmosphere of mutual distrust, the concept of positive interdependence will become a platform for effective cooperation, until a generational change takes place among the political elites in the Kremlin. Today, Russia is ruled by people for whom the Cold War isn’t over until the geopolitical status quo is re-established on the continent. Their mindset is traditionally dominated by neorealism, which comes from the fact that, following the collapse of the Soviet Union and the socialist camp, a bipolar system of international relations replaced a multipolar one. Moreover, the term “pole” here retains the meaning it had during the Cold War. Specifically, a “pole” is a sovereign subject of international relations, which has an opportunity to project national interests beyond the limits of its territory, thereby forming its special sphere of responsibility. According to the Kremlin, in the EU only Germany, France and the UK have all the attributes of “poles” or “great powers”, which means other EU members are just objects for influence and pressure. A dialogue can be successful only if the parties treat
each other equally. Hence, the prospects for dialogue between the EU and Russia are dim if Moscow perceives the overwhelming majority of EU countries as merely pawns on the geopolitical chessboard.

The annexation of Crimea made clear that the views of Russian decision-makers on interdependence are very close to the understanding of this term by Hans Morgenthau, who essentially rejected its presence in international relations, since countries are not equal in their ability to project power.\textsuperscript{33} Thus, the concept of positive interdependence contradicts this view, and it is not too much to say that the Kremlin’s policy towards the EU is aimed at guaranteeing its own sphere of responsibility for security on the continent, rather than to search jointly for win-win solutions. Most tellingly, Russian officials actively promote an “equal partnership” formula, which implies cooperation on a limited number of issues with complete non-interference in domestic affairs and the sphere of special responsibility. Notably, “non-interference” means an absolute abstention from criticising the Russian government for corruption, human rights violations, aggressive foreign policy and so on. Consequently, the disintegration of the EU is not something the Kremlin really wants. Rather, Moscow is interested in reducing the level of European integration from a supranational community to an intergovernmental organisation. In this eventuality, Russia would considerably improve its ability to influence the whole of the EU through the “great powers”. Indeed, the Russian elites never regarded regional integration projects as an opportunity to enhance cooperation with neighbours; rather, it was a tool to control dependent actors. It appears the Kremlin will continue to adhere to the tactics of destabilising the EU without any real intention to cause critical problems.

In the long run, however, relations with the EU are of paramount importance for Russia. World history shows that there were no

\textsuperscript{33} Morgenthau, 1970, p. 110.
“economic miracles” without close interaction with the West, and the examples of China, Poland, South Korea and Japan are good illustrations of this. There are many more negative examples, when national governments decided to modernise their countries by themselves. Hence, if Russia is destined ever to become a really modern market economy, it will only be by overcoming the legacy of Putin’s regime and building positive interdependence with the EU.
Chapter 5

Russia’s View of Interdependence: The Security Dimension

James Sherr

Today it is easy to forget that interdependence was once a defining feature of Soviet and Russian foreign policy. Indeed, at a time when the Soviet Union was still a going concern, Mikhail Gorbachev imported this concept from Western academia and made it his own.¹ In the 1980s, his evocation of a world “interrelated, interdependent and integral” was still infused with Marxist-Leninist content. But it was a major departure.

To state the obvious, the Cold War was a system of confrontation. Managed confrontation it might have been, but until Gorbachev’s emergence its constituent parts were seen inside the USSR as two strictly demarcated “world systems”, evolving for the most part according to their own internal dynamics and imperatives. Under the influence of an increasingly dense arms control regime predating Gorbachev, the Cold War system had become more balanced, but it was not interdependent. From Moscow’s perspective, NATO armed

¹ The most continuous and influential conduits of information from Western universities (apart from the KGB) were two research institutes set up by the Soviet Academy of Sciences: the Institute of the USA (later “and Canada”), established in 1967, and the Institute of Europe (1987). Georgiy Arbatov, director of the former until 1995, was an adviser to Brezhnev, Andropov and Gorbachev. But the Gorbachev adviser most widely credited as the brain behind “new political thinking” was Aleksandr Yakovlev (former head of the CPSU Department of Ideology and Propaganda, exchange student at Columbia University, Ambassador to Canada 1973–83 and friend of Pierre Trudeau). For an insight into his understanding of “interdependence”, see Yakovlev & Bialer, 1989.
because it was “militarist” in essence and “hegemonic” in aspiration, while the USSR merely did what was necessary for its own security. Interdependence – the replacement of the “two systems” logic with mutuality – signified the rejection of such thinking. It suggested to the Soviet mind that Western hostility might be the product of Soviet behaviour (correctly or erroneously perceived), rather than something intrinsic to the West. Such suggestions were anathema to the “old thinkers” who dominated the Soviet defence establishment, and the notion that more conciliatory and cooperative Soviet policies could alter the logic of East-West antagonism was regarded as foolish, not to say ideologically deviant. For this reason, Gorbachev’s “new thinking in defence and security policy” had revolutionary implications for the Soviet Union’s defence and security relationships.

In the West, these changes produced their own unsettling resonances. When reinforced by Gorbachev’s arms reduction initiatives, including the 1988 unilateral force reductions in the USSR’s Central Group of Forces in Europe, Western governments found themselves under strong pressure to reciprocate, and NATO found its very existence called into question. This was, indeed, precisely the effect that Gorbachev had intended, and it is not surprising that an alliance, led by George H.W. Bush, Margaret Thatcher and Helmut Kohl, responded with some degree of circumspection. The centrepiece achievement during this era, the 1987 INF (Intermediate-Range Nuclear Forces) Treaty, moderated the dynamic of East-West competition without abandoning its ideological and geopolitical foundations, let alone the

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2 Czechoslovakia’s “military deviation”, “based on the fundamental premise that NATO was not an aggressive alliance”, was one of the factors leading to the crushing of the Prague Spring by the Warsaw Pact in 1968. When a delegation headed by Jan Sejna, Chief Secretary of the Czechoslovak Ministry of Defence, presented a “defensive military doctrine” to the Soviet Ministry of Defence in October 1967, General Aleksey Alekseyevich Yepishev, Chief of the Main Political Administration and the army’s ideological guardian, acidly remarked “it would be interesting to discover who is the father of this anti-Marxist idea”. Sejna, 1982, pp. 110–111.
alliance structures that institutionalised them. Whether or not the Cold War was “won” by the West, these new dynamics left the Warsaw Pact dissolved, the structure of Soviet military power in tatters, and NATO intact. If Gorbachev was burdened by a sceptical military establishment, his successors faced an alienated one.

Nevertheless, the implications of the latter fact were obscured by the brief ascendancy of the ideologists of the “new Russia”, every one of them a civilian. Their schema, indeed cause, not only went beyond the ideas of Gorbachev, but also surpassed the ambitions of Western liberal exponents of interdependence, EU sentiments of moving beyond the nation-state and the US vision of “a Europe whole and free”. For the “democrats” who briefly took the helm in Moscow, the end of the Cold War foreshadowed the disappearance of the distinction between East and West, and they expected nothing less. When they spoke of integration with the West, they meant merger: the replacement of autonomous Cold War security structures with “pan-European” ones.

So revolutionary a set of expectations was bound to meet with rebuffs, disappointment and disillusionment. By the mid-1990s, this process was underway in both Russia and the West. By the time Boris Yeltsin left the presidency, it was well advanced. The only surprise about the conflicts of 2008 and 2014 is that anyone was surprised. Warnings

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3 In August 1963, the US, the UK and the USSR signed the Partial Test-Ban Treaty. Four major arms control agreements were concluded during Brezhnev’s time in office: the Nuclear Non-Proliferation Treaty of July 1968 (with 59 signatories), the Anti-Ballistic Missile (ABM) Treaty and the Strategic Arms Limitation Talks Interim Agreement (SALT), signed together in May 1972, and SALT II (June 1979).


5 The term “democrat” was adopted by members of the Democratic Russia Election Bloc, which participated in the 1990 elections for the Congress of People’s Deputies, as well as the related Democratic Russia Caucus and Democratic Russia Movement. Occasionally, the term refers to the circle of reformers associated with Yeltsin and the cause of Russia and Yeltsin, as opposed to “new thinkers” associated with Gorbachev and the renovation of the USSR. The term should not be confused with the more conservative opposition Democratic Party of Russia, founded in 1993.
of a shift in Russia’s outlook were abundant well before Putin’s landmark Munich speech of 2007. The basis, dynamics and significance of the shift from an ecumenical, pan-European outlook to an emphasis on Russia’s “distinctive interests” are the subject of this chapter.

The first part of the chapter provides a synoptic look at the recent historical context: the progression from a policy that equated Russian and Western security interests to one that largely juxtaposed them. The second part analyses the political and institutional factors that have elevated geopolitics above interdependence as the defining theme of Russia’s relationship with the West. In the final part, we will draw conclusions about the purposes interdependence has had for Russia and what influence, if any, it retains on Russian thinking.

THE POST-SOVIET HISTORICAL CONTEXT

The “Romantic Era” and its Demise

After the collapse of the USSR, Russia not only ceased to be a “threat”, it ceased to be a rule-setter in global affairs. What it became was a “concern”. The concern was defined by remnants of old imperial problems, by post-imperial and inter-ethnic conflicts on the territory of the former USSR, by the fraying of controls over dangerous weaponry and technology, by the degradation and criminalisation of economic life, by the environmental and social pathologies left in the wake of the communist system and, not least, by the fragmentation of authority in what remained both the world’s largest country and a nuclear superpower. The argument amongst “concerned” Westerners was not only about how these problems might be tackled, but about how long it would take Russia to adjust to membership of an international order built on the principles of the Helsinki Final Act and, de facto, those of the West. That it wished to make this adjustment was never seriously questioned until Yeltsin was long out of office.
Yet in Russia, a very different argument was taking place. Both the “new thinkers” who had coalesced around Gorbachev and the reformers surrounding Yeltsin were asking how long it would take the West to adjust to the monumental changes for which they both claimed credit: the repudiation of Marxism-Leninism, the liquidation of the Warsaw Pact and the dissolution of the USSR. They had been bold, and they expected similar boldness. What they got in exchange was partnership, assistance and “transition”: a process with no apparent conclusion.

The fact is that the West’s commitment to a new relationship was far less revolutionary than theirs. In Washington, London and Berlin, proponents of a “transformed” NATO had no intention of dismantling it or surrendering its autonomy. The EU had no taste for grand gestures and remained methodical and technocratic in its approach to cooperation, integration and enlargement.

Three additional factors reinforced the case for caution on the Western side. First, even Russia’s most emphatic liberals claimed a presumptive role for Russia as “leader of stability and military security in the entire former USSR”, and they saw no contradiction between this role and Russia’s integration with Europe. But the nations recently emancipated from the USSR and the Warsaw Pact saw a very big one. They were determined that new “security architectures” not be constructed over their heads, and they were effective in getting this point across in Western capitals. Second, by comparison with the European revolutions of 1989, Russia’s “second revolution” was a halfway house. In the defence and security sphere, Yeltsin’s main priority was not reform but placing loyalists in power. When the Armed Forces of the Russian Federation were established in May 1992 on the basis of what his new

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6 “New thinkers” refers to supporters of Gorbachev’s “new political thinking”, only some of whom went on to serve under Boris Yeltsin. Some members of Gorbachev’s entourage had principled objections to a man who helped to destroy the USSR.

7 Shelov-Kovedyayev, 1992, pp. 2 and 4.
defence minister, Pavel Grachev, called the “ruins and debris” of the Soviet Army, the group of military reformers that had coalesced during Gorbachev’s last years in power were sidelined. In the intelligence and security sectors, the picture was much the same. Third, and not surprisingly, the earliest and greatest rebuffs to Russian liberals came from within Russia itself. The most fervent exponent of liberalism in the MFA, Fedor Shelov-Kovedyayev, who had alarmed Russia’s neighbours with calls for Russian pre-eminence, resigned in protest in late 1992 when Yeltsin agreed to rehabilitate force (“in extreme cases”) as a means of ensuring “firm good neighbourliness”. In other respects the 1992 Foreign Policy Concept documents that prompted Shelov’s resignation were a warning of things to come. Russia would “vigorously oppose the politico-military presence of third countries in the states adjoining Russia” and would act to ensure “the provision of strict observation … of human and minority rights, particularly of Russians and the Russian-speaking population”.9

By 1994, reminders that Russia was a “great power” were becoming commonplace. In April 1994, Yeltsin declared (to the leadership of the Foreign Intelligence Service – *Sluzhba Vneshnoy Razvedki*, SVR)

> There are forces abroad that would like to keep Russia in a state of controllable paralysis … Ideological conflicts are being replaced by a struggle for spheres of influence in geopolitics.11

One month later, he told the leadership of the Federal Counter-Intelligence Service (soon to become the Federal Security Service (*Federal’naya Sluzhba Bezopasnosti*, or FSB) that its “extensive possibilities must be effectively used in the defence of Russians both in this country and abroad”.12

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11 Yeltsin, 1994a.
12 Yeltsin, 1994b (emphasis added).
In summary, there are some significant continuities between Yeltsin’s policies and those that replaced them. But there were also significant differences: the pluralism in the political establishment that Yeltsin respected and nurtured, the importance attached to Western opinion, and an impulse towards accommodation over most issues of importance, including the withdrawal of Russian military forces from the Baltic states. Yeltsin’s indignation towards the West – over NATO, Bosnia and Kosovo – was that of a friend who had been wronged rather than an adversary in the making.

On the part of the West, there were two consistent failings: first an underestimation of the depth of Russia’s conviction that it was entitled to primacy in the former USSR and an “equal” role (i.e. veto) over security arrangements outside it; and second, an assumption that Russia would continue to “adjust” regardless of how much it was disappointed. Russia’s failing, which outlasted Yeltsin, lay in the belief that the principles of primacy and the principles of Helsinki were compatible. It was not until 2014 that Putin openly stated they were not.

**Changing the Paradigm**

Just as the Yeltsin paradigm evolved gradually, so did changes to it. But a shift in emphasis was discernible from the moment Putin, as prime minister, relaunched the Chechen war in 1999, this time with the aim of extirpating the problem. Then, within days of becoming acting president in December 1999, he cut the supply of oil to Ukraine – but, unlike previous interruptions, with a tenacity and rancour that was entirely new to Russian-Ukrainian relations. The conceptual foundation for these early steps was set out with rigour in the Foreign Policy Concept of June 2000. The new policy’s “pragmatism” had nothing in common with gracious acceptance of the status quo. On the contrary, it meant the “strict promotion of Russia’s national interests” in accordance with its “general capabilities and resources”. Towards the West, these capabilities were still demonstrably weak.
But towards the “near abroad” they were strong, and here the emphasis was different: forming “a good-neighbourly belt along the perimeter of Russia’s borders”, “conformity of … cooperation with CIS states to national security tasks of the country [i.e. Russia]”, “joint rational use of national resources”, to “uphold in every possible way the rights and interests of Russian citizens and compatriots”, to “popularise the Russian language” and ensure “preservation and augmentation of the joint cultural heritage in the CIS” (emphasis added). While the West argued about whether or not Putin was a “reformer”, inside Russia the new policy was being described as “clear”, “specific”, “cold”, “more aggressive” and “far tougher”.

The crucible of the change in Russia’s policy paradigm towards the “far abroad” was NATO’s intervention in Kosovo, which occurred on Yeltsin’s watch and which he branded an “egregious error” (grubey-shaya oshibka). For Russia, Operation Allied Force [NATO’s bombing of Yugoslavia – Ed.] removed any remaining pretence that NATO was a “strictly defensive alliance”. Fatefully, these events coincided with the first wave of NATO’s eastern enlargement. In Russian military circles (but not only there), NATO’s employment of “coercive diplomacy” against Yugoslavia was seen as a dry run for breaking up other “problematic states”. In the epigrammatic formulation of Krasnaya Zvezda, “today they are bombing Yugoslavia but thinking of Russia”. Thus, while the second Chechen War was presented, like the first, as a strictly internal matter, it also was seen by Putin and the defence establishment as a geopolitically defensive measure.

In policy-making terms, there was an equally significant change. While under Gorbachev and Yeltsin, Russia had sought to create the international conditions necessary, in the words of foreign minister Eduard Shevardnadze, “to bring about change inside the country”, Putin reverted to an older pattern established by Stalin. By means of change inside the

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13 Putin, 2000a.
country – overcoming internal weakness and restoring “the vertical of power” – Russia would resume its rightful position as a “great power”. This was not a neo-liberal programme. While the Yeltsin era was characterised by free market reforms implemented in close collaboration with the West, the keynotes of Putinism were the re-establishment of the state and the restoration of Russia’s sovereignty. Henceforth, foreign policy would be conducted on an “equal” and “pragmatic” basis. Russia’s internal affairs were now Russia’s business.

It is not that the Kremlin rejected interdependence – it just avoided speaking about it. Instead it spoke of “multipolarity”, by which it meant not only multiple centres of power but also “multiple values centres”. It also spoke of “network diplomacy”, by which it did not mean bringing Europe closer together but sowing internal division. Business and energy were now discussed in openly geopolitical terms. The first paragraph of the 2003 *Energy Strategy of Russia in the Period to 2020* stated that “the role of the country in world energy markets to a large extent determines its geopolitical influence”. This “geopolitical influence” was one factor persuading Sergey Lavrov that “the West is losing its monopoly of the globalisation process”. In short, interdependence was not being abandoned, merely divested of its liberal connotations and what Russians by then perceived as its “hegemonic” essence.

For equally self-interested reasons, defence and security circles maintained, at least for a time, a reluctance to part with elements of mutuality in security relationships along with the mechanisms and treaties that, in their view, imposed constraints upon an expanding NATO. But the most dramatic opportunity to readjust the terms of interdependence was afforded by the events of 9/11. Suddenly, the United States needed Russia in its fight against terrorism, and for Putin

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this new reality meant that it would no longer have the luxury of meddling in “Russia’s business”. On that premise, he overruled the objections of the defence establishment and gave his blessing to a US military presence in Central Asian states that it wished to keep far from the West’s embrace.

Al-Qaeda’s attacks on the Twin Towers and the Pentagon brought cooperation over terrorism to a new height, but also to its climax. Even so, that cooperation demonstrated just how differently Russia understood this cause. From the start of the Putin era, Russia employed the term “terrorism” in breathtakingly permissive ways, often conflating it with “separatism” and “extreme forms of nationalism”. Just as entire categories of people were labelled “nationalists” – whether they promoted ethnic nationalism, civic nationalism, or simply the right of a people to maintain its own national identity – the term “terrorism” was frequently ladled out to condemn anyone who, like the Chechens, took up arms to resist Russian policy. As early as March 2000, Putin called for the establishment of a “joint anti-terrorist centre” in the CIS in these markedly inflated terms:

A link in the actions of international terrorism has become obvious in different regions, notably the Baltics, the Caucasus and Central Asia … A broad network of centres is being strengthened for financing, training and providing information and propaganda support to terrorists.18

In the event, the spirit of 9/11 lasted no longer than Saddam Hussein’s rule in Iraq and the Orange Revolution in Ukraine. Just as the war in Kosovo coincided with NATO’s first wave of eastward enlargement, Ukraine’s Orange Revolution coincided with the second wave along with the eastward enlargement of the EU. Those developments launched a “civilisational” counter-offensive that Russia continues to wage to the present day.

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18 Putin, 2000b.
POLITICAL AND INSTITUTIONAL FACTORS

NATO and EU Enlargement

To Russians, NATO is a Cold War construct. Even in the halcyon days of post-Cold War romanticism, the notion that it was anything other than a classical military alliance was regarded as risible by Russia’s military establishment. While NATO believed it was transforming itself by reshaping armed forces to deal with post-Cold War and extra-European challenges, Moscow viewed Russia’s exclusion as proof that no transformation was taking place. While NATO continues to define equality as the absence of veto power over one another’s actions (as does the 1997 NATO-Russia Founding Act), Russia defines it as “real influence on the decision-making process” in NATO itself. 19

Russia grudgingly accepted NATO’s continued existence after the Cold War as well as its autonomy. What it did not accept was the legitimacy of its enlargement, which, along with the dismemberment of Yugoslavia, ended all argument about its intrinsic aggressiveness. The fact that the expansion of NATO’s “zone” had come at the invitation of the countries that subsequently joined was seen as immaterial. The determination of Central European states to overcome the legacy of the “grey zone” was regarded with indifference. The fact that Germany, Europe’s key proponent of a “strategic partnership” with Russia, was also a key advocate of the first wave of enlargement was known to only a handful of people. The fact that NATO’s model of defence reform in new member states emphasised expeditionary capabilities far from Europe rather than defence of national territory was scarcely noticed. Reinforcing perceptions of NATO’s aggressiveness was a deep sense of obman (deceit) based on an extrapolation of

19 Kosachev, 2011; Sherr, 2011.
one assurance by James Baker that was not echoed in any summit or agreement marking the end of the Cold War.  

In both Russia’s 2010 and 2014 Military Doctrines, NATO’s “power potential” and “global policies” are defined as the main “external military danger” facing the Russian Federation. That danger is now understood in “civilisational” as well as military terms. Where Russia once dismissed the role of values in NATO, it now accuses the Alliance of perpetuating a “civilisational schism” in Europe. The past two decades have given a new credence to Stalin’s axiom “whoever occupies a territory also imposes on it his own social system”. Russia has experienced two waves of NATO enlargement. It has resolved not to experience a third, and in 2008 it chose war with Georgia as the means to make this point.

Yet that is not all. Despite the clarity of the June 1993 Copenhagen summit on the enlargement of the EU, it was only in the years following the Luxembourg EU summit of December 1997 that Russia adopted a negative view of its intentions. Before then, Russian views were broadly benign, even naïve. The EU was seen as a geopolitical foil to the United States, Germany was the EU’s principal paymaster, and Russia and Germany had a strategic partnership. That is why Finland’s admission to the club in 1995 aroused very few concerns. Yet by the time of the 2004 enlargements Moscow understood that the EU’s core business was not strengthening multipolarity, but deepening integration on the basis of rules, norms, standards and common institutions, markedly at variance with the “network” (patron-client) based norms of the Russian system. In the terms that soon became prevalent, the EU was exporting an alternative “civilisational model” to Russia’s zone of special interest. This

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20 The release of US government transcripts should put to rest the notion that Bush promised Gorbachev in Malta (December 1989) that there would be no future enlargement of NATO (Shifrinson, 2013). For a wider review of the controversy, see Kramer, 2009.

21 President of Russia, 2010, para 8(a); Putin, 2014a, para 12.

22 Kononenko & Moshes, 2013.
was a security challenge in itself, because the system of patron-client relationships that holds Russia together is a system of power and, for countries linked to Russia through the economy, a limitation on their sovereignty and a constraint on their development.

Some Western experts have suggested that the Russians perceived the EU as a conventional security challenge too, in reinforcement of NATO.23 Yet the gradual evolution of the European Defence Identity of NATO into the Common Security and Defence Policy (CSDP) of the EU has not altered Russia’s view that the EU is not a serious military actor. In the list of “military dangers” cited above, the EU does not feature. It is only as an adjunct of NATO that CSDP matters, and for this reason it was not surprising that the December 2002 NATO-EU Declaration on ESDP (European Security and Defence Policy) raised eyebrows in Moscow. But the 2009 Eastern Partnership (and, by the end of 2011, the initialling of Association Agreements with Moldova and Ukraine) was seen as far more significant. One cannot state too often that the Russia-Ukraine crisis of 2013 did not arise over NATO but over the EU-Ukraine Association Agreement.

The Ukrainian Cauldron

Since 1991, the Russians have been predisposed to treat Ukraine’s independence as an aberration. Geopolitics and economics have given amplitude and urgency to what fundamentally is an issue of identity. “St Petersburg is the brain, Moscow is the heart, and Kyiv is the mother of Russia”, as Putin reiterated in 2014.24 Zbigniew Brzezinski’s celebrated axiom “without Ukraine, Russia ceases to be an empire” invites the Russian riposte “without Ukraine, Russia can be

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23 See, for example, “In the eyes of Russian leaders, EU expansion is a stalking horse for NATO expansion”. Mearsheimer, 2014.

24 Putin, 2014b.
Russia’s View of Interdependence: The Security Dimension

an empire, but it cannot be Russia”.25 These ideas, long embedded and embellished, have endowed Russia with a very specific insight into the weaknesses of the Ukrainian state and a wilful rejection of the wish of its people to remain friendly with Russia but independent of it. Russia has never wavered from equating friendship with “drawing closer”, and from the presidency of Leonid Kravchuk (1991–4) Ukraine found itself under daily pressure to take steps contrary to its national interests. Even before 2014, the result of nearly 25 years of “waging friendship” was wariness and resentment, even in regions where there had been little or none.26 Ukraine’s Distinctive Partnership with NATO and the establishment of independent defence institutions was not a Russophobic, western Ukrainian project with Ukraine. It was largely the work of Leonid Kuchma, the “candidate of the east”, and his Russian-speaking associates. Yet none of this encouraged Russia to reconsider the premise of its policy.

More remarkably, the Orange Revolution of 2004–5 did not do so either. Instead, it was viewed through the prism of regime change in the Balkans and in Georgia the previous year. From the Kremlin’s perspective, the Maidan was a US special operation orchestrated by intelligence, active measures and money in order to lay the ground for a further round of NATO and EU enlargement.27 Even the outrage in Beslan in September 2004 was attributed to those “who still believe that Russia

25 The full Brzezinski quote is “without Ukraine, Russia ceases to be an empire, but with Ukraine suborned and then subordinated, Russia automatically becomes an empire”. Wall Street Journal, 2013.

26 Thus, Russian efforts to stir up separatist sentiment in the east after the Orange Revolution met with no success. Even after Yanukovych’s departure in February 2014, Pew (in May) recorded only 27% of respondents in eastern oblasts in support of secession, while 35% were in favour of a federal state and 49% desired a unitary state. Pew Research Center, 2014.

27 In generic terms, a “colour revolution” is, in the words of Chief of the Russian General Staff Valeriy Gerasimov, “a state coup organised from abroad” (Gerasimov, 2016). Nikolay Patrushev (Secretary of the Russian Federation Security Council) insists that their ultimate aim is to bring down Russia itself. This theme is echoed by Leonid Reshetnikov, who was Director of the Presidential Administration think-tank until 2017 (Chuikov, 2015). In January 2015, Putin referred to Ukraine’s armed forces as “NATO’s foreign legion” (Radio Free Europe/Radio Liberty, 2015).
poses a threat to them as a nuclear power”.28 The main architect of Russia’s civilisational counter-offensive, Vladislav Surkov, went further, claiming “[t]heir goal is the destruction of Russia and the filling of its huge area with numerous dysfunctional quasi-state formations”.29

By the time the new Orange leadership had run into difficulties, this counter-offensive was gathering momentum. At the Second World Congress of Russian Compatriots in 2006,30 Putin restated his conviction that “since olden times the concept [of the Russian World] has exceeded Russia’s geographic boundaries and even the boundary of the Russian ethnos”. Since its establishment in 2007, the Russkiy Mir Foundation has given substance to this conviction with finance, organisation and networks extending beyond not only the borders of the Russian Federation but also those of the former USSR. From the start, the Russian Orthodox Church became a lynchpin of this project. A 2012 poll conducted by Nezavisimaya Gazeta ranked Patriarch Kirill sixth amongst the 100 leading political figures of Russia.

Since 1991 Russia had by turns embraced, circumscribed and securitised its interdependence with the West. After the Orange Revolution in Ukraine, interdependence ceased to be a meaningful concept. By the time of Putin’s 2007 Munich speech, Russia had recovered its pride and much of its strength. It no was longer seeking the West’s approval. It viewed the West as an entity determined to bring its “military infrastructure” and its normative world to Russia’s borders and to isolate Russia itself, if not break it apart. By 2008 Russia was ready to turn the tables. For the Kremlin, the recognition of Kosovo’s independence in February 2008 and the declaration, two months later at the Bucharest Summit, that Georgia and Ukraine “will become members of NATO”

30 The first to be held after a five-year gap. Since then, the Congress at met at regular intervals, the sixth of them in December 2018.
were “the last drop”. Whoever “started” the Russo-Georgian war, Russia had a predisposition to wage it and finish it on its terms. Shortly after the war’s conclusion, we reached the following conclusions:

- war is possible
- the former Soviet borders are no longer sacrosanct
- questions long regarded as settled (e.g. the status of Crimea and Sevastopol) can be reopened at any moment
- “civilisational” and “humanitarian” factors (e.g. the status of the Russian diaspora) can constitute a *casus belli*
- where there is no Article 5, there is no collective defence.\(^{31}\)

Yanukovych’s rise and fall and the “lessons” thereof go well beyond the ambit of this paper. But his curtailed presidency should dispose anyone of any confidence that conceding Russia’s “legitimate interests” will moderate its behaviour. Yanukovych took NATO membership off the table and, to all intents and purposes, extended the Black Sea Fleet’s lease in Crimea until 2042. Yet Russian pressure to coordinate, integrate and conform only increased. Having stated for years that it had no objections to Ukraine’s membership of the EU, it transformed the Association Agreement into a *casus belli*. Less than three months after conceding every point, Yanukovych fell from power. The annexation of Crimea and the war in the Donbas followed.

The events of 2014 brought the evolution described in this chapter full circle. They also ruptured it. Hitherto, Russia had stretched and challenged the rules it had accused others of transgressing. But after its assault on Ukraine, it called upon the West to accept “new rules or no rules” and “relearn the lessons of Yalta or risk war”.\(^{32}\) East of

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\(^{31}\) Sherr, 2009.

\(^{32}\) See Sergey Naryshkin (then Chairman of the State Duma, and since 2016 head of the SVR, Russia’s foreign intelligence service), “Dialogue rather than War: Sergey Naryshkin calls upon Western leaders to study the ‘lessons of Yalta’” (Zamakhina, 2015). In this he echoed Putin’s speech to the Valdai Club, which contrasted the “mechanisms” established after World War II (based on “balance of power” and “respect”) with the emergence of US diktat after the Cold War. Not a word was said about the Helsinki accords and the post-Cold War system that Gorbachev and Yeltsin had co-authored.
the Narva and the Prut, the writ of international law collapsed. The only constraint upon the writ of Russia’s “privileged interest” was the sanctions regime imposed by the West and the precarious balance of forces. In this “new normal”, Russia would respect the authority of the UN and that alone, which is tantamount to saying that it would respect only the authority of its own veto. In the Russian Empire and the USSR, sentiment and pragmatism, interconnectedness and dominance, “brotherly help” and interference long had an Orwellian unity. In 2014, Russia demonstrated its determination to uphold this “historical unity” by force of arms. Sergey Lavrov went so far (in the author’s hearing) as to counsel “Moldova and the Baltic states to consider events in Ukraine and draw conclusions.”

In this taxonomy, ethnicity, language and “historical frontiers” take precedence over citizenship, internationally recognised borders and law. Within those terms of reference, there will be limited scope for interdependence, and such interdependence as does exist (e.g. over energy supplies to Europe) is more likely to promote division than concord.

It remains to add that there is no longer any contradiction between the adamantine orthodoxies of the military establishment that had so bedevilled Gorbachev and Yeltsin and the outlook of Russia’s political leadership.

The Military Catechism

Gorbachev’s “new thinking in defence policy” was encapsulated by three principles: “demilitarisation” of policy, “defence conversion” – the use of the OPK (defence-industrial complex) to modernise the civilian economy – and “defensive defence”. Under his tutelage, the May 1987 Military Doctrine of the Warsaw Pact declared that “in present conditions, the use of armed force to resolve political problems is impermissible”. To a greater or lesser degree, the military

33 Lavrov, 2014.
34 Spitzer, 2009.
establishment took exception to all of these principles. After Yeltsin’s accession to power, “present conditions” became more benign with respect to the West. But they worsened dramatically with respect to the 600,000 Russian troops who found themselves outside the borders of the newly established Russian Federation. Almost immediately – in Moldova, Georgia and Tajikistan – the Russian Armed Forces (as they became in May 1992) found themselves embroiled in internecine conflicts and, to the discomfort of some but not all in Moscow, found it possible to exploit and exacerbate these conflicts too. The fact is that neither Gorbachev nor Yeltsin was able to break what Stephen Covington has called the “strategic operational culture” of the military establishment. 35

Putin has made no attempt to do so. Instead, under his leadership “defence reform” became defence modernisation and revival. This was far from a perfectly executed enterprise. To outsiders, the 2008 war against Georgia was a stunning performance. But to insiders, it exposed serious deficiencies in the structure, training, command and equipping of forces. The result was a five-year period of creative destruction under Minister of Defence Anatoliy Serdyukov (appointed in February 2007). From this baseline his successor, Sergey Shoigu (appointed in December 2012) and the Chief of the General Staff, Valeriy Gerasimov (appointed one month earlier), have produced a military force that is fit for the purposes set out by the state leadership. Military power is now Russia’s principal instrument in a strategic counter-offensive against 25 years of perceived Western geopolitical and civilisational encroachment.

The premises underpinning this counter-offensive are now in closer alignment than at any time since Leonid Brezhnev governed the Soviet state. Not only has “new thinking” disappeared without trace, but orthodoxies dating from the Tsarist era have been rehabilitated

35 Covington, 2016, p. 39. Covington is Strategic and International Affairs Advisor to the Supreme Allied Commander Europe (SACEUR).
and adapted to 21st-century conditions. Underpinning them is a strategic culture that has arisen from an amalgam of factors – a tendency to resolve geopolitical indeterminacy (the multinational demographic of the state and the absence of natural frontiers) by creating client states and widening defence perimeters; a cultivation of civilizational or ideological distinctiveness; and a political and economic structure that historically lagged behind that of advanced European rivals – yet was seen as indispensable to regime stability. For these reasons, borders have been a source of power as well as vulnerability, and the delineation between internal and external affairs has often been problematic.

The result is an untoward emphasis on proximity and control of “space”, irrespective of the wishes of those who inhabit it. Recognised spheres of influence (a term possibly coined by Aleksandr Mikhailovich Gorchakov, foreign minister in 1856–82) and buffer zones are embedded in the grammar of security. Moreover, Russian strategists treat regions and regional problems as interlinked and believe that confrontation in one region “in Russia’s vicinity” can swiftly expand to others (hence the linkage, almost instinctively drawn, between NATO’s actions in Kosovo and its presumed intentions in the north and south Caucasus). The “civilisational” factor, so strongly emphasised today, has also featured prominently in the Russian concept of geopolitika, which encompasses not only the “spatial” but also the ethno-national, confessional and now values-based dimensions of geopolitical rivalry.

These premises encourage deterministic thinking and worst-case assessments. It is axiomatic that a potential for war is inherent in the conflict of interests and “systems”, that professed intentions can change and that threats must be gauged according to power potentials rather than goodwill, trust and other “subjective” factors. The retention of Soviet borders as the baseline of vicinity invariably enlarges the threat perceived. (During the Kosovo conflict, it was customary
to refer to Yugoslavia as a country “in the vicinity of Russian borders”, despite the fact that the nearest Russian city, Novorossiysk, was 1,000 km away).

Finally, these premises challenge the view that, whatever happens in Ukraine or Georgia, the NATO/non-NATO demarcation line is one that Russia will continue to respect. From Russia’s perspective, this is an artificial divide. The emergence of a “political West” beyond the frontiers of the “historical West” is a reality that Russia has so far lived with, but it is not a status quo that it considers legitimate or safe. In fact, one might say that the gap between the two Wests, as perceived by Russia, constitutes the greatest source of tension in Europe.

CONCLUSIONS: WHITHER INTERDEPENDENCE?

Interdependence has ceased to be a useful baseline for understanding the security relationship between Russia and the West. But this was not always the case. Under Gorbachev and Yeltsin, and even at sporadic intervals under Putin, interdependence with the West mattered. Yet even when Russia desired greater interdependence than political realities could tolerate, its parameters and substance often diverged from those of its partners. Here as in most things, the West regarded interdependence as a complement to the established order, even as it was enlarging it. Under Yeltsin and Gorbachev, it was regarded as a means of changing that order and creating something new. Some of these changes were welcomed in Western capitals, some were not understood, and some were opposed.

But under Putin interdependence became an opportunistic slogan tied to the “strict promotion of Russia’s interests”. “Network diplomacy” was used to revive nomenklaturist networks in the former USSR and Warsaw Pact, just as its “humanitarian” policy towards “compatriots” has been used (in the words of one Estonian observer)
“not to make them a part of Estonian society, but rather to push them outside society and lead them into confrontation with it”.36 Similarly, Ukraine’s experience of defence cooperation with Russia led its first deputy minister of defence to conclude that “Moscow prefers the weakness of its neighbours to their strength”.37 As in Soviet times, Putin used arms limitation to constrain activity in domains like ballistic missile defence, where the US had the potential to put Russia at a disadvantage, while eschewing constraints in areas like conventional military forces, where he sought freedom of action with respect to others. In summary, while Western liberals view interdependence as a process bringing countries together and securing “win-win” outcomes, under Putin it has been employed as a means of creating division, undermining the cohesion of neighbouring states and diminishing the global standing of the West.

In the Russian language, the term protivoborstvo can refer to antagonism or confrontation. It is within the boundaries of this ambiguity that the West’s current relationship with Russia now unfolds. An interdependent relationship that would contribute to trust and mutuality is not possible within these boundaries. If they are to change, interests will have to change. That is far from impossible. But such a change is most unlikely to come about through “dialogue”, new “resets” or an offensive of pieties. More often, it has been the product of seismic shifts: economic shocks, moral collapse, the breakup of coalitions or states, political upheaval, the displacement of elites or, in the worst eventuality, war. In the best case, it is the product of firmness, prudence and patience. These qualities brought the Cold War to a peaceful end. Whether we will again be so fortunate remains to be seen.

36 Kivirähk, 2010. See also the chapter by Anna Tiido in this volume.
37 Polyakov, 2000, p. 15.
This chapter argues that the EU has made some progress in steadily reducing its internal vulnerabilities originating from interdependence. Since the other chapters of this book deal with the economic, energy, political and defence industry aspects of interdependence, this chapter focuses predominantly on the EU’s efforts to reduce its internal vulnerabilities and build resilience in response to hybrid methods of warfare, in the face of the challenges from disinformation and strategic communication as well as cyber threats.

In 1977 Robert Keohane and Joseph Nye argued, in a challenge to the realist theory of international relations, that the decline of military force as a policy tool and an increase in economic and other forms of interdependence would increase the probability of cooperation among nations.¹ For years, interdependence has been perceived as a predominantly positive development in Europe – a phenomenon that would strengthen global peace and encourage countries, as rational actors, to economic cooperation rather than fighting. One could go as far as to argue that, for over two decades, this assumption formed an inseparable part of a distinctive European DNA and was deeply encoded as an integral part of the EU’s Common Foreign and Security Policy.

Although some doubts over the universal pacifying nature of interdependence have always existed, the most serious setback came with the armed conflicts in the Balkans in the 1990s and 2000s. These were followed by the Russo-Georgian war in 2008. The Russian aggression against Ukraine, the illegal annexation of Crimea and the subsequent use of conventional warfare to impose the so-called “Russian World” across broad swathes of eastern Ukraine was a stark reminder of realpolitik. The Hobbesian world has not been confined to the old-fashioned history books but remains a harsh reality. Russia’s powerful military intervention in Syria just reinforced the feeling. Conventional warfare, large-scale expeditionary operations and the seizure of territory can still happen in the heart of 21st-century Europe.

The use of force by Russia in 2014 was shocking enough. Even more alarming, perhaps, was its coordinated use of a full spectrum of hybrid methods to reinforce its military means against Ukraine. Even if the methods employed were not entirely original – there is no shortage of similar practices set out in Sun Tzu’s *The Art of War* – what was new was the scale and simultaneity of their application and their effectiveness in the initial phase of the conflict in obscuring Russia’s real intentions towards its victim. The Western world nevertheless began to wake up to the fact that a pacifist agenda and the increased interdependence and interconnectivity of their countries and societies had left them deeply vulnerable. Moreover, Brexit and the election of the new US president in 2016 reinforced the feeling that the liberal world order was in decline and that the EU, for its part, was left increasingly on its own.

Against the backdrop of the dramatic events of the last couple of decades, an illusory understanding of the nature of international relations and excessive faith in the power of interdependence to preserve the peace in Europe beyond the EU’s borders began to erode. The annexation of Crimea and the war in eastern Ukraine dramatically accelerated this process. A more “realist”, more sober understanding
of the nature of international relations, and of the nature of the state – Russia’s in particular – is now coming to the fore in the EU, indicating a paradigm shift in European thinking amply reflected in the EU’s Global Strategy of 2016.

Another reference point in international relations theory is Barry Buzan’s 1983 book *People, States, and Fear*, in which he provides a concept of security. “In the case of security, the discussion is about the pursuit of freedom from threat”, he wrote.\(^2\) For Buzan, states are vulnerable to various types of threat, either from forces within or from outside. Buzan argues that a national security strategy should focus on “the sources and causes of threats, the purpose being not to block or offset the threats, but to reduce or eliminate them by political action”. He underlines that a national security strategy should reduce vulnerabilities by “increasing self-reliance, and countervailing forces”.

This chapter takes as its starting point Buzan’s argument that security is about facing up to a combination of external threats and internal vulnerabilities; more precisely, that in order to reduce internal vulnerability countries need to take action to increase their resilience in the face of external manipulation and malicious interference.

While the EU is not a state, some sovereignty has been outsourced to Brussels and the Union has developed a Common Foreign and Security Policy (CFSP). Moreover, in the face of existential threats, the EU has begun to act collectively to reduce its internal vulnerabilities, as any state would be expected to do (and indeed as the 28 pre-Brexit EU member states have, in large part, undertaken to do themselves, in parallel). For the purposes of this analysis, therefore, the EU is treated as a single actor in international relations.

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\(^2\) Buzan, 1983.
The concept of resilience is central to the EU’s response and efforts to reduce its vulnerabilities and manage various interconnections and interdependencies. The first task below is therefore to identify what is meant by this term. The rest of the chapter examines the most significant steps taken by the EU in three important areas – hybrid and cyber responses, including additional sanctions regimes, and strategic communication, particularly as a response to disinformation – in order to increase its resilience and reduce its internal vulnerabilities.

**THE CONCEPT OF RESILIENCE**

In physics, resilience is the ability of an elastic material (such as rubber or animal tissue) to absorb energy (such as from a blow) and to release that energy as it springs back to its original shape. The recovery that occurs in this phenomenon can be viewed as analogous to a person’s ability to bounce back after a jarring setback. Hence, according to Webster’s dictionary, there are two possible senses of the term “resilience”:

1. The capability of a strained body to recover its size and shape after deformation caused especially by compressive stress
2. An ability to recover from or adjust easily to misfortune or change.3

While the first known use of the word “resilience” was in 1807,4 in the vocabulary of the EU, the term refers to a “capacity to withstand stress and recover, strengthened from challenges”, with critical infrastructure and civil preparedness playing a key role.5 Although individual member states remain predominantly responsible for their own resilience, from 2014 the EU made a significant leap towards a better understanding of external threats and its own vulnerabilities. In practice, the EU has provided valuable support for building

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3 Merriam-Webster online dictionary, n.d.
4 Ibid.
5 European Commission, 2016a.
resilience within its member states, within its own institutions and in neighbouring countries, notably Ukraine. In 2016, two years after the annexation of Crimea, the EU published a “Global Strategy for the European Union’s Foreign and Security Policy”, in which the terms “resilience” or “resilient” appear more than 30 times.\(^6\)

In the foreword to the follow-up paper “After the EU Global Strategy”, the director of the EU Institute of Security Studies, Antonio Missiroli, wrote:

… a dynamic notion (and practice) of resilience for the EU needs to be context-specific, conflict-sensitive and, above all, flexible: that is, it needs to be based on a thorough understanding of situations and risks and to generate a far-sighted and adaptive mobilisation of resources and responses, starting with financial instruments and diplomatic démarches. As such, it should not amount to a new policy in its own right but rather help the EU and its member states design better policies and forms of action that can support and sustain their common values and interests.\(^7\)

Within this broader context, efforts to strengthen the EU’s own resilience and that of the Eastern Partnership countries, notably Ukraine, have become an important part of the EU’s approach to Russia.

**HYBRID THREATS AND COUNTER-INTELLIGENCE**

**Hybrid threats**

The EU Global Strategy makes clear that countering hybrid threats is an EU priority and highlights the need for an integrated approach to link internal resilience with the Union’s external action. Thus in April 2016 the Commission adopted a framework on countering

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\(^6\) European Union, 2016b.

\(^7\) Gaub & Popescu, 2017.
hybrid threats listing 22 concrete actions for implementation. The document reflects on the nature of the hybrid threats, arguing that, while definitions of hybrid threats vary and need to remain flexible to respond to their evolving nature, the concept aims to capture the mixture of coercive and subversive activity, conventional and unconventional methods (i.e. diplomatic, military, economic, technological), which can be used in a coordinated manner by state or non-state actors to achieve specific objectives while remaining below the threshold of formally declared warfare. There is usually an emphasis on exploiting the vulnerabilities of the target and on generating ambiguity to hinder decision-making processes. Massive disinformation campaigns, using social media to control the political narrative or to radicalise, recruit and direct proxy actors can be vehicles for hybrid threats.

As a direct reaction to Russia’s hybrid campaign against Ukraine and in order to improve EU awareness of hybrid threats in general, the EU created a Hybrid Fusion Cell (HFC) in 2016, under the umbrella of the Single Intelligence Analysis Capacity (SIAC) within the European External Action Service (EEAS). The cell aims to provide all-source analysis on hybrid threats. In fact, the SIAC had, since 2007, been making use of both civilian and military contributions from EU member states in order to produce all-source intelligence assessments on all issues relevant to the EU. However, it is only since 2016 and the formation of the core HFC that there has been systematic monitoring and analysis at EU level of Russian hybrid methods and activities.

The HFC has produced more than 100 classified assessments and reports, mainly focusing on analysis of the main hybrid actor: Russia. In 2017, the HFC began to organise regular briefings for the EU institutions and for member states. Background knowledge and situational awareness of Russian hybrid capabilities and intentions have been provided to personnel interacting or conducting consultations.

8 European Commission, 2016b.
9 European Commission, 2016a.
with Russian counterparts or indeed generally wishing to learn more about the threat. More specific EU intelligence products have been produced on various aspects of the Russian hybrid threat (including intelligence services and cyber capabilities), plus threat assessments for EU missions in the Eastern Neighbourhood. A range of other very useful tailor-made material has also been created and disseminated.

A further development has been the launch by Finland in April 2017 of the European Centre for Countering Hybrid Threats, intended to encourage strategic dialogue and conduct research and analysis.

Countermeasures were also taken in the defence sphere. Following the adoption in November 2016 of the European Defence Action Plan, the Commission put forward a series of initiatives expected to contribute to strengthening the EU’s capacity to respond to hybrid threats. This includes the European Defence Fund, launched on 7 June 2017, with a proposed funding package of about €600 million until 2020 and €1.5 billion annually thereafter.

A range of malicious activities linked to Russia – the nerve agent attack in Salisbury and cyber operations against the Organisation for the Prohibition of the Chemical Weapons (OPCW), as executed by Russian Military Intelligence (GRU, also known as the GU, or the Main Directorate of the General Staff of the Russian Armed Forces); the repeated use of chemical weapons by the Assad regime in Syria (whose closest ally is Russia); plus a range of hostile Russian intelligence activities across Europe that have recently come to light – have together had the cumulative effect of raising situational awareness in the EU and have influenced the responses that the Union has crafted. After the nerve agent attack, the European Council was unanimous on 22 March 2018 in attributing the Salisbury incident to Russia. The Council called on the EU and its member states to

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10 European Council, 2018d.
“strengthen [their] resilience to Chemical, Biological, Radiological and Nuclear-related risks … to bolster capabilities to address hybrid threats, including in the areas of cyber, strategic communication and counter-intelligence”\textsuperscript{11}

Then, on 15 October 2018, the Council adopted a new regime of restrictive measures to address the use and proliferation of chemical weapons. This decision was in direct follow-up to the Conclusions of the European Council of 28 June 2018. On 21 January 2019, the Foreign Affairs Council (FAC) imposed sanctions on nine individuals and one entity under the new regime of restrictive measures against the use and proliferation of chemical weapons. Sanctions were also imposed on the Syrian entity responsible for the development and production of chemical weapons, the Scientific Studies and Research Centre (SSRC), as well as five Syrian officials directly involved in the SSRC’s activities. These individuals and entity are the first to be listed under the new chemical weapons sanctions regime.

**Counter-intelligence**

On counter-intelligence, the European Council of 28 June 2018 called for “further coordination between Member States and, as appropriate, at EU level and in consultation with NATO, to reduce the threat from hostile intelligence activities”.\textsuperscript{12} It has been proposed as well that the “enhanced Hybrid Fusion Cell will be complemented by counter-intelligence expertise to provide detailed analyses and briefings on the nature of hostile intelligence activity likely against individuals and the institutions”.\textsuperscript{13} One of the most clearly coordinated responses to aggressive Russian behaviour was the post-Salisbury expulsion of 57 Russian diplomats, believed to be undercover intelligence officers, from various EU countries.

\textsuperscript{11} Council of the European Union, 2019a.
\textsuperscript{12} European Council, 2018a.
\textsuperscript{13} European Commission, 2018d.
The Joint Communication of June 2018 described in some detail what is required for the building of resilience to hostile intelligence activity:

Countering hostile intelligence activity requires first and foremost enhanced and effective coordination among Member States, in accordance with relevant EU and national rules and arrangements. It is, however, also imperative to increase the EU institutions’ capabilities to counter the growing threat of such activity directed specifically at the institutions and to build a culture of security awareness, supported by improved training and physical security. The institutions could also work with Member States to build a more robust EU accreditation system. Such system would be based on proactive reporting, permitting improved awareness amongst Member States and institutions of possible hostile actors, most notably those already identified by Member States.14

The document also highlights coordination with other relevant organisations, NATO in particular. Furthermore, it calls for increased coordination among member states on investment screening and scrutinising financial transactions. In the same Communication, it was envisaged that the EEAS and the Commission would put in place improved practical measures to sustain and develop the EU’s ability to interact with member states to counter hostile intelligence activity directed specifically at the institutions.

**STRATEGIC COMMUNICATION**

In March 2015, the European Council “stressed the need to challenge Russia’s ongoing disinformation campaigns and invited the High Representative, in cooperation with Member States and EU institutions, to prepare by June an action plan on strategic communication.”15 As a first step, it called for the establishment of a communication team.

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14 Ibid.

15 European Council, 2015.
A subsequent Action Plan on Strategic Communication was released in June 2015. This incorporated three main objectives: effective communication and promotion of EU policies towards the Eastern Neighbourhood; strengthening the overall media environment in the Eastern Neighbourhood and in EU member states, including support for media freedom and strengthening independent media; and improved EU capacity to forecast, address and respond to disinformation activities by external actors. The Action Plan resulted in the creation of Stratcom East, the only European Council-mandated body for countering pro-Kremlin disinformation. Stratcom East has become instrumental in the task of dealing with Russian propaganda and disinformation.¹⁶

In April 2018, the Commission adopted its Communication on “Tackling Online Disinformation: a European Approach”.¹⁷ The Communication sets out the challenges that online disinformation presents to our democracies and outlines five clusters of actions for private and public stakeholders in response to them. In December 2018, the Communication was followed by an Action Plan on Disinformation that set out the Commission’s assessment of the progress made in the implementation of the actions listed in the Communication.¹⁸

According to the Action Plan, “[d]isinformation is understood as verifiably false or misleading information that is created, presented and disseminated for economic gain or to intentionally deceive the public, and may cause public harm”. The document also notes that disinformation “often targets European institutions and their representatives and aims at undermining the European project itself”. Furthermore, disinformation campaigns, in particular by third countries, are often part of hybrid warfare, involving cyber-attacks and hacking of networks.¹⁹

¹⁶ Please see weekly disinformation review: https://euvsdisinfo.eu/disinfo-review/ and database for disinformation cases: https://euvsdisinfo.eu/disinformation-cases/.
¹⁷ European Commission, 2018b.
¹⁸ European Commission, 2018c.
¹⁹ Ibid.
The Action Plan focuses on four areas key to effectively building up the EU’s capabilities and strengthening cooperation between member states and the EU: a) improved detection; b) coordinated response; c) online platforms and industry; and d) raising awareness and empowering citizens.

The European Values Think-Tank called this Action Plan the most detailed and comprehensive document the EU has ever produced in [sic] the threat of hostile disinformation. Unlike previous EU documents on this issue, it clearly names Russia as the main actor behind the threat of hostile disinformation. … This is the most aggressive move the EU has ever announced on countering hostile disinformation.20

According to the Action Plan, the EEAS strategic communications budget should be expanded from the current €1.9 million to €5 million in 2019, with an expected increase in Stratcom East financing to €3 million. This budgetary increase is to be accompanied by a reinforcement of at least 11 staff positions. The financing of additional statutory positions for strategic communication teams and the EU HFC, as well as new posts in neighbourhood delegations, has been envisaged, resulting in a total increase in this area of 50–55 staff members in the course of 2019–20.21

As for further steps, the December 2018 European Council stressed that the spread of deliberate, large-scale and systematic disinformation, including as part of hybrid warfare, is an acute and strategic challenge for our democratic systems. It required an urgent response that needs to be sustained over time, in full respect of fundamental rights. In this respect the European Council:

- stresses the need for a determined response, that addresses the internal and external dimensions and that is comprehensive, coordinated and well-resourced on the basis of an assessment of threats;

20 European Values, 2018.
21 European Commission, 2018c.
calls for the prompt and coordinated implementation of the Joint Action Plan on disinformation presented by the Commission and the High Representative so as to bolster EU capabilities, strengthen coordinated and joint responses between the Union and Member States, mobilise the private sector and increase societal resilience to disinformation;

- calls for swift and decisive action at both European and national level on securing free and fair European and national elections.\textsuperscript{22}

In January 2019, the Foreign Affairs Council highlighted the creation of an EU Rapid Alert System to share expertise and best practices, and to promote coordinated action, notably through awareness-raising campaigns. Ministers also stressed the need to engage with civil society to tackle disinformation, including with CSOs, NGOs, business and academia, as well as to work with international partners, in particular NATO and the G7, to address disinformation more effectively. They also underlined the importance of contributing to strengthening the resilience of neighbouring countries.

The Council concluded that disinformation should be addressed in the broader context of foreign interference, hybrid threats and strategic communication, with strengthened EU operational capacities. This includes the reinforcement of the three strategic communication task forces of the EEAS, which were set up in order to promote fact-based narratives about the EU in the Eastern Neighbourhood, the Southern Neighbourhood and the Western Balkans.\textsuperscript{23}

The EU also made efforts to ensure that elections to the European Parliament in 2019 do not fall victim to disinformation. A Code of Practice on Disinformation was published on 26 September 2018. According to the Commission’s press release, representatives of online platforms, leading social networks and the advertising

\textsuperscript{22} European Council, 2018b.

\textsuperscript{23} Council of the European Union, 2019b.
industry agreed on a self-regulatory Code of Practice to address the spread of online disinformation and fake news. This is the first time that industry has voluntarily agreed, anywhere in the world, to self-regulation for the purpose of fighting disinformation. By setting out a wide range of commitments, from transparency in political advertising to the closure of fake accounts and the demonetisation of purveyors of disinformation, the Code aims to ensure that the objectives set out in the Commission’s Communication of April 2018 are achieved in practice. The Code includes an annex identifying best practices that signatories will apply to implement the Code’s commitments. The Code and other initiatives set forth by the Commission are essential steps in ensuring transparent, fair and trustworthy online campaign activities ahead of the European elections in the spring of this year.²⁴

**CYBER SECURITY ASPECTS**

As for the cyber security aspects of resilience building by the EU, it is appropriate to distinguish between their defence (CSDP) and civilian elements. Cyber security is a priority under the Global Strategy and the EU’s new “level of ambition”.²⁵ Concerning civilian aspects, several EU civilian regulations and policies contribute to the objectives of cyber defence policy as set out in the EU Cyber Defence Policy Framework (for example the European Network and Information Security Directive (NIS) and the new mandate for the EU Agency for Network and Information Security (ENISA)).

²⁴ European Commission, 2018a.

²⁵ The Council Conclusions of 14 November 2016 set a new level of ambition for the EU’s security and defence policy and defined three strategic priorities derived from the Global Strategy: 1) responding to external conflicts and crises when they arise; 2) building the capacities of partners; and 3) protecting the EU and its citizens through external action (Council of the European Union, 2016).
Developments in CSDP

It may be recalled that as far back as late 2013 Council Conclusions on CSDP called for the development of an EU Cyber Defence Policy Framework on the basis of a proposal by the High Representative, in cooperation with the European Commission and the European Defence Agency (EDA). An EU Cyber Defence Policy Framework (CDPF) was adopted by the Council in November 2014. According to this document, “[c]yberspace is the fifth domain of operations … the successful implementation of EU missions and operations is increasingly dependent on uninterrupted access to a secure cyberspace”.26 The CDPF supports the development of the cyber defence capabilities of EU member states as well as the strengthening of the cyber protection of EU security and defence infrastructure, without prejudice to national legislation of member states and EU legislation, including, when it is defined, the scope of cyber defence.27

In 2017, the Council adopted a framework for a joint EU diplomatic response to malicious cyber activities (the “cyber diplomacy toolbox”).28 The framework encouraged cooperation making use of restrictive measures to prevent and respond to malicious cyber activities. EU member states were encouraged to further develop their ability to respond to malicious cyber activities in a coordinated way in line with the cyber diplomacy toolbox, while making sure that their territory was not used for illegal activities using information and communications technology.

A Joint Communication on cyber issues was presented by the Commission and the High Representative in September 2017 to mitigate risks stemming from the new threat landscape.29 This includes cyber

26 Council of the European Union, 2018a, p. 2.
27 Ibid.
28 Council of the European Union, 2017c.
defence as one of the main areas of action, and the CDPF is one of the pillars of its implementation.  

The November 2017 Council Conclusions recognised the growing linkages between cyber security and defence and called for cooperation on cyber defence to be stepped up, including by encouraging cooperation between civilian and military incident response communities. It also stressed that a particularly serious cyber incident or crisis could constitute sufficient grounds for a member state to invoke the EU solidarity clause or mutual assistance clause.

Permanent Structured Cooperation (PESCO), launched in December 2017 between 25 member states, includes a commitment to increase efforts towards cooperation on cyber defence, as well as on related PESCO projects. The first set of such projects includes two related to cyber defence: Cyber Rapid Response Teams and Mutual Assistance in Cyber Security; and a Cyber Threats and Incident Response Information Sharing Platform. Both are intended to develop cyber defence capabilities, and therefore strengthen cooperation and increase interoperability among participating member states.

In June 2018, the Steering Board of the European Defence Agency (EDA) endorsed an updated EU Capability Development Plan (CDP). This document sees cyber defence as a key element, recognising the need for defensive cyber operations in any operational context, based on sophisticated current and predictive cyberspace situational awareness, including the ability to combine large amounts of data and intelligence from numerous sources in support of rapid decision making and increased automation of the data gathering, analysis and decision-support process.

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32 Ibid.
The CDP identifies a number of cyber defence capability priorities: cooperation and synergies with relevant actors across cyber defence and cybersecurity areas; cyber defence research and technology activities; systems engineering frameworks for cyber operations; education, training, exercises and evaluation; and addressing cyber defence challenges across air, space, maritime and land theatres.33

The EU promotes, in close cooperation with other international organisations (in particular the UN, the OSCE and the ASEAN Regional Forum) a strategic framework for conflict prevention, cooperation and stability in cyberspace, which includes: (i) the application of international law, and in particular the UN Charter in its entirety, in cyberspace; (ii) the respect of universal non-binding norms, rules and principles of responsible State behaviour; (iii) the development and implementation of regional confidence building measures (CBMs).34

To return to the 2018 EU Cyber Defence Policy Framework, six priority areas have been identified: the development of cyber defence capabilities; the protection of the CSDP communication and information networks; training and exercises; research and technology; civil-military cooperation; and international cooperation, most importantly with NATO. In this context, the EU and NATO have agreed to extend their cooperation on cyber security and defence, including in the context of missions and operations, as well as in relation to cyber defence capability development, research and technology, training, education and exercises, and mainstreaming cyber into crisis management. A technical arrangement between the EU’s Computer Emergency Response Team (CERT-EU) and the NATO Computer Incident Response Capability (NCIRC), signed in February 2016, facilitates technical information-sharing to improve cyber incident prevention, detection and response across both organisations.35

33 Ibid.
34 Ibid.
One of the best manifestations of the attempt to build synergy on cyber security and defence between the EU and NATO has been the parallel and coordinated exercises – EU PACE and CMX – with hybrid and cyber defence elements.\textsuperscript{36} In addition, during the Estonian Presidency of the Council of the EU, the first-ever table-top exercise on cyber defence at ministerial level for EU defence ministers – EU Cybrid 2017 – was organised. This became an important milestone in raising awareness of cyber issues in the EU. Finally, an internal EEAS Cyber Governance Board under the EEAS Secretary General was created in 2017 to improve coordination and enhance the protection and resilience of CSDP communication and information systems and networks.

\section*{Developments in the Civilian Domain}

The 2016 Joint Framework on countering hybrid threats underlines how the EU benefits greatly from its interconnected and digitised society, but needs to counter the danger that perpetrators of hybrid threats seek to use cyber-attacks to disrupt digital services across the EU. Put another way, the proper functioning of the Digital Single Market requires improvements to the resilience of communication and information systems. The EU Cybersecurity Strategy and the European Agenda on Security together provide an overall strategic framework for EU initiatives on cybersecurity and cybercrime. The EU has been active in developing awareness, cooperation mechanisms and responses as deliverables of the Cybersecurity Strategy. The directive on security of network and information systems (the so-called NIS Directive) of 6 July 2016 in particular addresses cybersecurity risks for a broad range of essential service providers in the fields of energy, transport, finance and health.\textsuperscript{37} These providers, as well as providers of key digital services (e.g. cloud computing) are enjoined to take appropriate security measures and report serious incidents to national authorities, noting any hybrid characteristics.

\textsuperscript{36} NATO, 2017.

\textsuperscript{37} European Union, 2016a.
In the context of the EU internal market, the NIS Directive is arguably the most important EU initiative in terms of strengthening cybersecurity. Member states were required to transpose the Directive into national law by 9 May 2018 and identify operators of essential services by 9 November that year. The NIS Directive is the first piece of EU-wide legislation on cybersecurity which legally obliges the implementation of measures by member states to strengthen their resilience and to boost the overall level of cybersecurity in the EU. It does this by ensuring enhanced preparedness of and cooperation among member states.

For the smooth and timely transposition of the NIS directive into national legislation, and for the identification of operators of essential services, on 13 September 2017 the European Commission adopted a Communication that aims to support member states in their efforts to implement the directive swiftly and coherently across the EU. The resulting “NIS toolkit” provides practical information to member states, for instance by describing best practices and providing explanation and interpretation of specific provisions of the Directive to clarify how it should work in practice.38

An industry-led contractual counterpart to the European Commission for the implementation of the Cyber Security public-private partnership (PPP) was established in June 2016 as the European Cyber Security Organisation (ECSO). ECSO members include a wide range of stakeholders such as large companies, SMEs and start-ups, research centres, universities, end-users, operators, clusters and associations, as well as member states’ local, regional and national administrations, European Economic Area (EEA) and European Free Trade Association (EFTA) countries, and finally Horizon 2020 associated countries. The main objective of ECSO is to support the broadest possible range of initiatives and projects that aim to develop, promote or encourage European cybersecurity.

38 European Commission, 2016c.
In December 2018, the European Parliament, the Council and the European Commission reached political agreement on a Cybersecurity Act, thus reinforcing the mandate of the EU Agency for Cybersecurity, so as to be better able to support member states in tackling cybersecurity threats or attacks. The Act also establishes an EU framework for cybersecurity certification and intends that ENISA plays a role by helping to increase cybersecurity capabilities at EU level. ENISA will also assist EU institutions and member states in policy development and implementation. The Cybersecurity Act also creates, for the first time, a framework for the development of European Cybersecurity Certificates for products, processes and services, intended to be valid throughout the EU.39

As for research and technology, the Horizon Europe and Digital Europe programmes have started to encourage the development of civilian applications for cyber security. Research funding is also being made available for the security of dual-use civilian and security-defence applications, such as under the Single European Sky air traffic management research programme. There is also talk of the possible creation of a European Cybersecurity Industrial, Technology and Research Competence Centre to enhance cooperation between civilian and defence technologies and applications, in close cooperation with member states and the EDA. Common training programmes for ENISA, Europol, the European Police College and the NATO Cooperative Cyber Defence Centre of Excellence are also being developed.

Looking forward, the European Council stressed in June 2018 the need to strengthen capabilities against cybersecurity threats from outside the EU and ask[ed] the institutions and Member States to implement the measures referred to in the Joint Communication, including the work on

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39 This is considered a ground-breaking development as it is the first internal market law that takes up the challenge, through the mechanism of such certification, of enhancing the security of connected products, of the Internet of Things, and critical infrastructure.
attraction of cyber-attacks and the practical use of the cyber diplomacy toolbox.⁴⁰

The institutions have, together with a number of member states, engaged in further reflection and as a result on 18 October 2018 the European Council called for yet further measures to take forward EU restrictive measures.⁴¹

In addition, in August 2016, the President of the European Commission, Jean-Claude Juncker, nominated Julian King as a Commissioner for the Security Union (a new position with an unprecedentedly wide portfolio), working under the guidance of the First Vice-President, in charge of Better Regulation, Interinstitutional Relations, the Rule of Law and the Charter of Fundamental Rights and supporting the work of the Commissioner for Migration, Home Affairs and Citizenship. One of tasks of this new position was identified as “[f]ighting against cybercrime through enhanced cybersecurity and digital intelligence”.⁴²

**CONCLUSIONS**

Although the EU still wishes to remain open and interconnected to the outside world, including Russia, it has developed a remarkable awareness about the related risks and measures to counter malign activities by external powers that try to make use of that very openness and interdependence in order to weaken the Union. As a result, since 2014 in particular, the internal vulnerabilities of the EU have been tackled and it has clearly gained in resilience. Although the steps taken to reduce the EU’s vulnerability to hybrid threats, disinformation and cyber threats are remarkable, they are insufficient, as was demonstrated by the latest hacking of the COREU network.

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⁴⁰ European Council, 2018a.
⁴¹ European Council, 2018c.
⁴² Juncker, 2016.
Cyber threats against the EU and its member states and institutions need to be countered by means of a more unified and coherent response mechanism; intelligence-based situational awareness capacities must be further bolstered; counter-intelligence competence in the EU institutions should finally start to be seriously developed; and there needs to be more urgency in work to secure channels of EU diplomatic communications. A further area in which some progress is visible but not yet totally satisfactory is strategic communication. Given sufficient political will and the wise use of resources, it should be possible, through implementation of the 2018 EU Action Plan, to bring the Union’s response in this area to a qualitatively new level.

The majority of the actions mentioned are already reflected in the EU core documents cited above. As has been shown, some steps have been taken and resources allocated. However, the EU needs to continue to focus on further reducing its internal vulnerability and dependencies. Over the next few years, the EU should consolidate its efforts and dedicate a significantly greater share of resources to resilience actions under the EU Multiannual Financial Framework 2021–2027. This further effort may be critical not just to ensuring that the EU protects itself from numerous illiberal and hostile actors – primarily Russia – but also to ensuring the EU’s very survival as an independent player on the global scene in the face of likely further erosion of the liberal world order.
Part II

EU-Russia interdependence in different sectors
Chapter 7

Limited Interdependence in EU-Russia Trade

Heli Simola¹

The EU and Russia have long been important trading partners. In this chapter, we first review the development of EU-Russia trade, which has been shaped in recent decades by global factors and changes in the partners’ economic policies. We then assess the current importance of mutual trade, finding that in general EU-Russia trade is characterised more by asymmetry than by interdependence. The energy sector, however, is an important exception. Finally, we examine the effect of Russia’s illegal annexation of Crimea and the war in eastern Ukraine and argue that, while this had a substantial impact on political relations between the EU and Russia, the effects on trade flows between them have been more moderate.

General trends in EU-Russia trade

The value of trade between the EU and Russia has grown substantially during the past couple of decades, with the turnover in trade in goods (the sum of exports and imports) rising from less than USD 50 billion in 1993 to more than USD 260 billion in 2017 (Figure 1).² Trade flows were still quite modest in the 1990s as foreign trade was liberalised and reorganised after the collapse of the Soviet Union.

¹ The opinions expressed in this chapter are those of the author and do not necessarily reflect the views of the Bank of Finland.

² We focus only on trade in goods due to better availability of data. Goods account for most of EU-Russia trade (85% in 2016), and thus depict overall trade flows quite accurately.
Moreover, the Russian economy suffered a huge contraction during this initial phase of transition. With Russia’s recovery from the 1998 economic crisis and rising oil prices at the start of the new millennium, EU-Russia trade gained steam.\(^3\) Robust trade growth was punctuated by the 2008–09 global financial crisis but recovered rapidly in subsequent years. Russian economic growth started to slow again in 2012–13 due to structural problems that were reflected in the reduced growth of EU-Russia trade. Trade was further impacted by the collapse of oil prices in 2014–16 and the imposition of economic sanctions. The Russian economy fell into recession and the rouble was substantially devalued. Higher oil prices since 2017 have helped put Russia-EU trade back on the road to recovery.

Figure 1. EU28 (fixed composition) goods trade with Russia in 1993–2017, USD billion.

The EU’s share of Russia’s foreign trade gradually declined over the past two decades, while Russia’s share of EU trade gradually increased – at least until recent years. Despite slight convergence, the general asymmetry

\(^3\) On EU-Russian economic relations during Russia’s transition, see e.g. Sutela, 2003.

\(^4\) IMF Direction of Trade Statistics Database.
remains clear: the EU accounts for about 40% of Russian trade and Russia just 6% of the EU’s external trade. The picture is similar for both exports and imports, largely mirroring the asymmetry in the market sizes of the trade partners. Combined EU GDP at market exchange rates was USD 17.3 trillion in 2017, while Russian GDP was USD 1.5 trillion.

Trade between the EU and Russia remains largely based on complementarity of economic structures and the traditional principle of comparative advantage. EU countries mainly import primary commodities (especially oil and gas) from Russia and export consumer and investment products to Russia. This is the case for most of Russia’s foreign trade. Oil and gas have traditionally accounted for the lion’s share of Russian export income, so the oil price has become the main global factor shaping trends in Russia’s exports. It also defines to a large extent Russia’s importing capabilities (Figure 2), together with capital flows.

*Figure 2. Change in the USD value of Russian goods trade and Urals oil price, % yoy.*

Sources: CEIC, Central Bank of Russia

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5 Crude oil and oil products accounted for an average of 40% of Russia’s total export income from goods and services in 2000–17. Natural gas exports, the price of which is linked to the oil price, accounted for 12%.
Limited Interdependence in EU-Russia trade

A second global factor affecting EU-Russia trade in recent decades has been the rise of China. China’s strong competitiveness and huge appetite for raw materials have increased its significance substantially for both Russia and global trade, at the same time diminishing the role of the EU.

The EU promotes interdependence, Russia pursues independence

General EU and Russian economic and trade policies have influenced the development of bilateral trade. The EU, which has traditionally advocated the liberalisation of international economic relations, sees economic interdependence (mutual importance in economic relations as opposed to one-sided dependency or asymmetry) as a means to reduce incentives for dissent in relations with Russia. The main framework for the EU’s economic relations with Russia is the Partnership and Cooperation Agreement (PCA). The PCA entered into force in 1997 for a period of ten years. Since it expired, however, the parties have been unable to negotiate a new framework agreement and have had to resort instead to annual renewals.

Russia’s attitude to international integration is somewhat mercurial and guarded. During the initial phase of transition in the 1990s, rapid liberalisation of foreign trade was included as part of Russia’s major reforms. Indeed, opening up to and integration with the world economy remained policy priorities through the early 2000s as they were perceived as prerequisite to economic prosperity. Already before the global financial crisis, however, the focus began to shift back to Russia’s traditional protectionist approach with the embrace

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6 For a recent discussion, see Rácz & Raík, 2018.

7 A brief description of the framework of EU-Russia political cooperation is provided by the EU External Action Service (https://eeas.europa.eu/headquarters/headquarters-homepage/35939/european-union-and-russian-federation_en ); on the development of the PCA, see e.g. Haukkala, 2015.
of import-substitution industrial policies. Security concerns also assumed a higher profile in economic policy. Instead of interdependence in foreign economic relations, Russian policymakers gradually turned to emphasising independence and self-sufficiency. Import dependency, for example, was deemed harmful to Russian interests well before the Ukraine conflict. The policy shift was, for example, reflected in the Food Security Doctrine of 2010 that stipulated goals for self-sufficiency in a number of staple food items. The recent heightening of tensions with the West has only reinforced this trend.

In line with general economic policy becoming more inward-looking, Russia’s enthusiasm for membership of the World Trade Organization (WTO) also gradually waned after the early 2000s. Russia paid more attention to advancing economic integration regionally with countries of the former Soviet Union. 2010 saw the establishment of a new customs union between Russia, Belarus and Kazakhstan following several other attempts at regional integration. The customs union, in turn, evolved to become the Eurasian Economic Union (EAEU) in 2015, with the goal of deeper economic integration among its members. For Russia, an additional important motive for promoting the EAEU has been enhanced protection for import competition from third countries, especially China, in the member countries. Armenia and the Kyrgyz Republic joined the EAEU soon after its launch. Despite delays caused by the creation of the customs union, Russia finalised its WTO membership in 2012, committing to a vast package of reducing goods tariffs and liberalising its service sector. On the other hand, Russia has ranked among the top countries implementing new barriers to trade in every year since the global financial crisis.

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10 Connolly & Hanson, 2016; Malle, 2016; Yakovlev, 2016.
11 On the formation of the EAEU, see e.g. Khitakhunov et al., 2017; Tarr, 2016.
12 On Russia’s WTO accession, see e.g. Tarr & Volchkova, 2013; Åslund, 2007.
13 See e.g. data from Global Trade Alert.
Russia is certainly not alone in its reluctance to lower trade barriers. Protectionist pressures and opposition to globalisation have increased internationally, especially since the global financial crisis. Russia’s opposition to free trade has somewhat different roots than in most countries, however. Protectionist pressures in advanced economies have arisen largely as a consequence of shrinking manufacturing sectors or weak job markets and are associated with increased import competition and offshoring of production to low-wage countries such as China.\footnote{See e.g. Rodrik, 2018.}

Russia’s challenges are partly different, and these viewpoints rarely arise in public discussion. Instead, Russia’s jobs market has been affected by structural transformation related to the transition process and the huge inflow of oil income. These factors have caused the manufacturing sector to shrink while enabling job creation in other parts of the economy (especially in the service sector). They have encouraged productivity gains and allowed higher wages.\footnote{Gimpelson et al., 2017; Gimpelson & Kapeliushnikov, 2016; Mironov & Petrovich, 2015; Dobrynskaya & Turkisch, 2010.} Moreover, Russian companies have limited incentives or even possibilities to offshore their production. Most of Russia’s best-performing firms operate in commodity-based branches that rely on abundant and low-cost domestic resources (e.g. the steel industry). As a result, the need to diversify the economy has gained more attention than issues related to globalisation. Since the mid-2000s, diversification has also been used as an argument for industrial policies that restrict trade.\footnote{Tarr & Volchkova, 2013.}

**Limited trade interdependence between the EU and Russia**

The EU and Russia are important trading partners for each other, but the trade relationship is distinctly asymmetric at the aggregate level.
Limited Interdependence in EU-Russia trade

For the EU generally and for most sectors, Russia is a far less significant trading partner than the EU is for Russia. Interdependence is largely confined to energy, especially the oil and gas sector. There is, however, substantial variation across EU countries.

Interdependence prevails in the oil and gas trade

The EU and Russia are still by far each other’s most important trading partners when it comes to oil and gas. While interdependence has declined somewhat in recent decades and should continue to do so in coming years as global consumption and production shift increasingly eastwards, the shift is likely to be quite gradual. Not only is there an obvious economic rationale for trade between a large producer (Russia) and a nearby consumer (EU), but much of the vast infrastructure for the large-scale transportation of oil and gas is already in place. This is particularly important in the case of the gas trade, as gas requires specific transmission infrastructure. Moreover, gas is much more difficult to store than oil and is largely traded in regional markets with long-term agreements often based on non-public pricing arrangements. For Russia in particular, but also for the EU, a large part of gas pipeline capacity is between each other, LNG capacity is still limited, and most gas trade remains based on trade agreements that extend over decades.

Russia is the largest single provider of oil and gas to the EU. Eurostat figures show that in 2000–16 Russia accounted for an average of 29% of the import volume of EU crude oil, 43% of oil products and 33% of natural gas. In 2016, the combined crude oil and natural gas imports from the next three largest extra-EU supplier countries roughly equalled the EU’s imports from Russia.17 Russia slightly increased its share of EU imports of crude oil, from around 20% at the beginning of the millennium to 25% in recent years, while its share of natural gas imports declined from 40% to around 30% in recent years.

17 Norway, Iraq and Saudi Arabia for crude oil; Norway, Algeria and Qatar for natural gas.
The reliance of individual EU countries on Russian oil and gas varies considerably. The Russian share of imports of crude oil varies from a few per cent in some countries (e.g. Ireland and Slovenia) to nearly 80% in the case of Slovakia and Lithuania. Since oil is a fairly homogeneous commodity with a global market price and relatively easy to transport and store, it is not especially difficult to switch sources of supply (even rapidly, if need be). Russia’s share of imported natural gas ranges from zero (e.g. Spain and Portugal) to 100% (Estonia and Finland). There is considerable variation between countries as to the role of natural gas in the total energy mix, as well as its significance for household and industrial end-user groups. As a result, the nature of dependence of countries with near-identical import shares may differ substantially.

The EU’s stated goal is to diversify its energy supply base, especially in natural gas and nuclear fuel. Another target in EU energy policy is to increase the share of renewables in the energy mix. These trends should gradually reduce Russia’s importance in the EU’s total energy supply, but such structural changes tend to require time, even to get the necessary infrastructure in place. Although the EU has a common framework for energy policy, it is obviously not a party to the trade itself. Individual, often privately owned, companies conduct the trade on a commercial basis and their objectives may differ from state-level policy goals.\(^{18}\)

The EU remains Russia’s main export market for both oil and natural gas exports, but its share has gradually declined over the past decade. Despite the decline in the EU’s share, Russia’s export income from oil and gas shipped to the EU still amounted to about USD 120 billion in 2017, which corresponds to nearly 8% of Russian GDP. The share of Russia’s oil exports to the EU peaked in 2005–6 at about 80%; in recent years, it has been around 60%. The share is similar for oil products and

\(^{18}\) Simola & Solanko, 2017.
has remained stable. While the EU’s share has decreased, the share of China in Russian oil exports has increased from 3% to over 20%.

Russia’s goal of diversifying its energy exports, especially to Asia, was set in the last decade in the government’s strategic plans for the energy sector. The eastward shift was natural in the light of strong growth in demand from Asia. Moreover, many of Russia’s new oil and gas fields are located in the eastern parts of the country, making it easier and more affordable to transport their production to Asia. Increased exports to Asia were supported by the construction in 2009 of the East Siberia–Pacific Ocean (ESPO) oil pipeline, which extends from the new oilfields of eastern Siberia to the port of Kozmino in the Russian Far East. A separate branch runs to China. The ESPO pipeline has since been extended according to plans, further boosting oil export volumes to China and elsewhere in Asia.\(^\text{19}\)

The changes have been more modest in Russian natural gas exports. The EU’s share peaked at around 75% in 2006–7 and has since fallen to around 65%. The change largely reflects the start of LNG production in Russia. In 2009, Russia’s first LNG plant was commissioned on Sakhalin Island in Russia’s Far East. Practically all of its production is shipped to nearby Asian markets, mainly Japan and Korea. Some further diversification of gas exports is enabled by the launch of LNG production in the Yamal Peninsula in late 2017, as well as the gas pipeline to China scheduled to start operation at the end of 2019. As both the LNG and pipeline exports to China will be based on new production, they should not affect gas supplies to the EU (especially as there is also estimated to be spare capacity in western Siberia, supplying gas for the EU). Moreover, the volumes projected for the new exports are, at least in the medium term, relatively modest compared to Russia’s total natural gas exports.\(^\text{20}\) The EU should therefore remain the main market for Russian natural gas.

\(^{19}\) Henderson & Mitrova, 2016; Simola & Solanko, 2017.

\(^{20}\) See e.g. Henderson & Mitrova, 2015, 2016; Simola, 2016.
Non-energy trade is more asymmetric

Besides energy, trade interdependence between the EU and Russia has traditionally been more limited and trade relations are also today rather characterized by asymmetry (Table 1). Russia needs the EU as an export and an import market much more than the EU needs Russia. While part of this asymmetry can simply be put down to the relative size of the economies, the narrow structure of Russia’s economy also limits trade possibilities.

Table 1. Shares of the EU and Russia in each other’s goods trade, % (average 2015–17).

<table>
<thead>
<tr>
<th></th>
<th>EU share of Russian exports</th>
<th>Russian share of EU imports</th>
<th>EU share of Russian imports</th>
<th>Russian share of EU exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>46.2</td>
<td>7.5</td>
<td>38.3</td>
<td>4.3</td>
</tr>
<tr>
<td>Oil &amp; gas</td>
<td>59.5</td>
<td>28.8</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Total, excl. oil &amp; gas</td>
<td>26.2</td>
<td>3.0</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Food</td>
<td>11.1</td>
<td>1.4</td>
<td>22.4</td>
<td>4.4</td>
</tr>
<tr>
<td>Chemicals</td>
<td>30.5</td>
<td>2.7</td>
<td>57.2</td>
<td>5.2</td>
</tr>
<tr>
<td>Wood &amp; paper</td>
<td>23.2</td>
<td>8.2</td>
<td>61.8</td>
<td>4.8</td>
</tr>
<tr>
<td>Metals</td>
<td>44.5</td>
<td>9.9</td>
<td>34.0</td>
<td>3.8</td>
</tr>
<tr>
<td>Machinery &amp; equipment</td>
<td>20.4</td>
<td>0.3</td>
<td>38.8</td>
<td>4.9</td>
</tr>
<tr>
<td>Vehicles</td>
<td>17.0</td>
<td>0.7</td>
<td>41.4</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Sources: Eurostat, CEIC

Trade relations between the EU and Russia are largely based on the exchange of raw materials for finished products. This is quite different from the EU’s trade with its other largest external trading partners – or even a large part of global trade in general – where intra-industry trade is prominent. Moreover, unlike trade between the EU-15 and former transition countries of Central and Eastern Europe, complex production networks and value chains are rare between Russia and EU countries. In most sectors other than raw materials, Russia
is not a very interesting trading partner due to its poor competitiveness. Productivity is low and production costs are high due to various institutional and business environment problems such as corruption, burdensome bureaucracy and the excessive role of the state in the economy. It will remain difficult for Russia to increase its international competitiveness and diversify its economy until these structural problems are addressed.  

Russia’s role in the EU’s external trade is therefore limited. From 2000 to 2017, Russia accounted for an average of 6% of extra-EU goods exports and 4% of extra-EU goods imports excluding oil and gas, and ranked among the EU’s top five trading partners. At the same time, China’s share of EU trade has more than doubled to 11% of exports and 20% of imports. EU exports to Russia mainly consist of various capital goods such as machinery, equipment and vehicles, as well as chemical products, especially pharmaceuticals. When oil and gas are excluded, the EU’s main import items from Russia are metals, chemical products and wood.

There is, however, substantial variation between individual EU countries. Russia is in general a far more important trading partner for countries located in its neighbourhood, while its significance is marginal for most EU countries located further afield. In both exports and imports, Russia’s share varies from less than 0.5% to nearly 15% of total trade (including intra-EU trade) depending on the EU country (Table 2).

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21 On structural problems in the Russian economy, see e.g. Kudrin & Gurvich, 2015.

22 We concentrate here on simple trade statistics rather than trade in value added due to data availability, but in Russia’s case the differences are quite small. For an examination of trade relations between the EU and Russia based on value added data, see e.g. Benkovskis et al., 2014.
Table 2. Russia’s share of total trade in goods, individual EU countries, % (average 2015–17).

<table>
<thead>
<tr>
<th></th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lithuania</td>
<td>14.0</td>
<td>14.4</td>
</tr>
<tr>
<td>Latvia</td>
<td>12.3</td>
<td>7.7</td>
</tr>
<tr>
<td>Estonia</td>
<td>6.8</td>
<td>6.2</td>
</tr>
<tr>
<td>Finland</td>
<td>5.7</td>
<td>11.7</td>
</tr>
<tr>
<td>Poland</td>
<td>2.9</td>
<td>6.4</td>
</tr>
<tr>
<td>Slovenia</td>
<td>2.7</td>
<td>1.0</td>
</tr>
<tr>
<td>Slovakia</td>
<td>2.1</td>
<td>4.5</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>2.0</td>
<td>10.4</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Germany</td>
<td>1.9</td>
<td>2.7</td>
</tr>
<tr>
<td>Romania</td>
<td>1.8</td>
<td>3.1</td>
</tr>
<tr>
<td>Italy</td>
<td>1.7</td>
<td>3.3</td>
</tr>
<tr>
<td>Hungary</td>
<td>1.6</td>
<td>3.5</td>
</tr>
<tr>
<td>Austria</td>
<td>1.6</td>
<td>1.5</td>
</tr>
<tr>
<td>Croatia</td>
<td>1.5</td>
<td>1.7</td>
</tr>
<tr>
<td>Sweden</td>
<td>1.3</td>
<td>3.0</td>
</tr>
<tr>
<td>Cyprus</td>
<td>1.3</td>
<td>1.6</td>
</tr>
<tr>
<td>France</td>
<td>1.1</td>
<td>1.2</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1.0</td>
<td>4.1</td>
</tr>
<tr>
<td>Belgium</td>
<td>1.0</td>
<td>2.4</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>0.9</td>
<td>0.0</td>
</tr>
<tr>
<td>Denmark</td>
<td>0.9</td>
<td>1.8</td>
</tr>
<tr>
<td>Greece</td>
<td>0.8</td>
<td>7.0</td>
</tr>
<tr>
<td>UK</td>
<td>0.8</td>
<td>1.0</td>
</tr>
<tr>
<td>Spain</td>
<td>0.6</td>
<td>1.1</td>
</tr>
<tr>
<td>Ireland</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Portugal</td>
<td>0.3</td>
<td>1.8</td>
</tr>
<tr>
<td>Malta</td>
<td>0.1</td>
<td>0.7</td>
</tr>
<tr>
<td>EU28 average</td>
<td>2.5</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Source: Eurostat
From the Russian point of view, the EU is also a key trading partner in sectors other than oil and gas, although its importance has gradually declined. In Russian exports excluding oil and gas, the EU’s share has decreased only slightly during the past decade, to around 25%. Russia’s other main export markets are the EAEU countries, with a share of about 15%, and other Commonwealth of Independent States (CIS) countries and China, each accounting for about 10%. The structure of Russian exports is quite different depending on the destination markets. Raw materials such as metals, wood and chemicals are exported mainly to the EU, the US and China, food (cereals in particular) to North African countries, and more complex products such as machinery and equipment to EAEU and other CIS countries.\(^{23}\)

In Russian imports, the EU’s share has declined steadily over recent decades from nearly 50% to about 40%. The main reason for the EU’s falling market share has been the rise of China, which has become one of the world’s top trading nations, boosted by its high competitiveness and widespread integration with international production chains.\(^{24}\) China has also gained substantial market share in Russia, at the expense of the EU and other countries. In Russian imports, China’s share has doubled to more than 20% over the past decade.

**Trade flows only moderately affected by 2014 geopolitical events**

Russia’s illegal annexation of the Crimean Peninsula in 2014 and the war in eastern Ukraine had a substantial impact on the political

\(^{23}\) We do not consider the special case of arms, as relevant data are not readily separable from Russian trade statistics. In recent years, the annual value of Russian arms exports has averaged around USD 15 billion (5% of total goods exports), according to official statements.

\(^{24}\) China’s role in international production chains to some extent artificially exaggerates increases in the country’s market share. As China has traditionally specialised in labour-intensive final production stages of goods such as assembly, these products are often recorded as Chinese goods even if the Chinese value-added contribution is small.
Limited Interdependence in EU-Russia trade

relationship between the EU and Russia. It also affected bilateral trade relations, in part through the imposition of mutual sanctions. Although it is difficult to separate the effects of sanctions from other factors, the available evidence suggests that the sanctions have had a certain negative impact on the Russian economy and trade, but the role of other factors, particularly oil prices, has been much stronger.25 In addition, heightened tensions between Western countries and Russia have led the latter to push for closer economic ties with Asia (especially China) and to strengthen economic relations in the framework of the EAEU. Despite a few important advances on this front, Russia’s most ambitious expectations are still far from realisation.

**Trends in EU-Russia trade defined by the oil price and sanctions**

Trade between the EU and Russia has contracted substantially since 2013.26 The main factors behind this are lower oil prices with accompanying depreciation of the rouble and a decline in Russian demand. The average price of Urals oil declined from USD 108 a barrel in 2014 to USD 42 in 2016. At the same time, Russia’s exports and imports of goods fell by nearly half in value terms. Trade developments were similar with all countries, whether or not they had imposed sanctions on Russia. Despite continuing sanctions, trade started to recover in 2017 along with a recovery in the wider Russian economy (Figure 3).27

The mutual sanctions imposed by the EU and Russia since 2014 have hurt bilateral trade, but their role has been much more modest as they affect only a limited range of items. In relation to the Ukraine conflict, the EU imposed on Russia separate sanctions related to Crimea and to eastern Ukraine: there are diplomatic sanctions, sanctions on individuals and companies, and sector-level sanctions. The last of these are by far the most important for bilateral trade. Sectoral

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25 Literature on the topic is reviewed in Korhonen et al., 2018.

26 This section draws heavily on Korhonen et al., 2018.

27 On the recent development of the Russian economy, see e.g. World Bank Group, 2018.
sanctions ban exports and imports of military equipment, exports of dual-use goods to military end-users and exports of specific products and services related to deep-water, Arctic offshore and shale oil exploration and production. Sectoral sanctions also include restrictions on long-term financing for certain Russian companies that may indirectly impact trade. Since sanctions are so narrowly targeted, they directly affect only a limited amount of exports from the EU to Russia and an even smaller proportion of imports to the EU from Russia. Due to the specific nature of the sanctions, it is difficult to estimate the exact amount of trade affected. For example, the value of exports of restricted oil-production technology (for any project, so only a part of these are actually banned) from the EU to Russia was about EUR 350 million in 2013, or 0.3% of total EU exports to Russia.

Figure 3. Change in the value of Russian goods imports from selected countries in 2014–17, % yoy.

Source: CEIC / Russian Customs

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28 This has been intentional, so as not to disturb normal business relations between EU and Russian companies.
Limited Interdependence in EU-Russia trade

Russian sanctions imposed on the EU and other countries in August 2014 banned the imports of certain foodstuffs.\textsuperscript{29} Imports of these products from the EU essentially ceased after these sanctions went into effect. In Russia the loss of these products was partly offset by overall declining demand and substitution with domestic products or imports from countries not subject to the ban. The sanctions caused food prices in Russia to rise significantly and the quality of food products to decline. Domestic production of some food products has increased, but the costs are borne by Russian households.\textsuperscript{30} Despite these negative effects, the sanctions well suit Russia’s general aim of reducing import dependence. Indeed, Russian sanctions are no longer tied to those imposed by other countries. For the EU, the total value of exports to Russia of the banned food products was EUR 5.2 billion in 2013, accounting for 4\% of total EU goods exports to Russia. Again, there is a large variation across EU countries, and the negative impact on individual sectors and certain companies has been much more severe than generally.

Russia cannot replace the EU with China or the EAEU

Increasing tensions in relations with Western countries since the spring of 2014 pushed Russia to declare its intent to pivot to the east, with a particular focus on China. Russia’s leaders envisaged making up for restricted access to Western finance with Chinese lenders. Relations between the countries seemed to warm up notably, with frequent high-level policy meetings and increased output of various cooperation memoranda. Some important steps were also taken to enhance economic relations, but in practice progress has fallen far behind what many in Russia expected.\textsuperscript{31}

Indeed, trends in the development of Russian-Chinese trade in recent years have largely followed those in Russian trade in general. Russia’s

\textsuperscript{29} Meat, fish, poultry, dairy products, certain fruit and vegetables, and a few processed products.

\textsuperscript{30} On the domestic effects of the Russian import bans, see e.g. Kuznetsova et al., 2018.

\textsuperscript{31} See e.g. Gabuev, 2016; Makocki & Popescu, 2016.
Limited Interdependence in EU-Russia trade

total trade in goods with China declined by about a quarter during 2014–16 and has recovered since 2017; the trends are similar for exports and for imports. China’s share of Russian trade has increased slightly in recent years, continuing the earlier trend. Perhaps the most prominent advances related to trade since 2014 concern natural gas. After a decade of negotiations, in the spring of 2014 the countries finally sealed an agreement to build a gas pipeline and start shipments of Russian natural gas to China. In 2015, the Chinese state-owned Silk Road Fund acquired a 10% stake in the LNG project of Russian gas producer Novatek, securing finance for the project after Novatek came under sectoral financial sanctions. The Chinese state-owned energy company CNPC had held a stake in the project since 2013. Besides these few state-led projects, however, progress in trade integration has been quite modest.

There is obvious potential for increased economic ties between China and Russia, but several factors hamper closer cooperation. China wants to develop economic relations with Russia, but only if it turns a profit on the arrangement. China is dealing from a position of strength in bilateral trade negotiations, understanding that it is a much more important trading partner for Russia than vice versa. Russia’s cooling relations with Western countries have further bolstered China’s bargaining position. Sanctions have made Chinese companies more cautious in their dealings with Russia. The latter already seems to have made concessions, e.g. in the natural gas negotiations, but is not willing to accept any old terms. Despite their common interests, the countries have competing ones too, for example in Central Asia, where their flagship projects (the EAEU for Russia and the One Belt One Road initiative for China) seem to be partly at odds, notwithstanding official declarations.

32 Simola, 2016.
33 See e.g. Stronski & Ng, 2018.
Russia has also pursued expanding trade within the EAEU in recent years, correspondingly diverting their trade from other countries. Russia wants the EAEU to develop from being basically a customs union to a deep economic cooperation organisation, for example through common financial and jobs markets. Russia even envisages creating its own international value chains within the EAEU. But such developments are hampered by the relative economic insignificance and backwardness of the region. The combined GDP of all EAEU members other than Russia is only about 15% of the Russian figure. Moreover, the EAEU countries tend to be even less oriented towards higher value-added production than Russia. They are unable to supply Russia with high-technology products, as they also rely on imports of such products.

**CONCLUSION**

The EU and Russia have long been important trading partners, but recent decades have witnessed a gradual decline in their mutual importance, especially as the role of China has increased for both. Widening economic cooperation and increasing interdependence has been a key principle of the EU approach to economic relations with Russia. At the outset, Russia shared this framework, but since the early 2000s it has gradually shifted focus towards economic self-sufficiency – a trend that has only strengthened in recent years with the introduction of mutual sanctions.

In practice, trade interdependence characterises only oil and gas, where the EU and Russia are each other’s most important trading partners (even with some decline in recent decades). There are aspirations on both sides to diversify partners in oil and gas trade, but changes tend to be gradual. In other sectors, trade is quite asymmetric, with the EU being a much more important trading partner for Russia than vice versa. This partly mirrors the asymmetry in
the relative size and the structure of the two economies. Moreover, there exist only limited economic incentives for the EU and Russia to deepen trade relations further unless Russia makes the necessary structural reforms to enhance its competitiveness in sectors other than raw materials. Russia’s significance as a trading partner varies greatly between individual EU member countries, which may affect their views on the policies the EU should apply to Russia.

Russia’s illegal annexation of the Crimean Peninsula and efforts to destabilise Ukraine form a critical watershed in political relations between the EU and Russia. While these actions have damaged trade relations, for example through mutual sanctions, the impact on trade has been more limited than at the political level. Trade between the EU and Russia contracted substantially after 2014, but this was due mainly to slumping oil prices, depreciation of the rouble and the subsequent economic downturn in Russia. Sanctions have hurt trade, but the damage has been fairly moderate as most of them are narrowly targeted. The EU could impose much more severe restrictions on trade with Russia, but in practice this would probably be quite difficult due to opposition from various actors within the EU who would also suffer from them. Russia is seeking deeper economic relations with China and the EAEU countries, but practical gains to date are modest. The EU and Russia will probably remain important trading partners for the foreseeable future, but trade relations will continue to be overshadowed by political unease.
Energy imports from Russia to the EU are increasing again after a period of stagnation and Russia is the main supplier of both oil (30%) and gas (40%).¹ The EU-Russia energy relationship seems, at first sight, not to have suffered any serious consequences from the political and military confrontation that has followed Russia’s annexation of Crimea in 2014. A high degree of interdependence in trade, including in the energy sector, was long regarded as a guarantor of stability and peaceful co-existence between states.² The rapid escalation of Russia’s conflict with Ukraine in 2013–14 has shown this assumption to be false. Russia pursues a strategy of energy supply diversification which is designed to increase the dependence of the largest energy importers and consumers of Russian supplies.

At first sight, the interdependence between the EU and Russia in energy supply, demand and production would seem to reduce the likelihood of any deliberate disruptions in their energy relationship. Their mutual dependence on sales, imports and consumption appears to create roughly equal costs and benefits on both sides, and

¹ Eurostat, 2018.
² Birchfield et al., 2017.
the level and extent of EU member states’ energy supply involvement with Russia is assumed to create favourable conditions for the maintenance of a mutually beneficial relationship.\(^3\) The premise of this “mutual dependence” argument is that the Russian state is as dependent on the income from sales of oil and gas to the EU as the latter is on Russian energy supplies.

The situation is less clear-cut when we consider the composite nature of the EU and the fact that there are significant differences between the member states. Each country’s national energy supply choices and options vis-à-vis Russia, and the resulting levels of dependence on Russia and their importance as large or small importers for Russia, challenge the EU’s unity.\(^4\) In addition, differences in their influence within the EU, by virtue of their voting weight, economic power and international political weight, have an impact on how the EU as a Union can manage the energy interdependence with Russia where divergent national priorities and partly complementary, partly contradictory, interests complicate the development of common EU positions. As a composite actor, the EU’s ability to take decisions is severely constrained by its member states and inter-institutional processes – in complete contrast to the strong central decision-making authority of the Russian state.

Eastern (and many Western) EU member states have been connected to Russian fossil fuel supplies (via Gazprom, Lukoil and Rosneft) for several decades. EU member states also import coal from Russia, and Rosatom’s nuclear power stations supply nuclear fuel.\(^5\) All of this, together with the engagement of Russian companies in the EU’s oil, gas and power sectors, creates multiple interdependent relationships. Russian companies are engaged in maintaining or building new gas and oil supply infrastructure, nuclear power stations, combined heat

\(^3\) For details, see Chapter 4.

\(^4\) Jääskeläinen et al., 2018; Bros et al., 2017.

\(^5\) Aaltonen et al., 2017.
and power plants, transmission infrastructure and gas storage facilities, and the physical infrastructure has created path dependencies. The volumes of energy supplied, and the level of dependence on Russia, differ significantly across the EU, as does the extent to which Russian energy companies own and operate energy supply and transmission systems. The position of European energy companies, and their deals and supply contracts with Russian energy companies – both in Russia and in the EU – create a mosaic of energy interdependence that goes well beyond mere “supply and demand” relationships.

This chapter explores the interdependence in the energy sector by taking a closer look at the regulatory frameworks and the constraints and opportunities that energy sector actors, notably European companies engaged in deals with Russia, are faced with. It examines the consequences of the contradictory objectives pursued by the EU and Russia, and highlights the problems associated with the asymmetries in their relationship. The chapter focuses on the period following the annexation of Crimea in 2014 but places it in the context of earlier developments in the energy sector. The first part of the study focuses on the role of energy companies to underline the need to look beyond the volumes of fossil fuels that are bought and sold. The second section examines the governance of the EU-Russia energy relationship and the ongoing conflict between the sides over the EU’s market rules. The third part takes a closer look at European and Russian energy companies’ interdependence on the Russian and EU markets. The fourth section addresses the single most controversial gas infrastructure project, Nord Stream 2. Finally, conclusions are drawn about the future of EU-Russian energy interdependence.
The Role of Energy Companies in the EU-Russian Energy Relationship

The EU-Russian energy relationship is based on apparently compatible needs and interests. The EU wants to buy fossil fuels from Russia, and Russia wants to sell its energy resources to the EU. The two sides’ interests seem to match perfectly and provide for a “win-win” interdependence. However, neither the EU as a Union nor the member states actually buy Russian energy. Instead, it is a group of energy companies across the EU that buy fossil fuels, build and sell production, transmission and storage infrastructure and engage in deals with Russian energy companies, in particular Gazprom. Some of the European energy companies are fully privatised, others are partly state-owned, and some are subsidiaries of Russia’s state-controlled energy firms. Many have operations in several EU member states, a development that the EU’s energy market liberalisation has facilitated. The energy importers (the buyers), and on their behalf the EU, have an interest in diversifying supplies and increasing competition in national energy markets in order to drive prices down. The Russian state (the seller), with its energy companies, has an interest in establishing and maintaining a strong hold over the EU’s markets in order to secure long-term revenue and, in a monopoly position, to drive up prices to the highest level possible.\(^6\)

In the EU, a range of ownership models exists, and relations between companies and national governments vary from country to country and company to company. Governments are responsive to private energy companies’ interests, but the EU’s energy market liberalisation has worked actively to break down monopoly positions. As McGowan pointed out a decade ago, the EU’s efforts to reduce monopolies increased the existing power asymmetries between Russian and European energy companies.\(^7\) The significant differences

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6 Krickovic, 2015.
7 McGowan, 2008.
in ownership models, and the influence of the state, reinforce asymmetries in the buyer–seller relationship. Market principles do play some role in the Russian energy sector and anti-trust legislation is also implemented by the Russian state. However, in Russia all companies are in one way or another dependent on and steered by the Russian state. Even private companies such as Novatek cannot really act against the interests of the Russian leadership. The Russian president and federal laws ensure that foreign access to the energy sector is tightly controlled by the central government. Russia’s federal laws ringfence the Russian energy market to the benefit of Gazprom. In July 2006 a new law on primary resources was passed, restricting foreign investors’ access to pipeline grids and fossil fuel deposits. The Russian gas market reforms of 2013 have meanwhile created merely a semblance of liberalisation, as critics argue.

The steps taken by the European Commission to enforce Gazprom’s compliance with anti-trust rules have countered some of these imbalances on the EU’s own turf. Restrictive business practices in Gazprom’s supply relations were investigated on the basis of the EU’s internal market rules (Article 81 of the EC Treaty) and Gazprom was forced to revise its long-term supply contracts with Italy’s ENI (in 2003), Austria’s OMV (in 2005), Germany’s E.On Ruhrgas (now E.On/Uniper, in 2005 and 2009) and France’s GDF Suez (now Engie, in 2009). The enforcement of common EU rules has constrained Russia’s ability to play off EU companies and member governments against each other, but without levelling the playing field in Russia. In 2019, European companies in Russia remain dependent on the support of national governments, and on personal relationships with president Putin.

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8 Avdasheva & Golovanova, 2017.
9 Tynkkynen, 2016.
11 Sidortsov, 2014.
ENERGY INTERDEPENDENCE AND THE CONFLICT OVER COMPETITION RULES

A key area of contention has been that Russian energy policy is driven by geopolitical considerations, while the EU’s is anchored in liberal market principles. However, it would be misleading to describe the EU as a purely market-based actor in the energy field.\textsuperscript{12} The market liberalisation and integration of national markets has certainly been the backbone of EU energy policy,\textsuperscript{13} and the main source of conflict between the EU and Russia on energy. But at the same time, the drive towards an EU external energy policy and diversification away from Russia is equally motivated by geopolitical concerns. Geographical and geopolitical conditions have forced the EU institutions, together with the member states, to address non-market-based security concerns. The adoption of binding common rules for EU member states’ security of energy supply from the early 2000s on confirms the importance attributed to security,\textsuperscript{14} not just creating optimal market conditions for business competition and for European consumers.\textsuperscript{15} However, the tools for addressing the EU’s practical supply problems and broader geostrategic concerns build on the established EU instruments from the liberal market and competition policy toolbox.\textsuperscript{16}

It is well documented that Russia’s reserves of fossil fuel serve as a power base, both generating income and helping the ruling elites to project power and exert political influence in Europe.\textsuperscript{17} However, the Russian government’s energy policy and the behaviour of Russian energy companies combine elements of market and business logic with the aim of serving both as strategic instruments for the

\textsuperscript{12} Goldthau & Sitter, 2014.
\textsuperscript{13} European Commission, 1998; 1996; see also van Hoorn, 2009.
\textsuperscript{14} Roth, 2011; Schmidt-Felzmann, 2011.
\textsuperscript{15} European Commission, 2004; 2006; European Union, 2010; 2017.
\textsuperscript{16} Goldthau & Sitter, 2015.
\textsuperscript{17} Heinrich, 2008; Proedrou, 2018; Charokopos & Dagoumas, 2018.
Russian state-controlled energy companies can thus be regarded as politically motivated economic actors: they are influenced by a strategic geopolitical agenda and the pursuit of power as well as profits. Companies such as Gazprom, Lukoil, Novatek and Rosatom follow an economic logic of competition for market share and a diversification of their portfolios, but their decisions can also be motivated by the Russian state’s geopolitical interests. What is more, the Russian energy companies generate not just profits for the state budget and Russian elites but also personal profits for retired and well-connected European politicians, such as former German chancellor Gerhard Schröder, who is now the chairman of both Rosneft and Nord Stream.

The distribution of legislative competences between the EU’s supranational institutions and the member states (jointly and individually) stands in contrast to the concentration and enforcement of the Russian state’s authority in the energy sector. The EU member states’ competences in the energy sector have been partly transferred to the EU as a result of liberalisation in energy markets. National energy companies have been partly disempowered as the EU’s regulatory framework has begun to counter monopolies. The aim to “unbundle” so-called “vertically integrated” companies has hit European companies more than it has affected Russian companies negatively. As the position of national governments has been weakened and companies’ power in the marketplace has been constrained, the EU has not replaced them with a European energy champion, nor has the EU been empowered by the member states to negotiate on their behalf, as inter-governmental agreements remain the prerogative of the member states. In any case, the idea of unbundling and breaking down monopolies rules out the creation of any EU-steered monopolist European energy company.

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18 Romanova, 2016.
In addition to the EU-Russian Partnership and Cooperation Agreement (PCA) and the EU’s own market rules, the Energy Charter Treaty (ECT), signed in 1994, has been the most significant legislative framework for the EU, but Russian elites saw it as unfair.\(^2^0\) The Duma (Russian parliament) refused to ratify the ECT and rejected its Transit Protocol because its provisions threatened Gazprom’s dominant position, requiring signatory states to allow foreign and independent producers to acquire ownership of oil and gas infrastructure. A structured EU-Russia political dialogue on energy relations was launched in 2000 under the umbrella of the PCA, but both growing Russian protectionism and the opening-up of European electricity and gas markets to competition, as well as the integration of national markets into a Europe-wide one, have created fundamentally unequal conditions. After the Russian president’s proposal for a new global treaty on energy trade to replace the ECT was rejected, the Russian prime minister issued a decree on Russia’s withdrawal from the provisional application of the ECT.\(^2^1\)

Today, the opportunities enjoyed by Russian energy companies in the European market are in contrast to the strong regulation of foreign access to the Russian energy sector. That does not mean, however, that Russian energy companies are free from restraints, since the European Commission monitors their compliance with the EU’s market rules. The EU’s action against the territorial restriction clauses (otherwise known as “destination clauses”) forces the European energy companies doing business with Gazprom, and the Russian company itself, to renegotiate long-term supply agreements and bring them into line with the EU’s energy market principles.\(^2^2\) The destination clauses in supply contracts used to prevent importers in EU member states from reselling gas to other member states, thereby allowing Gazprom to use both purchase obligations and differential

\(^{2^0}\) Belyi et al., 2011.

\(^{2^1}\) Voon & Mitchell, 2017.

\(^{2^2}\) Wäktare, 2007.
pricing to maximise its own profits at the expense of European companies and the consumers in the different member states.

More recently, the Russian state has taken issue with the EU’s controversial unbundling requirements, nicknamed the “Gazprom clause”, in the Third Energy Package of 2009.\textsuperscript{23} The requirements on foreign operators’ compliance (Article 11) with the unbundling requirements (Article 9) that EU-based companies must fulfil was, however, significantly watered down as a result of strong resistance from the German and French governments, among others, that were seeking to protect European companies’ commercial interests, especially in Russia.\textsuperscript{24} The originally proposed “reciprocity clause” could have blocked Russian monopolies from operating in the EU’s natural gas market.\textsuperscript{25} Despite the adoption of softer provisions, president Putin reportedly called the Third Energy Package and the EU’s aim to convince Russia to unbundle the ownership and operation of Gazprom “a robbery” and “violation of Article 34(1) of the PCA”.\textsuperscript{26} In Russia’s WTO accession talks, the EU also failed to convince the Russian government to liberalise its domestic energy market and to dismantle Gazprom’s export monopoly.\textsuperscript{27}

The growing conflict between the EU’s market rules and Russian state interests became clear in the EU’s first major anti-trust proceedings against Gazprom. In 2012 the European Commission launched investigations into suspected abuse of the company’s dominant market position in “upstream gas supply markets” in the EU. It had found evidence that suggested that Gazprom “divided gas markets by hindering the free flow of gas across Member States”, “prevented the diversification of supply of gas” and “imposed unfair

\begin{thebibliography}{9}
\bibitem{23} European Commission, 2009a; 2009b.
\bibitem{24} Dralle, 2018, pp. 25–26.
\bibitem{25} For a detailed discussion, see Dralle, 2018, Chapter 2.
\bibitem{26} Van der Loo, 2013, pp. 20–21.
\bibitem{27} Hobér, 2015.
\end{thebibliography}
prices on its customers by linking the price of gas to oil prices”. In April 2014, Russia initiated proceedings in the WTO against the EU’s energy market reforms, and specifically the Third Energy Package. It accused the EU of unjustifiably restricting imports of natural gas originating in Russia. In August 2018 the WTO Dispute Settlement Panel issued its report, which confirmed that EU energy market rules were largely compliant with WTO law, contradicting Russian claims of discrimination, albeit conceding that the national implementation of energy market rules in some cases was in breach of WTO principles. Both sides appealed the panel’s verdict; the hearing is pending. In the meantime, Gazprom agreed with the European Commission a settlement of the anti-trust case that had been launched in 2012.

Despite the EU’s apparent success in defending its market rules, the anti-trust proceedings also revealed the difficulties of enforcing market principles that were meant to “level the playing field” with Gazprom. The composite nature of the EU provides many opportunities for Gazprom and other Russian companies to expand exports and operations in different EU member states. Not only do national authorities and national market structures act at cross purposes with the European Commission on occasion, but national authorities are generally unable to see the bigger picture of the combined influence held by Russian state-affiliated energy companies across the EU through supply contracts, ownership of infrastructure, and shares in Western European fossil fuel fields and power production plants. In Russia, the state keeps foreign companies’ access tightly restricted as “[n]either market rules nor international law will guarantee foreign

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29 WTO, 2019.
30 European Commission, 2018; Talus & Wüstenberg, 2018.
investments, only the [Russian] president’s agreement [will]”.\textsuperscript{32} As a result, European energy companies have a considerably more limited and restricted presence in Russia.

**Energy Companies’ Interdependence in the Russian and European Markets**

After the major interruption of gas supplies from Russia to Ukraine in January 2009, efforts in the EU to reduce member states’ vulnerability to any future cuts in gas supply from Russia were beefed up. The EU has aimed to promote access to liquified natural gas (LNG) and gas storage, for which the European Commission presented a strategy in February 2016.\textsuperscript{33} At the same time, developments in the production of shale gas and the supply of LNG to consumers in Europe have put pressure on Russia to defend its market share by strategically lowering gas prices. Since 2015, Gazprom has also auctioned small amounts of gas in the EU.\textsuperscript{34} With Novatek’s LNG production and Gazprom’s acquisition of controlling shares in LNG production in Sakhalin, Russian energy companies are responding to changing global and European market conditions. Gazprom has also adjusted some supply contracts with European energy companies, but its revision of gas prices was forced by Germany’s Uniper (E.On) and RWE (Innogy), Denmark’s Ørstedt (Dong) and France’s Engie (GDF Suez) rather than being granted willingly. The French company also concluded a long-term LNG supply contract with Novatek in 2015, putting pressure on Gazprom, which at the same time increased the flow of Russian gas to key customers in the EU. The need to counteract the effects of EU and US sanctions on Russian domestic operations and revenues increased Russia’s motivation to grant European energy companies greater access in Russia – for the time being – despite an otherwise strongly protectionist trend.

\textsuperscript{32} Finon & Locatelli, 2008.

\textsuperscript{33} European Commission, 2016.

\textsuperscript{34} Boussena & Locatelli, 2017.
The cautious opening-up of the Russian gas market since 2013 is in this context not necessarily a sign of a rapprochement with the European energy market framework; nor is the acceptance of European energy companies’ participation in the Russian market a sign of a genuine Russian interest in promoting and opening up and greater market competition. These moves are, in part, a response to global energy market pressures and also a tool to expand Russian companies’ access to European energy reserves, storage and transmission infrastructure and power generation, through partnerships and asset swap deals. Gazprom depends on foreign support for its technological and industrial development, not least in relation to LNG, but also for financial resources for challenging extractive operations in Russia that Gazprom has difficulty executing on its own. For example, OMV (24.98%) and BASF/Wintershall (25.01%) acquired stakes in blocks 4A and 5A of the Urengoyskoye gas and condensate field, where the exploration is technically more demanding. Gazprom acquired 50% of Wintershall Noordzee, with oil and gas exploration rights in the British, German, Danish and Dutch sectors of the North Sea. Russian energy companies are equally pursuing the acquisition of oil and gas exploration rights in Norwegian fields. Gazprom had originally even pursued plans with Shell for a Baltic LNG plant to be located in Ust-Luga (Kingiseppsky District of Leningrad Oblast) near to the Nord Stream 2 pipelines that have been under construction since 2018. However, in April 2019 Shell suddenly dropped out as Gazprom introduced a new Kremlin-associated partner, RusGaz-Dobycha, which highlighted that, for European energy companies, it is an uneven playing field.

In the EU, significant measures were adopted from 2009 onwards, and investments were made to enable the reverse flow in natural gas pipelines to increase access to alternative supplies and supply routes for those member states heavily reliant on Russian gas deliveries.

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35 Schmidt-Felzmann, 2019.
36 Reuters, 2019.
Gazprom has, at the same time, continued to pursue new infrastructure projects to lock European consumers into a long-term supply dependence with the construction of new gas pipelines circumventing Ukraine through the Baltic Sea and Black Sea. Before Nord Stream became fully operational in 2012, the overland transit pipeline through Ukraine transported around 80% of all Russian gas exports to Europe. With Nord Stream as an alternative route, and the dispute over gas and transit prices reaching a peak after the Russian military intrusion into the Donbas region, Russian gas transit via Ukraine was reduced substantially from 2014. A six-month suspension from July to December tested the effectiveness of the EU’s internal supply security mechanisms.37 Reverse gas flows from Slovakia to Ukraine started in September 2014, while supplies from Poland and Hungary to Ukraine added additional capacity, enabling several EU member states to satisfy Ukraine’s gas demand, despite import reductions and supply suspensions from Russia.38 Against the background of the EU and US sanctions – which also target, albeit cautiously, the energy sector39 – Russian energy companies, in particular Gazprom, continue to expand their business engagements across Europe.

The participation of European energy companies in Russian extraction projects and Gazprom’s acquisition of new assets in the European energy sector also help protect Russian state revenue against further sanctions. Partnerships with European energy companies increase the likelihood of political protection from EU member states. This even applies to Lukoil, with its expanding operations in Europe after the acquisition of OMV’s European lubricants business, and ownership of a Dutch refining facility, Romanian gas exploration and service stations in Belgium, Luxembourg and the Netherlands. The strong joint

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37 European Commission, 2014a; 2014b.
38 European Commission, 2015b.
protest by Germany’s foreign minister and Austria’s federal chancellor against the threat of US sanctions targeting European companies participating in Nord Stream 2 illustrates the effectiveness of this approach.\textsuperscript{40} Gazprom also maintains excess pipeline capacity and comparatively lower extraction costs in its existing production fields, which increases its ability to wage a price war against alternative LNG supplies to the EU.\textsuperscript{41} Natural gas import volumes in early 2015 suggested that Norway might replace Russia as the EU’s main supplier.\textsuperscript{42} In this context, Gazprom announced an agreement with OMV, Royal Dutch Shell, Engie, Wintershall/BASF and E.On/Uniper. In September 2015 it was made known that these companies would be part of a joint venture with Gazprom to build a second set of gas pipelines from Russia to Germany through the Baltic Sea: Nord Stream 2.

**NORD STREAM 2: A MEANS OF PROMOTING COOPERATION OR JUST A SOURCE OF CONFLICT?**

Following Russia’s annexation of Crimea, Gazprom’s plan to construct a second set of gas pipelines through the Baltic Sea became a source of conflict within the EU and even between the US and some EU member states. Germany and Austria, among others, hailed the project as a means of increasing EU-Russian interdependence, thereby reducing conflict against the background of the political and military tensions. Other EU member states, and even the US, have criticised the plans for Nord Stream 2, viewing the pipeline’s construction as a liability for the EU. Concerns on the part of Denmark and Sweden have been framed in terms of threats to national and European security, Russian geopolitical ambitions over Ukraine and an expansion of Russia’s leverage in Europe.\textsuperscript{43} The European Commission has

\textsuperscript{40} German Foreign Ministry, 2017.
\textsuperscript{41} Boussena & Locatelli, 2017.
\textsuperscript{42} NTV, 2015.
\textsuperscript{43} SVT, 2017; Berlingske, 2018.
expressed its concerns about the new Baltic Sea pipelines in terms of how they could undermine the EU’s common energy policy and the objectives of phasing out the use of fossil fuels, insisting that the pipelines must comply with the EU’s energy market and competition rules.44 Russian representatives and spokespersons for the Gazprom subsidiary have emphasised the commercial nature of Nord Stream 2 and the contribution that the new gas infrastructure could make to the EU’s energy supply security over the next 50 years.

The Russian pipeline plans circumventing Ukraine have met with particularly strong resistance in Poland,45 where the Office of Competition and Consumer Protection (UOKiK) raised objections to Gazprom’s envisaged joint venture with the five European energy companies as shareholders on the grounds of excessive market concentration.46 In response to UOKiK’s objections, the joint venture plans were dissolved in August 2016, and Gazprom became the sole owner (100%) of Nord Stream 2.47 The subsequent announcement, in April 2017, of a financing agreement for Nord Stream 2 between Gazprom and the five companies48 was subject to further scrutiny and UOKiK argued that this arrangement was, just like the joint venture, in breach of anti-monopoly rules.49 New US sanctions and the litigation between Ukraine’s Naftogaz and Gazprom in the Arbitration Institute of the Stockholm Chamber of Commerce also threaten commercial consequences for the Nord Stream 2 project and participating European companies.50 While critics in the US condemned Nord Stream 2, Germany – as the primary recipient of Russian gas through the Baltic Sea – was increasingly at loggerheads with other

44 Vihma & Wigell, 2016.
45 See, for example, Wojcieszak, 2017; Szymański, 2016.
46 Office of Competition and Consumer Protection (Poland), 2016.
47 Engie, 2016.
EU member states and in confrontation with critics in the European Commission, and, together with France and Austria, German government officials objected strongly to the perceived “meddling in European energy affairs” by the US over Russian gas supplies.

The EU’s College of Commissioners proposed the conclusion of a separate, bilaterally negotiated agreement between the EU and Russia, to ensure legal certainty for investors and to moderate expected negative consequences for the EU’s internal gas market. A draft negotiating mandate was presented to the member states in June 2017.\textsuperscript{51} The Commission argued that this would ensure that “Nord Stream 2 operates in a transparent and non-discriminatory way with an appropriate degree of regulatory oversight, in line with key principles of international and EU energy law”.\textsuperscript{52} In response to resistance from Austria, France, Germany and a few other member states, the Commission concluded that a revision of the EU’s existing gas market legislation would be the most effective way of resolving the intra-EU conflict over Nord Stream 2.\textsuperscript{53} Commission president Jean-Claude Juncker announced that the Commission would propose common rules for gas pipelines entering the European internal gas market. A common legal framework was to bring clarity and ensure that, at the very least, the parts of the Nord Stream 2 pipelines on EU territory followed EU market rules, while the non-EU parts would be subject to EU law by territorial extension or be governed by an EU-Russia agreement which would ensure the functioning of the energy market.\textsuperscript{54} Establishing common rules for the EU with the modification of the Gas Directive to cover foreign pipelines entering the EU would also counter Gazprom’s ability to play off EU states against each other and obtain individual concessions in the EU’s gas market.

\textsuperscript{51} The draft negotiating mandate of 9 June 2017 – a restricted EU document – was leaked by \textit{Politico.eu}. See European Commission, 2017d.

\textsuperscript{52} European Commission, 2017b.

\textsuperscript{53} European Commission, 2017c.

\textsuperscript{54} Dudek & Piebalgs, 2017.
The EU agreement that was reached on the basis of a Franco-German proposal on the application of the Gas Directive to Nord Stream 2 has not removed the critics’ concerns entirely. The compromise reached with Germany stipulates that the member state where the first entry point of an external pipeline is located (territory and territorial waters) is to be regarded as affected by the new rules, and not, as earlier proposed, the EU as a whole. Other member states that consider themselves to be affected by an external pipeline project do not, therefore, have a formal say in how it is regulated. This matches German intentions, expressed at a meeting with president Putin in October 2015 at which the German economic affairs and energy minister, Sigmar Gabriel, emphasised: “we strive to ensure that all this remains under the competence of the German authorities” and that it was important “for German agencies to maintain authority over settling these issues” which “will limit the possibility of political interference in this project”.55 The relative power of the EU member states, and the difference in their political and energy supply relations, clearly play a role in the extent to which the EU can act as a Union on energy. This, in turn, amplifies the asymmetries between the Russian suppliers and European buyers of fossil fuels, and the EU’s ability to capitalise on the bargaining power it might have by virtue of the large European energy market and desirable energy assets.

In its anti-trust investigations, the European Commission noted in 2015 that “Gazprom made wholesale gas supplies conditional upon the participation of the Bulgarian gas incumbent wholesaler in a large-scale infrastructure project of Gazprom (the South Stream pipeline project) despite high costs and an uncertain economic outlook”.56 Different “deals” negotiated by Gazprom with the five energy companies that have pledged their financial support to Nord Stream 2 indicate that the project is, for the Russian state, an instrument serving multiple commercial and strategic purposes. With the participation of the

55 President of Russia, 2015.
56 European Commission, 2015a.
large European energy companies in Gazprom’s key infrastructure projects circumventing Ukraine, it is possible for the Russian government to enlist the political support of key EU countries to amend legislative proposals that would constrain Russian operations in the EU. European energy interests in Russia even provide the Kremlin with leverage vis-à-vis the US and EU sanctions. Possible further sanctions could inflict financial harm on Russia, but these are softened or resisted by several EU member states, to the benefit of Russian energy companies and European stakeholders. The various energy infrastructure projects with the participation of European energy companies and the Russian acquisition of assets across the European energy sectors serve, in part, as a means to “sanction-proof” the Russian state budget and the income of the Russian elites that is derived from the country’s vast fossil-fuel energy resources.

**CONCLUSIONS**

The energy interdependence between the EU and Russia has not prevented a deterioration in their relationship. At the same time, the escalation of the political conflict and Russian military action against Ukraine in 2014 did not constitute a watershed in the EU-Russia energy relationship. Previous Russian and European energy policy practices, and pre-existing conflicts over the EU’s market rules, continued after 2014. The contradictory aims pursued by both sides in the energy sector and the different nature of key energy actors have been the primary sources of conflict. The EU’s goals – notably the endorsement and promotion of competition in the gas market and attempts to force Gazprom to abide by the EU’s market principles and reduce its influence and market share within the Union – go against Russia’s ambitions to defend and strengthen the position of its energy champions (Gazprom, Rosatom, Rosneft and Lukoil) across Europe, while ringfencing its strategic industries from foreign influence. Due to these fundamentally opposed ambitions, and the
contradictory objectives of the energy importers and the energy producer, it is difficult for the EU and Russia to reach a mutually satisfactory joint approach in the energy sector to manage their energy interdependence.

The EU’s common energy policy has achieved a change in the energy relationship with Russia only in so far as successive legislative and practical moves in the EU have brought about adjustments. The EU has put pressure on Gazprom to adjust its strategies to the improved gas market interconnectivity that the multiple measures to better connect (physically) and integrate national markets have brought about. Nevertheless, the pressures of the global energy market have probably done more to force the Russian state-owned and state-affiliated companies to adjust their commercial strategies.

There is no reason to expect any fundamental changes in the Russian energy market. The EU-Russian energy relationship will remain deeply unequal as long as the Russian state rejects energy market liberalisation. On the EU side, the divergent interests of the member states, the competition between European energy companies and the rejection of the EU’s energy market model in Russia will continue to prevent an approximation between the EU and Russia. As long as the positions of national governments remain influenced by the large energy companies operating on their territory and their mutual stakes in deals with Russian energy production sites, the asymmetric interdependence will continue to grant greater influence to the Russian state and Gazprom in EU member states than vice versa.

The EU’s – and especially the European Commission’s – hands remain tied by the member states. European energy companies have, to some extent, been indirectly helped by the global shift towards LNG, which has put pressure on the Russian fossil fuel sector. The EU and US sanctions have created additional incentives for the Russian state – and a necessity for Russian energy companies – to open up the
domestic extractive sector to greater European participation. However, despite the constraints of the EU’s regulation, Russian energy companies have more market opportunities and gaps in the regulation to exploit in the EU’s market than European companies have in the tightly controlled Russian energy sector, and especially the fossil fuel sector. For the EU, it will remain intrinsically difficult to level the playing field with Russia in the energy sector. This is further complicated by the internal divisions evident in the case of Nord Stream 2.

As long as the largest and most influential member states pursue national energy interests bilaterally with Russia that diverge from a shared EU energy policy, the EU as a Union is in a weaker bargaining position vis-à-vis Russia than the combined energy market power of its member states would suggest. The distinct differences between the ownership structures of European energy companies and the Russian state-affiliated energy giants further limit the EU’s ability to rein in the disparate commercial actors and decision-makers to “project” its energy market power more effectively. The EU has so far failed to convince the Russian state and energy companies of the benefits to be gained from full energy market liberalisation in Russia, such as investment and domestic technological innovation for a thorough modernisation and greater competitiveness of the Russian energy sector, with important positive effects on the environment and climate also to be reaped.
Since 2014 Western sanctions have been primarily designed to exert influence through the Russian financial system. On the microeconomic level, measures were taken to freeze the Western assets of Russian senior decision-makers and entities. On the macroeconomic level, a wide variety of restrictions were imposed, most of them as a response to the escalating conflict in eastern Ukraine: the EU limited trade in certain financial instruments with a maturity longer than 90 days; the US introduced various transactional bans on major Russian companies, such as Rosneft, Novatek and Gazprombank. Especially in these latter cases, the underlying expectation was to reduce the liquidity of Russian economic actors, hamper their investment potential and consequently constrain Moscow’s economic potential in the short and medium run. On the macroeconomic level, stringency was meant to affect a wide range of sectors indirectly and proportionally, while financial sanctions on individuals caused targeted pain for decision-makers.

The objective of this chapter is to summarise and briefly analyse the transformation process of Moscow’s financial interdependence with the West and the EU, and in particular Russia’s vulnerability. At the level of investments and financial and payments systems there was a much larger development cleavage in 2014 than in EU-Russia trade or energy relations. For the West and especially for the EU, this was the
first time that economic statecraft had been used as the central element of its policy towards Russia. For Russia, integration into global value chains became a persistent threat to its sovereignty, forcing it to securitise new segments of its economy and develop new forms of resilience. Consequently, previous cooperation and interdependence moved into a new context, changing their patterns considerably.

In the first part I look briefly at the 2014 sanctions in the context of financial systems and highlight the differences between the EU and US approaches. This part also maps out the potential limits of sanctions policy, if inconsistencies within transatlantic relations remain, implicitly demonstrating the EU’s significance in Western sanctions policy. In the two subsequent sections I look at two issues. First, I analyse the implications for Russia of the existing Western sanctions, especially regarding the capital account, FDI and Russia’s net financing position. Second, I make a short presentation on Moscow’s policies, notably its efforts to increase the resilience of its payments system, which represent its most tangible reaction to the new reality. Increasing sovereignty over payments systems is also about lessening the consequences of a potential new round of Western sanctions, thus systematically and implicitly broadening future Russian foreign-policy options. In both of these issues I focus on the momentum of change, comparing the situation before and after 2014s and pointing to potential further trajectories. Finally, the concluding section briefly explores prospects for the future.

**Power Relations of Western Sanctions**

Before exploring the shifts in EU-Russia interdependence, it is important to look at the power relations of the Western sanctions policy. Due to the key importance of the US in this issue, it is necessary to briefly compare the EU’s sanctions with those of the US. The Western sanctions against Russia constitute an extremely diverse set, in terms
of both subjects and targeted fields. The EU and the US, the two leading entities of Western sanctions policy (in total, 37 countries have imposed sanctions on Russia), coordinated their measures, especially in the early years, in order to optimise their impact. Despite these efforts, US and EU sanctions policies differ considerably.

First, the US has a long record of and considerable capability to impose and implement sanctions. In the 20th century, on 109 occasions out of 174 documented cases it was the US that deployed sanctions, while the EU used this instrument only 14 times.¹ Washington has developed capabilities to monitor subjects, follow their actions and enforce its claims. The internal legal procedure has crystallised, and tactical issues are managed with high proficiency and efficiency. The EU has also intensified its sanctions policy in the last 20 years. At the same time, its policy still relies heavily on the 28 member states in both the decision-making process and implementation. Unlike the US, where the lifting of current measures often requires a long and laborious process in Congress, the European Council must renew even the existing set of sanctions each year. Enforcement depends on national authorities and this sometimes offers major loopholes for targeted subjects.

Second, US sanctions are often enforceable beyond its national borders, even in cases in which the banned transaction takes place between two non-US subjects. This is especially true for sanctions related to the global financial system. Given the US role in global banking and the US dollar’s role in global finance, almost all major entities have US affiliations. Thus, Washington can compel even banks and countries that do not formally accept US financial sanctions to impose them on Russia or at least to consider the US legal threat on their transactions.² In this way, Washington can constrain Russian financial cooperation even with Chinese or other Far Eastern

¹ Hufbauer et al., 2009, pp. 3–5.
This is a major advantage, enlarging the scope of its actions and making the EU’s measures appear rather weak.

Third, the objectives of US sanctions go well beyond the Ukraine conflict. While the EU pursues an issue-based approach, Washington formulated a diverse set of goals related to cybersecurity, human rights, Russian action in Syria and Russian energy policy. US sanctions against Russia have become normative and a continuous process, with little hope for Moscow of changing them substantially. This is in sharp contrast to EU-Russia relations, in which Russia may anticipate a status quo attitude unless Moscow changes its own policy. It may even try to water down the current set of sanctions, especially if it can shift the Western perception of its actions in eastern Ukraine or reach significant compromise on the issue.

Given these features, it is reasonable to say that the US leads on Western sanctions policy. US measures have a broader scope and provide certainty that current sanctions will be present for a long time and also uncertainty about what comes next. The latter is pivotal for any effective sanctions policy. The notion of worsening relations and future actions handicaps longer-term patterns of cooperation, increases country and corporate risks, and makes external financing considerably more expensive for banks and financial institutions. The EU’s participation was important at the start and still provides a good deal of weight and international credibility. At the same time, its measures are too stagnant with little potential for change, enabling targeted subjects to adapt to them. EU decision-making obviously suffers shortcomings stemming from its intergovernmental nature. Unlike the US, European companies are also much more affected by Russia’s economic difficulties, significantly constraining the EU’s scope for action.

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3 A good demonstration of this was the arrest of Huawei’s chief financial officer in Canada in December 2018 and her potential extradition to the US because of the alleged violation of US sanctions against Iran.

4 Liik, 2019b.
When looking at EU-Russia interdependence at the level of financial systems, these characteristics must be taken into account. Despite all the damage to political and public trust caused by Russia’s actions against Ukraine, EU sanctions against Russia remain reversible. However, much of the damage to EU-Russia ties stems from US sanctions on their own. The potential implications of an EU “sanctions thaw” may be limited if US sanctions remain in force. Nonetheless, the political-economic context of sanctions has been changing. Given the extensive use of sanctions policy by the Trump administration and international discontent over dismantling certain multilateral institutions (e.g. the WTO dispute settlement process), even the EU may distance itself from the US. Washington has to some extent discredited its leading role in the global economy, putting the creation of alternative systems on the agenda in many countries.\(^5\) Russia’s attempts to regain autonomy over its own payments systems and strengthen financial resilience are therefore to some extent in line with the economic zeitgeist.

**HOW THE SANCTIONS WORK**

**Shrinking turnover between the EU and Russia**

The impact of sanctions on Russia’s economy was magnified by two major factors: a fall in oil prices from the summer of 2014 and a general slowdown in GDP growth caused by structural problems since 2012. Russia went into recession after 2014 and has been recovering sluggishly since 2016. All these signs could be interpreted as symptoms of major growth problems. At the same time, it is impossible to measure to what extent this is due to Western sanctions. Some assumptions regarding the long-term macroeconomic effects can be drawn by approaching this issue from the balance of payments angle, analysing its interaction with other countries.

\(^5\) For example, even senior German politicians support the idea of creating a “European SWIFT”, given the alleged US bias in the current system.
Being a major energy exporter, Russia traditionally has a huge foreign trade surplus (180.6 billion USD and 115.4 bn USD in 2013 and 2017 respectively). Exports constitute by far the biggest line in the current account balance (521.8 bn USD and 353.6 bn USD) and have been only negligibly affected by the sanctions; the measures directly targeting the energy sector are very limited and their effects can be felt only in the longer run. On the imports side, sanctions may have triggered some indirect effects. Western sanctions influenced the rouble’s exchange rate, and the political threat may also force Moscow to restrict imports for a variety of reasons. Nonetheless, falling oil prices have caused steady depreciations of the rouble in the past, especially in 1998 and 2008–9. It is therefore reasonable to say that a foreign trade surplus is a systematic feature of the contemporary Russian reality and gives a good deal of robustness to its finances.

Other lines in the current account have traditionally been negative and reduce the surplus. These items have presumably been affected to a greater extent by Western sanctions. Among others, they include foreign exchange in services (−58.3 bn USD and −31.1 bn USD in 2013 and 2017 respectively), compensation of employees (−13.2 bn USD and −2.3 bn USD) and investment income (−66.5 bn USD and −39.8 bn USD). The latter line in particular is increasingly sensitive to expectations about the future. Nevertheless, Russia’s current account balance remained positive (1.4% and 2.2% of GDP in 2013 and 2017 respectively) and it would be difficult to characterise these developments as unique or out of the ordinary.

The emerging perception of Russia’s financial vulnerability is more visible in the capital account. This shows the net lender–borrower position of a country, including direct investments, loans and balances of other transfers between domestic and foreign subjects. This turnover has dropped substantially, the annual growth of liabilities
decreasing from 124.4 bn USD to 1.3 bn USD between 2013 and 2017.\footnote{In 2015 this figure was −72.9 bn USD, against a 4.0 bn USD decrease in Russia’s foreign assets.} Given the similar trajectory of Russia’s external assets, this signals a major drop in financial interaction between Russia and the rest of the world. While Russia remained a net lender to the rest of the world, capital transactions fell to a qualitatively new level. On the one hand, Russian subjects refrained from capital transfers abroad, where the threat of existing and future sanctions may have played a significant role. On the other, Russian residents also stopped receiving capital transfers from abroad. Besides FDI, this also affects the level of foreign debt, which decreased from 715.9 bn USD to 470.2 bn USD between January 2014 and October 2018. This latter indicator is a major change in the trend and is certainly an effect of the sanctions, and signals an inability and to some extent unwillingness to borrow from abroad.

The reduction in gross capital transfers only implies a more “closed” status of the economy and does not ultimately affect economic performance. Nonetheless, it may cause major turbulence even in the short run if other lines of the current account balance change unfavourably. Thus, positive balance in Russian exports and especially international oil and gas prices may have an even greater significance today than in the past. In order to improve the short- and medium-term effectiveness of sanctions, a major reduction in export revenues would have been not only desirable but essential. This happened only partially, due to market forces (the average export price of Russian Urals oil fell from 106.9 USD to 40.3 USD/barrel between 2013 and 2016). Limiting foreign trade and especially putting a direct or indirect embargo on Russian energy has not been among the West’s policy options. Restricting the capital account was the maximum affordable at the current level of the dispute.

Nonetheless, in the longer run the low principal of the capital account may turn out to be expensive in the macroeconomic sense. High levels
of FDI represent not only financial but also technological and know-how transfer for the recipient economy. The lack of these may slow down technological progress, especially if not compensated for by other, domestic efforts. A lack of external finance may have worrying consequences, given the capital-poor nature of the Russian economy and the capital-intensive energy sectors. Major Russian companies cannot raise the funds needed for their development projects from domestic sources, and can therefore only get foreign credits at higher interest rates or less favourable terms.

The end of the decade of Russian iFDI?

In formal terms, investments are not inherently a part of finance. Nonetheless, high levels of inward foreign direct investment (iFDI) often symbolise the ultimate form of economic trust between subjects and are very sensitive to any disruptions in relations. It should therefore be no surprise that annual flows of iFDI to Russia fell by more than 90% between 2013 and 2015.\(^8\) This fall by far exceeded the drop in any other category, such as foreign trade, outward foreign direct investment (oFDI) from Russia, and remittances. This collapse also affected EU-Russia relations, since the Union had a unique role among foreign investors: at its peak, the EU’s share of total iFDI in Russia was over 80%. This is a very high proportion, even if investment flows from Russian-owned foreign residences (e.g. round-tripping and transhipping) represent a major bias in interpretation.

In a post-communist new EU member country, such a gap in FDI flows would have caused severe recession and, probably, political turbulence. But for Russia, iFDI and multinational companies have never become such important strategic constituencies as in most EU member states. According to UNCTAD, until the mid-2000s Russian iFDI stock levels

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\(^8\) From 69.2 bn USD in 2013 to 6.8 bn USD in 2015. For comparison, iFDI flows decreased to a much more humble level during the financial crisis, from 74.8 bn USD in 2008 to 36.6 bn USD in 2009.
remained below those of the combined Visegrád Four countries, even in absolute terms. Thus, expansion of foreign investments started relatively late, in the mid-2000s, and lasted only for a decade. The reasons are manifold. Besides the long and turbulent transformation under Yeltsin and late consolidation in the early Putin years, Russian FDI receptivity always remained relatively low. According to the OECD’s FDI Regulatory Restrictiveness Index, the Russian indicator exceeded the OECD average by a factor of almost three (0.182 vs 0.066).

Furthermore, foreign multinationals were driven into Russia by different motivations than they were in Central and Eastern Europe. In the new EU member countries efficiency-seeking and access to the region’s cheap and educated labour force for manufacturing industries was the major incentive. At the same time, in the case of Russia, market- and resource-seeking motivations played a dominant role. Having the 9th-biggest population in the world and being 48th on a per capita GDP PPP basis, Russian aggregate demand is comparable with all former communist Eastern European countries combined. Foreign multinationals understandably tried to access this market and, given its economies of scale, they were also ready to bring in production capacity to supply local demand. Thus, European iFDI in sectors such as car assembly, pharmaceuticals and the food industry targeted not export markets so much as Russian consumers. Similarly, access to huge and often cheap resources in sectors like energy, mining, forestry and agriculture has remained a major objective, despite local policy constraints.

However, these investment motivations are increasingly sensitive to growth and political considerations. For solid market-seeking

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9 The average per capita iFDI of Russia and the combined V4 (Czech Republic, Hungary, Poland and Slovakia) between 2005 and 2009 remained at 2,057 USD and 5,659 USD respectively (author’s calculations based on UNCTAD FDI data).

10 OECD, 2017.

11 Author’s ranking based on data from the IMF World Economic Outlook Database 2018. IMF, 2017.
investments, the prospect of long-term sustainable growth in aggregate demand is crucial. These prospects were taken for granted in the past, since Putin’s legitimacy rested partly on spectacular growth in welfare and social stability. On this basis, politics was to some extent overlooked as a potential threat to local business. The annexation of Crimea and the subsequent Western sanctions constituted a major watershed in this respect, driving Russia into recession and putting political risks into the spotlight of business activity. Similarly, Russia’s move towards import-substitution, reliance on local resources and a large number of new restrictions further constrain resource-seeking investments. This latter feature has been present since the mid-2000s, but since 2014 related country risks have deteriorated considerably.12

However, Russian iFDI levels are historically closely interrelated with the respective flows of oFDI. This has long been a distinctive feature of Russia among the BRIC countries. Capital exports and outflow were increasingly motivated by local push factors, the low level of financial services and institutional uncertainties within Russia. A good deal of these funds returns to Russia through foreign residency: in 2017 the top three investor countries in Russia were Cyprus, the Bahamas and Luxembourg, with a combined share of 64% of total iFDI. Western sanctions may considerably encumber these round-tripping and circulation activities. Under most sanctions regimes, foreign banks and financial entities must examine every suspicious transfer on the basis of ultimate beneficiary ownership. This is a complicated administrative process with a high probability of failure, especially if the client is related to the extensive web of sanctioned individuals or entities. Under the US sanctions, even financial transactions with some major Russian companies may hold certain risk.

12 Traditionally the law on strategic industries (Federal Law No. 57-FZ of April 2008) is taken as the formal start of cutting the list of sectors accessible to foreign investors (Russian Federation, 2008). However, informal political support had been essential for major deals even before that, as the failed purchase of Yukos or the Sakhalin concessions demonstrated.
It should therefore come as no surprise that many European banks refrained from major financial transactions with any Russian subjects, especially in the early years of sanctions, and those that ran the risk did so probably at fees higher than normal. Understandably, regulations and practices vary widely between countries and banking institutions. Nonetheless, multiple transfers of funds, often required to hide traces of the client from Western and/or Russian governments, carry exponential risks and costs, restricting the scale of applicability. Unlike simple capital flows, round-tripping usually requires precisely these multiple transactions. Consequently, oFDI from Russia fell from 86.5 bn USD to 36.8 bn USD between 2013 and 2017.

Despite all these negative trends in FDI, there is hardly any indication of a change in the geography of investments. In 2016 Singapore became the largest foreign investor in Russia, but this was due to a single megadeal; Singapore’s 3.7% of total iFDI stock is no match for Cyprus’ share of 36.7%.  

It would also be misleading to speak of a major investment gap in Russia. Capital investment fell from 23.1% of GDP to 21.9% between 2013 and 2015 but later recovered. The reduction in iFDI was probably offset to some extent by domestic investment, boosted by depreciation of the rouble. All these indicators suggest a degree of reversal of the trends since 2014. The major question, therefore, is whether the FDI gap is a temporary setback or represents a new form of economic model that relies predominantly on internal capital accumulation and successfully constrains round-tripping.

HOW RUSSIA HAS ADAPTED TO SANCTIONS

Budgetary tightening and credit deleveraging

The conventional European expectation was that sanctions would restrict Moscow’s financial capabilities, cause social and elite discontent

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13 CBR, n.d., table “Pryamiye investitsii v Rossiyskuyu Federatsiyu - 2018”.
and thus force Russia to choose the lesser of two evils and make concessions in the conflict over Ukraine. While it remains unclear to what extent economic coercion is convertible into foreign policy, the scope of the financial tightening is worth analysing.

The Soviet Union and Russia faced several external economic shocks in the last 30 years. Falling oil prices combined with domestic weaknesses caused severe financial problems in 1986, 1998 and to a lesser extent 2008–9. This is to some extent normal, given Russia’s sharply increasing reliance on revenue from energy exports since the late Soviet period and liberalisation of its foreign economic relations after 1991. Moscow failed to manage this trend of interdependence with global markets until the late 1990s. The incoming Putin administration did not change direction towards integration with the world economy, but set measures to manage future vulnerabilities and increase Russian financial self-rule. On the public finance level, Russia repaid much of its debt to foreign creditors and the IMF by 2003. It also set up an anti-cycle mechanism in its 2004 budget to collect excess rent income from oil and gas exports (the Stabilisation Fund) and splitting it between two quasi-sovereign wealth funds (the Reserve Fund and the National Welfare Fund) in 2008. The combined value of these funds equated to around 8% of GDP in early 2014.

Western sanctions did not affect public finances directly. Sanctions may have aggravated economic hardship in Russia and vastly increased the risks of taking large-scale credits in foreign markets. Both these developments currently have little relevance, although

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14 In 1985, 14.7% of total Soviet hydrocarbon production (1.536 billion toe) was exported. In 2010 the respective figure for Russia was 47.1% (of 1.279 billion toe). Author’s own calculations, based on Gustafson, 1989 and IEA “Country statistics”.

15 In early 2018, the US Department of the Treasury considered the usefulness of extending sanctions to Russian sovereign debt, but these measures would also have caused damage to US subjects and their effects seemed to be considerably less harmful without EU involvement. Timofeev, 2018, p. 24.
they may narrow Moscow’s economic options in particular future situations. One of the factors deserving of attention is the depletion of Russian budgetary reserves. The roughly 90 bn USD in the Reserve Fund had been fully spent by early 2018, by which time the government had started taking assets from the National Welfare Fund. Given that a good deal of the latter’s resources was in illiquid form and invested in Russian projects, the total accessible funds approached a record low (2% of GDP). While this can be considered a normal anti-cycle policy, the threat of potentially low oil prices remains valid and forces the Kremlin to keep a tight hold of the budget. The second factor is global monetary tightening and rising interest rates, and their implications for emerging and commodity markets. This may further restrict Russian public and corporate borrowing, and lessens the chances for Russia to manage economic problems through growing indebtedness. Without fiscal buffers, Moscow can only balance public spending by cutting expenditure or raising taxes. Not surprisingly, it could not maintain the previous high levels of defence spending beyond 2017, and general government revenue in terms of GDP is expected to reach a new post-2009 high (35.5%). Cutting military spending and causing tight fiscal balances are among the stated objectives of Western sanctions policy.

The reserves of the Russian Central Bank (CBR) are of a different magnitude. In early 2014 they stood at 500 bn USD, more than one-fifth of Russia’s GDP. Unlike the budgetary reserves, the government makes efforts to preserve the CBR’s funds as the country’s main financial buffer. While it functions as a conventional monetary instrument, the CBR traditionally refrains from excessive interventions and allows the rouble to depreciate relatively early in crisis situations. This is in sharp contrast with the 1998 Russian crisis or the monetary policies of many other oil exporters. While this practice leads to the preservation

16 Inozemtsev, 2018a.
17 For comparison, at the time of Putin’s inauguration in May 2000, the CBR’s reserves were below 18 bn USD.
of CBR funds, it represents a major exchange rate risk for other economic subjects. The exchange rate with the euro fluctuated intensively – between 46 and 90 roubles – in the first two years of the Ukraine conflict, causing serious losses for unprotected companies.

Exchange rate volatility polarises the corporate sector’s relationship with credit markets. Exporting industries, mainly from the mining sector, collect their revenues mostly in foreign currency and have high capital investment and borrowing requirements. For national flagship companies like Gazprom, Rosneft and Lukoil, the domestic credit markets are too shallow, so their search for foreign credit opportunities is natural. The Putin era brought a normative approximation in this respect, as Russian corporate actors introduced Western auditing, reporting and other standards in order to tap foreign financial markets. Other, usually smaller, firms and households receiving their revenues in roubles remained more dependent on national credit markets. The CBR and the government maintained a cautious approach to foreign-currency-nominated lending prior to 2014. Total Russian debt increased from 213.3 bn USD to 728.9 bn USD between 2005 and 2014, around 75% of it nominated in foreign currencies. By international standards, this level represents a low exposure, especially given the CBR’s vast reserves.

The Western sanctions brought a turnaround even from this relatively low level. As mentioned earlier, Russia’s foreign debt in absolute terms has decreased by 35% since January 2014. The fall was particularly steep in the first two years, when major Russian companies and banks withdrew from international credit markets: e.g. Gazprom did not issue eurobonds between February 2014 and November 2016 (between 2011 and 2013 it issued eight tranches of them). This deleveraging process can certainly be attributed to the sanctions. At the time of global quantitative easing and low interest rates, when cheap credits were particularly popular in emerging markets, deleveraging was somewhat exceptional. Since then, despite the return of many
Russian corporate entities to the credit markets and the lack of visible premium on interests, borrowing has remained very cautious and moderate deleveraging has continued.

Russian companies have also turned towards Far Eastern financial markets. Besides corporate risks in relation to the West, this move has also been underpinned by the gradually shifting geography of Russian exports and infrastructure. The first time major Chinese financial support was accepted by Russia was for the purchase of Yuganskneftegaz by Rosneft in 2005, an action which would have posed a huge legal risk for any Western entity. Since then these credit relationships have become widely used and since 2014 a new set of companies has joined the race for Chinese and Far Eastern connections. Sberbank started to lend in yuan, VTB and Bank of China set up new product lines servicing trade contracts, and Gazprom issued bonds for Asian lenders. Novatek went even further, by giving a major (29.9%) stake of its Yamal LNG project to Chinese investors. Russia and China are also attempting to switch from the US dollar to the yuan and rouble in bilateral trade. Nonetheless, these shifts must be made with care: Chinese lending conditions are sometimes harsher than those from the EU, and Asian financial markets often lack liquidity and are in some respects underdeveloped. While these trends are natural in light of the shifting geography of the Russian economy, a rapid and full reorientation seems unlikely.

**Establishing self-rule over the Russian payments system**

While current Western sanctions only partly affected the payments system, in the last four years Russia has securitised this issue and set up a sovereign infrastructure. Many other countries developed some elements of their payments system in a similar way in the

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18 Only 18–19% of bilateral trade was conducted in roubles or yuan in 2017. This represents a fourfold increase compared to 2013, but further progress could be difficult (Dolgin, 2018).
past. Nonetheless, the Russian move seems unique, inasmuch as it is driven by security considerations and is aimed at increasing resilience in case of a further deterioration in foreign relations.

After the break-up of the Soviet Union, the Russian payments system developed in a liberalised manner. Emerging financial institutions joined the global, mostly Western, infrastructure without having an alternative or national strategy in this respect. The Russian payments system has been built up following business inertia, and domestic efforts were driven by emerging requirements from the corporate side. The 2008–9 financial crisis brought considerable shifts in this attitude. The crisis created a good deal of turbulence in the global financial and payments system, some of which could have been avoided, or at least reduced, by having some elements of payments infrastructure in national hands. These cases were related to stalling interbank markets and problems with payment cards. Consequently, the Russian government put a number of measures in place to increase resilience and laid the foundation of Russia’s own payments system. In 2010 it decided to establish a national payments system servicing state entities and municipalities within the national border (without the involvement of non-Russian subjects). In 2011 a national bank card system (Universal Electronic Cards, or UEC) and the related infrastructure (PRO100) were created, offering an alternative to other systems, such as Visa and Mastercard.19

These measures offered a humble alternative to existing payments practices. The number of entities using and accepting these channels and cards remained limited. UEC was accepted only by 250,000 trading units, even including some major Russian banks. Furthermore, the service remained relatively expensive and slow, was accessible only within national borders, and issues over coordination with other providers remained unregulated. The policy objective, clearly, was rather to create an alternative with limited scope and effects for

certain purposes, and not a substitute for the dominant forms of payments through international providers. The “Strategy on development of a national payment system” accepted by the CBR on March 2013 was prepared in this hybrid spirit.  

The strategy has changed with the introduction of Western sanctions. In the new situation, Western – especially US – authorities can even request data from international providers on the domestic financial transactions of sanctioned Russian individuals and entities. Furthermore, in March 2014 Mastercard and Visa stopped servicing some Russian banks, citing US sanctions, leaving 220,000 Russian citizens without access to their bank cards. The extension of the sanctions became a realistic option, and discussions even began on disconnecting Russia from SWIFT. This latter potential step could almost completely paralyse economic cooperation with Russia, including trade in energy, causing severe disruption not only for Moscow but for all capitals having trade relations with it. Consequently, the Russian government decided to establish a new national payments system with the capability to substitute international payment providers as much as possible.

Under the new system, all domestic financial institutions are obliged to open accounts at the CBR, through which their transactions within Russia are serviced; all information is classified and it is forbidden to provide data to any outsiders. At the same time, all domestic payments by any bank cards, including Visa and Mastercard, are serviced within Russia through the National Payment Card System. Russia also created its own bank card payment provider, a system known as MIR. By October 2018, 45 million cards had been issued, a 17% market share. MIR is accepted by all major Russian banks and companies. Several measures have been taken to secure accessibility of MIR cards abroad at reasonable cost. Cooperation with other

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20 Ibid.
21 Ibid, p. 133.
international providers, such as Mastercard, Visa and China Union-Pay, has been arranged through partnership programmes since 2016, while Russian banks also offer co-badging cards (e.g. MIR-Maestro). The latter function as MIR cards within Russia and in line with the standards of the co-badging partner abroad. However, the policy objective is to get recognition abroad for MIR in its own right, and this has been achieved in some EAEU countries (Belarus, Armenia), and potentially, in the foreseeable future, even beyond (e.g. Turkey).23

While the Russian authorities understandably prioritise the new national payments system, it still has some shortcomings. It applies higher fees than its competitors, and affiliated services such as a clearing solution have only recently been established. Nonetheless, past examples show that national payments systems have relevance and can play an important role at national or even international level. Japan established its JCB International in 1981, and now has around 111 million credit card users worldwide. China introduced Union-Pay in 2002 and India has had RuPay since 2012. As far as national bank cards are concerned, even European countries apply different schemes, such as Carte Bleue in France, the Girocard debit card system in Germany and Bancomat in Italy. MIR and related payments systems could certainly evolve as a major stakeholder in Russia and in some neighbouring countries.

At the same time, even these new systems hide vulnerabilities. Transactions, especially with European or US entities, remain “visible” and detachable through the accounts of both the respective banks and Western financial providers. The likelihood of Western banks joining MIR in the foreseeable future remains low. Furthermore, the SWIFT system, providing technical support for global transactions, remains a major source of vulnerability for the whole payments system. Even if SWIFT is legally a Belgian company, it is widely alleged

23 National Payment Card System, n.d.
that the US authorities can access its systems and even block trans-
actions in US dollars. On these grounds, senior European stakehold-
ers such as Federica Mogherini, the EU’s High Representative for
Foreign Affairs and Security Policy, and the German foreign min-
ister, Heiko Maas, have expressed their wish to establish the “EU’s
own SWIFT” to achieve independence from the US.²⁴ Accordingly,
Russian stakeholders strive for de-dollarisation of their transactions
(e.g. Gazprom has reportedly switched from US dollars to euros in
many of its European export contracts) and actively advertise their
readiness to establish an alternative to SWIFT. Countries potentially
affected by Western sanctions, especially Iran and Turkey, but even
China, may also be interested in this. Nonetheless, given the sensitive
nature of this information and its significance in global financial gov-
ernance, no easy progress is to be expected.

CONCLUSION

Since the break-up of the Soviet Union, Russia had been integrating
into the global financial system, established and developed in the West-
ern hemisphere after World War II. This system has been historically
dominated by the leading role of the US and its currency. Nonetheless,
due to its extensive trade, human and political relations with European
countries, the EU also won a major role in Russian investment, bank-
ing and credit. The Western sanctions introduced since 2014 represent
an important turning point in this respect. Representatives of Euro-
pean and Russian business can no longer ignore political components:
these risks must be included in corporate strategies. While this process
is not irreversible, in terms of mutual investment the period of rap-
prochement is over and it may take a long time to rebuild trust.

²⁴ Maas, 2018.
The effects of political disputes and sanctions will be magnified by a number of underlying structural trends. Russia has been distancing itself from the EU in terms of foreign trade for more than a decade. In 2005, the EU and APEC respectively accounted for 52.0% and 16.2% of Russia’s foreign turnover, while in 2017 these indicators were 42.8% and 29.9% respectively. Given planned and ongoing energy projects, it is reasonable to expect near parity proportions between the two economic blocs in the foreseeable future. This happens more as a result of normal market gravity than on the basis of political assumptions, and indicates a major change in trade orientation. Protectionism and import substitution gained popularity long before 2014. Russia’s accession to the WTO in 2012 signalled a major, but clearly last, step in Russia’s post-1991 liberalisation. In many respects, protectionism provides opportunities for social and elite consolidation, even if potentially at the cost of sacrifices in longer-term competitiveness. On this basis, regaining financial self-rule and emerging securitised mindsets around finances fit well into the new economic policy patterns.

European stakeholders can hardly reverse these trends. Most of them stem from not only political factors but also structural ones, and the EU’s own policies also point towards decreasing interdependence. The major question is how the sides can manage this process of mutual distancing. The West’s efforts to use its economic leverage for political purposes currently dominates the economic agenda. At the same time, Russia’s ambitions for strategic interference, including disinformation campaigns, overshadow political relations. Nonetheless, there is no visible longer-term alternative to the development of EU-Russia relations. The elaboration of a mutually acceptable plan for cooperation with reduced interdependence would be highly desirable. This could save some aspects of the relationship from the current freefall and potentially provide more instruments to manage confrontational situations.
Chapter 10

TIES SEVERED FROM BOTH SIDES: EU-RUSSIA MUTUAL DEPENDENCE IN THE DEFENCE INDUSTRY SECTOR

András Rácz

The transformation and cooling in EU-Russia relations since 2014 have received considerable academic and political attention, from both the EU and Russian sides. However, a lot less light has been shed on how the post-2014 situation has affected relations in the defence industry, even though several major EU companies ran significant projects with Russian firms before the sanctions. Back then, even the joint production of certain weapons systems was considered, and Russia increasingly relied on importing Western technology for the production of its own modern weapons.

This chapter seeks to answer two main questions. First, to what extent are the EU and Russia still dependent on each other in the field of defence industry cooperation and arms supplies in the post-2014 era? In the context of arms supplies, of course, we should look primarily at the position of those EU countries that used, or still use, Soviet- or Russian-made weaponry. This includes not only all former Warsaw Pact countries in the EU, but also three states that – for varying reasons – used Soviet/Russian arms: Cyprus, Finland and Greece.

Second, while the sanctions introduced in 2014 constituted a fundamental turning-point in some aspects of EU-Russia relations, it needs
to be examined whether the same is true for the defence industry. The question is relevant, because Russia began to reduce its dependence on foreign imports before 2014, following Sergei Shoigu’s replacement of Anatoly Serdyukov as Minister of Defence in November 2012.\textsuperscript{1} Hence, we need to look at whether the current situation is more the result of the sanctions regime or more connected to Russia’s own inherent policy line.

An important consideration that needs to be addressed here stems from the fact that the trade in and production of arms and military equipment are not as flexible as trade in everyday commodities, goods or energy resources. In the defence industry, procurements often define the future of the given sector for decades, thus creating long-term dependence on the chosen supplier. Moreover, ensuring unimpeded access to production, spare parts and maintenance is a key question in national military security. Interruptions in supply cannot be bridged by simply choosing another supplier from a different country, as is possible in the oil market, for example. For the present chapter, this means that, even though the focus of the book is on the post-2014 era, considerable attention also needs to be devoted to the period before this, because decisions taken (or not taken) then continue to define the present state of EU-Russia relations.

The two most important sources for analysing connections in weapons transfers are the comprehensive, open-access arms transfers database of the Stockholm International Peace Research Institute (SIPRI) and the equipment register published each year in the International Institute of Security Studies’ The Military Balance. This chapter will use the latter as a tool to measure how the dependence of certain EU countries on Russian armaments has changed over time. An up-to-date and comprehensive, though static, account of the situation was provided by Zoe Stanley-Lockman in 2017,\textsuperscript{2} in which she compiled

\begin{itemize}
\item \textsuperscript{1} Gorenburg, 2013.
\item \textsuperscript{2} Stanley-Lockman, 2017, p.70.
\end{itemize}
data on the ex-Soviet/Russian weapons used in 14 EU countries as of 2016. This chapter contributes to the debate by updating Stanley-Lockman’s data, in order to provide an insight into the long-term trends.

It should be noted that, when researching ties in the defence industry, one inevitably faces two key problems that potentially limit the depth of the analysis. The first, self-evident one is secrecy, originating from the highly securitised and sensitive nature of defence industry cooperation projects and arms transfers. This restricts the general accessibility of information, particularly concerning exact prices, payment conditions and technical specifications. The second limitation derives from the fact that, while complete weapons systems – such as tanks, artillery pieces and aircraft – are easy to track and monitor, the task is considerably harder when it comes to their parts and components, such as engines, sensors and other smaller parts. The same applies for items of personal military equipment, such as uniforms, protective equipment (helmets, gas masks, etc.) and even infantry firearms, including ammunition.

The present study limits its focus to complete weapons systems and their key components – primarily engines – but excludes small arms and light weapons (SALW). Hence, the possible interdependence originating from Soviet-made infantry weapons still in service in most former Warsaw Pact countries is not addressed. In addition, the question of dual-use items is not considered.

The chapter is composed of four main sections. The first addresses trends in the cooperation between the Russian and EU defence industries prior to 2014. Next we assess the effects of sanctions, with particular attention paid to Russia’s import-substitution efforts. In the third section, the analysis turns to the situation in those EU countries that have employed Soviet- or Russian-made military technology, and thus have been dependent on Moscow (although to various extents). The chapter ends with a brief concluding section.
DEVELOPMENTS IN DEFENCE INDUSTRY
RELATIONS BETWEEN RUSSIA AND THE EU
BEFORE 2014

Following the dissolution of the Soviet Union, the military-industrial complex (MIC) of independent Russia found itself in an extremely harsh, unpredictable and seriously underfinanced domestic environment. Before 1991 the Soviet MIC enjoyed a privileged position; in fact, developing the MIC was always at the core of Soviet priorities. The defence industry received the best materials and human resources as it was a key component of the self-sufficiency objective of the Soviet regime. The Soviet MIC employed millions of people and thus also contributed to wider social stability. Compared to this prioritised position, the situation after 1991 was a serious shock. In 1992 alone, Russia’s arms production fell by 60% compared to 1990. State orders were rare and proper payment was even more scarce; boosting exports and procuring Western equipment in order to gain access to technologies not available domestically therefore became a survival strategy for many companies in the MIC.

However, very few joint ventures were established with Western companies, as the Russian MIC complex preferred to strive for either autarky or, if necessary, close and multifaceted cooperation with Ukraine’s defence industry – with which extremely strong ties were inherited from the Soviet era. A notable exception was the joint venture between Italy’s Fincantieri and St Petersburg-based Rubin Naval Design for developing the S-1000 diesel submarine, a project that had been terminated well before the EU sanctions were introduced. Hence, in the 1990s and early 2000s the cooperation between Russian MIC companies and Western partners was limited almost exclusively to the importation of elements of weapons systems that could not be produced in Russia due to the domestic lack of suitable technology

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3 Barber, 2000, p. 12.
and innovation. One of the earliest such collaborations was that between Russia and the French group Thales, which has been supplying thermal cameras (including for T-90 tanks and Sukhoi Su-30 fighters) and other defence electronics since the late 1990s. Similarly, another French company, Safran, has been providing electronics for MiG and Sukhoi fighters since 2003.\footnote{Stanley-Lockman, 2017, pp. 67–68.}

One of the first joint ventures was launched in 2005 by Airbus and EADS with Russia’s Irkut Corporation. The venture, EADS Irkut Seaplane, in which Irkut maintained the controlling position with 70% of the shares, was intended to promote Russia’s unique Beriev Be-200 amphibious aircraft around the world.\footnote{Defense-Aerospace.com, 2003.} Though eventually this objective could not be realised, the cooperation still enabled Irkut Corporation to considerably modernise its quality-control standards.\footnote{Russian Aviation Insider, 2016.}

All in all, Russia’s unilateral dependence on certain EU-made technologies occurred and increased in this period, though the scale of the projects conducted with EU companies was still marginal compared to the overall size of the Russian MIC.

**Emerging Interdependence Under Anatoly Serdyukov**

Things began to change with Anatoly Serdyukov’s appointment as Minister of Defence in February 2007. In the framework of his comprehensive and deep reform of the Russian armed forces, one of his main objectives was to improve the efficiency of the highly conservative, non-transparent and extremely expensive Russian MIC. In order to modernise the armed forces’ equipment, Serdyukov broke with the old principle of supplying the army with whatever the domestic MIC

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\footnote{Stanley-Lockman, 2017, pp. 67–68.}
\footnote{Defense-Aerospace.com, 2003.}
\footnote{Russian Aviation Insider, 2016.}
was able to produce and introduced a needs-based ordering and procurement process instead. In order to provide the armed forces with all that was needed (even if the Russian MIC was unable to produce it domestically), Serdyukov actively encouraged the development of closer cooperation with Western, primarily EU, defence companies. Besides, inviting Western companies into the Russian market was also perceived as a tool in the fight against corruption and in pushing down prices in the Russian MIC. An additional driving force leading towards this decision was the Russian military leadership’s increasing sense of caution regarding cooperation with Ukraine. Thus, the intention to develop alternatives to this partnership, or at least in some sectors that allowed it, was realised.

Hence, the Serdyukov era was a “golden age” for industrial partnerships between Russian and EU defence companies, particularly from 2011 on. A project for the joint development of a new infantry fighting vehicle (IFV) was launched between Renault of France and Uralvagonzavod, and Germany’s Rheinmetall established a strategic partnership with Oboronservis to build a modern training centre for the army. France’s Safran set up a joint venture with three Russian companies to develop an inertial navigation system for helicopters and military aircraft, while Italy’s Turbomeca (part of the Safran Group) signed a contract with Russian Helicopters/Kamov for the development and serial production of helicopter engines as early as 2009. The Italian-British AgustaWestland also agreed to produce helicopter engines for Russian clients. There were even a few cooperation projects in the space sector, such as an initiative by German-French EADS/Airbus with Synertech for the joint development of military and civilian satellites. Thales and the Italian Alenia Space started a similar cooperation project with the Russian company Information Satellites Systems.

8 Stocker, 2012, p. 16.
10 Safran Group, 2009.
The post-Soviet Russian shipbuilding industry has traditionally been heavily dependent on Western manufacturers of marine engines, such as Germany’s MAN B&W Diesel, the Friedrichshafen-based MTU, the American Caterpillar and Finland’s Wärtsilä.\textsuperscript{12} While most of these only exported engines to Russia, in 2010 Wärtsilä went further, signing an agreement with Transmashholding on setting up a joint-venture company on an equal basis to produce and manufacture modern diesel engines, for both ships and railway shunter locomotives in Russia.\textsuperscript{13} This included high-capacity, flexible diesel engines used in the ships of the Russian navy. The venture was very important for Russia, as its shipbuilding companies lacked the capabilities needed to build modern marine engines in sufficient numbers.\textsuperscript{14}

The agreement on developing \textit{Mistral} attack ships was by far the largest cooperation project between Russia and an EU country. Russia’s Chief of General Staff, General Nikolai Makarov, a close ally of Serdyukov, suggested in 2009 that Russia needed to improve its force projection capability by buying helicopter carriers from the West and building more ships in Russia. The agreement on the joint assembly of four Mistral-class amphibious attack ships was signed between Russia and France in 2010. According to the contract, the first ship was to be constructed entirely in France by DCNS and the second was to be delivered to Russia in a half-ready state; Russia was scheduled to build two more ships, entirely within Russia. The 1.34 billion EUR deal included the transfer of the necessary technology to Russia. From the very beginning, the Mistral project drew negative reactions from the US, a number of Central and Eastern European EU countries and Ukraine. However, these could not stop the cooperation, which was very important for both France and Russia.

\textsuperscript{12} Korabel.ru, 2008.
\textsuperscript{13} World Maritime News, 2014.
\textsuperscript{14} Korabel.ru, 2008.
There were several other examples of Russia procuring ready-made weapons platforms from Western countries, such as UAVs from Israel. The collaboration between Russia and Italy’s IVECO was an even larger project. This agreement, signed in 2011, comprised the delivery in parts of a total of 1,775 IVECO LMW M65 light multi-purpose armoured vehicles and their assembly in Russia, valued at a total of some 1 billion USD.\textsuperscript{15} This project was particularly interesting because the IVECO LMW had won the tender against a very similar Russian vehicle, the GAZ 2330 \emph{Tigr}.\textsuperscript{16}

Besides the abovementioned joint ventures and other projects, another indicator of deepening defence industry ties was rapidly growing arms exports from EU member states to Russia from 2011.\textsuperscript{17} According to Russian analyst Andrei Frolov, the overall value of contracts between the EU and Russia was about 75 million EUR per year (though exact values are hard to define). If dual-use goods were also factored in, the total was up to about 20 billion EUR per year.\textsuperscript{18} These figures also indicate the comparative importance of the \emph{Mistral} project and the IVECO deal.

To summarise, it was during Serdyukov’s time as minister that interdependence between the EU and Russia in the defence industry field emerged for the first time. The term “interdependence” in this context implied that, while Russia gained access to crucial Western technologies, the value of these projects was significant for EU companies in terms of their budget and planning. In addition, supplying to the Russian government indicated the possibility of a long-term partnership that was, perhaps understandably, extremely important for the EU companies involved. Russian companies were not only some of the many buyers for the Western defence industry giants, such as

\textsuperscript{15} Soper, 2014.  
\textsuperscript{16} Globalsecurity.org, 2018.  
\textsuperscript{17} Ibid.  
\textsuperscript{18} Frolov, 2017.
Thales. They were also key partners in developing major joint projects, the most important of which was – or rather would have been – the Mistrals, in terms of both value and strategic significance.

**REDUCING DEPENDENCE ON WESTERN TECHNOLOGY AFTER 2012**

The increasing dependence on Western military technology that started under Serdyukov was viewed with concern in the Kremlin. A presidential decree on the new State Armament Programme adopted in May 2012 prescribed the creation of a full industrial cycle of arms production, military and specialised equipment, in order to reduce reliance on imports.

The replacement of Serdyukov by Sergei Shoigu in November 2012 marked an important turning-point for the entire Russian defence sector, including the MIC. One of Shoigu’s first decisions was to limit the importation of military technology from abroad, and to enhance the autarky of the Russian MIC. This applied to military imports not only from the West, but also from Ukraine. While one interpretation of the reasons behind this decision was to reduce the vulnerability stemming from the dependence on imported military technology, some argued that strengthening the position of the domestic MIC served to re-open the income streams for key players in the defence sector that had been threatened under Serdyukov.

The gradual implementation of the new policy started shortly thereafter. The cancellation of the contract with IVECO was announced by the Russian side in November 2013, and the project ended a year later.

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20 Gorenburg, 2013.
21 Ibid.
after the delivery of 358 vehicles.\textsuperscript{22} The collaboration between Irkut Corporation and EADS was also terminated, even before the introduction of the 2014 sanctions.\textsuperscript{23}

However, these initial government steps to reduce dependence on imports were planned to take place in a graduated and managed way – a foreign supplier was to be phased out only once equivalent Russian capabilities were in place. This is exactly what happened with IVECO: following the termination of the contract, the Russian army procured a newer, upgraded version of the original rival to the IVECO LMV, now called \textit{Tigr-M}, including many specialised sub-variants. This was the main reason that events in 2014 hit the whole of the Russian MIC particularly hard.

**Effects of Sanctions and the Situation since 2014**

The outbreak of the crisis in Ukraine and the subsequent introduction of EU sanctions against Russia fundamentally transformed the environment in which Russia’s MIC needs to operate. This happened regardless of the fact that Russia had begun to reduce its dependence on imported Western technology as early as 2012.

The events of 2014 marked a turning-point for the Russian MIC from two different, though related, perspectives. First, the sanctions introduced by the EU effectively terminated all defence industry cooperation projects between Russian and EU companies. Second, due to the war in Ukraine, Russia also lost access to products of the Ukrainian defence industry, even though dependence on these was critical in many sectors, particularly in shipbuilding and the manufacture of helicopters, as well as in

\textsuperscript{22} Soper, 2014.

\textsuperscript{23} Russian Aviation Insider, 2016.
missile technology.\textsuperscript{24} Given the scope of the current book, the Ukraine aspect will not be studied in detail here, although it must be taken into account to a certain extent because Russia generally deals with the EU and Ukraine together in its import substitution policies.

**Import substitution efforts**

Igor Sutyagin aptly pointed out that the entire State Armament Programme for 2011–20 was based on unhindered access to Western technology.\textsuperscript{25} As Frolov wryly remarked, every year of the State Armament Programme’s progress created only more and more dependence on Western technology.\textsuperscript{26}

Hence, when access to crucially needed Western and Ukrainian\textsuperscript{27} components was lost, Russia immediately started to accelerate existing import-substitution programmes and developed new ones. However, the initial optimism\textsuperscript{28} about smoothly replacing Western technologies with Russian ones quickly gave way to scepticism and despair. Neither of the two new import-substitution programmes launched in 2014 fulfilled expectations,\textsuperscript{29} even though both were personally approved by Vladimir Putin. The first deadline for replacing Western technology turned out to be utterly unrealistic: while 90\% of all Western components were originally planned to be replaced by the end of 2018, this deadline was extended to 2025 as early as October 2015. The planned decade-long period for complete transition was a telling illustration of the scale and complexity of the problems Russia was facing.

In November 2016, no fewer than 826 Russian weapons systems

\textsuperscript{24} Connolly & Boulègue, 2018, p. 29.

\textsuperscript{25} Sutyagin, 2016, p. 13.

\textsuperscript{26} Frolov, 2017.

\textsuperscript{27} For details of the extent to which Russia was dependent on Ukraine’s military industry in 2014, see Sutyagin & Clarke, 2014.

\textsuperscript{28} See, for example, Sputnik International, 2014.

\textsuperscript{29} Connolly & Boulègue, 2018, p. 29.
relied on components from the West (and another 186 on parts from Ukraine).\textsuperscript{30} Among these were the most modern projects for the Russian air force: the fifth-generation fighter PAK FA and the fifth-generation bomber PAK DA. Imported components were also crucial for the production of the modular T-14 Armata tank, and even for the BMP-3 IFV. Production of the Armata has had to be significantly scaled down: although 2,300 had originally been ordered, only 70 tanks will be delivered by 2020, with the remainder expected to be completed only by 2025.\textsuperscript{31}

The lack of access to crucially needed Western components played a key role in the cancellation of the mass production of the PAK FA project in 2018.\textsuperscript{32} The PAK DA project is also suffering a serious delay: while its maiden flight was scheduled to take place in 2019, it was announced in 2014 that it is expected to fly only in the mid-2020s.\textsuperscript{33}

The shipbuilding industry also suffered considerably. The introduction of sanctions and the loss of access to Ukrainian products hit the Russian maritime sector particularly hard due to the high level of dependence on foreign-made engines, and thus caused serious delays in the delivery of numerous types of ship that were planned to be built with engines made in the EU. Warships were no exception: the shortage of engines, produced either in the EU or in Ukraine, resulted in delayed production of entire classes of ship. For example, Russia had to significantly postpone the delivery of five of the originally planned eight \textit{Admiral Grigorovich}-class frigates. Similarly, serious problems emerged with the \textit{Buyan}-class corvettes and with various other types of ship. All in all, as of October 2018 the construction of at least ten Russian warships had been delayed due to the

\textsuperscript{30} Sutyagin, 2016. \\
\textsuperscript{31} Ibid. \\
\textsuperscript{32} Gady, 2018. \\
\textsuperscript{33} Gao, 2018.
lack of suitable engines. Moreover, production of Lada-class diesel-electric submarines had to be delayed indefinitely, as the Russian MIC was unable to produce the required air-independent propulsion systems, originally planned to be procured from Germany.

An initially promising possibility was the replacement of undelivered ship engines with Chinese ones, particularly with types that were licensed versions of Western models. This option looked particularly attractive because the engines produced in China could have theoretically replaced even the Ukrainian diesel and gas turbine engines.

However, these hopes turned out to be mostly false. For example, the Buyan-class corvettes were to be equipped with German MTU engines. However, only five of the nine ships had received the originally planned engines before MTU halted deliveries due to the EU sanctions. For the remaining four units, Chinese CHD diesel engines were intended to be used. However, besides requiring the redesign of the hull, the Chinese engines turned out to be less reliable, slower and more fuel-thirsty than the German originals. Speed was a particularly important problem: the Chinese engine was originally designed for civilian ships and could not deliver the performance required for military vessels. A Rubin-class patrol boat also experienced reliability problems with a Chinese engine during testing in 2016.

After its negative experiences with the Buyan and Rubin classes, the Russian navy decided to scrap the idea of using Chinese engines on the Karakurt-class small missile boats. Consequently, the deliv-

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34 Voennopromyshlenniy kurier, 2018a.
35 Connolly & Boulègue, 2018.
36 Korabel.ru, 2015.
37 Mil.today, 2018a.
38 Mil.today, 2018b.
ery of these has also suffered considerable delays due to the lack of proper engines. Finally, the first Karakurt-class unit, the *Uragan*, was completed with a Russian-made M507 diesel engine. The military industry journal *Voenno-promishlennyi kurier* argued that as the *Uragan* was equipped with long-range Kalibr cruise missiles this solution would constitute a suitable temporary replacement for the still-delayed *Admiral Grigorovich*-class frigates.⁴⁰

As for future prospects, a decree published by Russia’s Federation Council in December 2018 openly referred to “the lack of an effective system of import substitution, including [in] the field of military production”.⁴¹ Hence, the new State Armament Programme for 2018–27 was drawn up taking account of the constrained international environment. However, serious problems prevail in the replacement of imported components with Russian-made parts, as developing the Russian equivalents from scratch is extremely costly. Hence, it is highly questionable whether the designated target for import substitution can be met, due to both technological and financial constraints.⁴² Until it is, the vulnerability originating from Russia’s dependence on Western technology will continue.

**EU COUNTRIES’ DEPENDENCE ON SOVIET-/RUSSIAN-MADE WEAPONS SYSTEMS**

Another aspect of the question is the position of those EU countries that use Soviet- or Russian-made weapons systems. There are currently a total of 14 such countries, 11 of them formerly members of the Eastern bloc (including Croatia and Slovenia, successor states of the former Yugoslavia). Finland, although formally neutral during the Cold War, used to have uniquely complex ties with the Soviet Union,

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⁴⁰ *Voenno-promishlennyi kurier*, 2018b.
which included using Soviet-made arms and weapons systems. Two other EU countries, Cyprus and Greece, purchased most of the ex-Soviet weapons in their inventories only after the end of the Cold War.

Most of the Soviet- or Russian-made weapons systems used by EU member states were inherited from the Cold War era. This is the case for all the above countries with the exception of Cyprus and Greece. During the Cold War, all Warsaw Pact countries, as well as the non-aligned Yugoslavia, maintained large, conscription-based armies and stockpiled arms and equipment necessary for equipping a mass-mobilised force. The bulk of the ex-Soviet weapons still in use in the EU countries are of similar origin. Though some weapons ordered from the Soviet Union were delivered only in the 1990s – such as Finland’s BMP-2s and Romania’s Tarantul-class corvettes – they essentially belong to the same group of inherited weapons.

Another way of acquiring Soviet/Russian weaponry was to receive it in settlement of the Soviet state debt inherited by Russia. In the 1990s Moscow, short of cash and suffering from serious political and economic hardships, was eager to offer to settle these debts in kind, e.g. by delivering various arms and weapons systems. This was the source of the MiG-29 fighters operated by Slovakia and Hungary, the Mi-8/17 helicopters delivered to the Czech Republic and Slovenia, and the Mi-24s of the Czech air force. Finland’s Buk-1M air-defence system, as well as Hungary’s BTR-80 armoured personnel carriers (APCs) and more than 2,100 9M131 Metis-M anti-tank missiles, are of the same origin. These weapons systems offered cheap and readily available modernisation options for the countries mentioned. Of these, Hungary opted for by far the most weapons systems, because upgrading the country’s land-defence capabilities was extremely important in the context of the Yugoslavia civil war, which took place in Hungary’s immediate vicinity.

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43 SIPRI Database on Arms Transfers, 2019.
The situation in Cyprus and Greece is different, as both countries purchased their Russian-made weapons systems during the 1990s and early 2000s. Greece procured almost exclusively air-defence weapons, such as S-300, Tor-M1 and other surface-to-air missile (SAM) systems, and radar, resulting in the whole current Greek air-defence system being based on Russian weapons. Meanwhile, Cyprus used Russian weapons for a comprehensive modernisation of its armed forces, with procurements including T-80 tanks, BMP-3 IFVs, anti-tank missiles, Tor-M1 SAM systems and Mi-35 attack helicopters.44

Hence, the Soviet/Russian legacy systems still in operation in many EU countries constitute a strong dependence on Russia as a source of spare parts and supplies and also a location for major overhauls. The situation is further complicated by the fact that, due to the sanctions against Russia, many of the much-needed spare parts can travel across borders only via smugglers or a network of intermediaries.45 This problem particularly affects those countries that have entire branches of their defence built exclusively on Russian technology, such as Cyprus.

However, there are two factors that have been reducing this dependence on Russia. First, in the Communist era significant repair and maintenance capabilities for Soviet-made weapons were established in the Warsaw Pact countries.46 For example, Bulgaria can produce various Soviet/Russian anti-tank missile systems under licence, the Czech Republic has the capacity to upgrade and modernise Mi-8/17 and Mi-24/35 helicopters, also under licence, and the Polish company Wojskowe Zakłady Uzbrojenia is authorised by the original Russian manufacturer even to modify the 9K33 Osa SAM system.47 In addition, since 1991 some post-Soviet countries have specialised

44 SIPRI, op. cit.
46 Kiss, 2014.
47 Ibid.
in maintaining and even upgrading ex-Soviet weapons. Most importantly, Ukraine’s defence industry has both the capacity and the licences to overhaul and even modernise Soviet-era tanks, IFVs, APCs and helicopters.

Second, Soviet/Russian legacy weapons systems have gradually been replaced by Western military technology in many countries, particularly since many of them acceded to NATO, and the process is ongoing. For example, legacy MiG-29 fighters were replaced by F-16s in Poland and Slovakia, and by JAS 39 Gripen in the Czech Republic and Hungary; and more and more countries use German-made Leopard tanks instead of T-72s. It is important to note that the Russian MIC did not win a single arms-procurement tender in the region, again with the exception of Cyprus and Greece.

Zoe Stanley-Lockman has compiled data from 2016 on the exact types and numbers of Soviet-/Russian-made weaponry still in service in EU countries, based on information in The Military Balance. By updating her collection using data from 2018, it is possible to see the changing trends in Table 1.

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49 In Table 1, the volatility originating from the current operational readiness of the given weapons systems and vehicles is intentionally ignored, not least because The Military Balance does not address the question either.
**Table 3. Soviet-/Russian-made weaponry in service in EU member states**, comparison of 2016 and 2018 data.

<table>
<thead>
<tr>
<th>Category</th>
<th>Bulgaria</th>
<th>Croatia</th>
<th>Cyprus</th>
<th>Czech Rep.</th>
<th>Estonia</th>
<th>Finland</th>
<th>Greece</th>
<th>Hungary</th>
<th>Latvia</th>
<th>Lithuania</th>
<th>Poland</th>
<th>Romania</th>
<th>Slovakia</th>
<th>Slovenia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Combat aircraft</strong></td>
<td>16/16</td>
<td>13/11</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>8/0</td>
<td></td>
<td>50/51</td>
<td>26/25</td>
<td></td>
<td></td>
<td>12/12</td>
<td></td>
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<tr>
<td><strong>Trainer aircraft</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>12/12</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Transport aircraft</strong></td>
<td>2/2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>25/0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Attack helicopters</strong></td>
<td>6/6</td>
<td>11/11</td>
<td>17/17</td>
<td>11/11</td>
<td></td>
<td></td>
<td>28/0</td>
<td></td>
<td>15/15</td>
<td>15/15</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Multirole helicopters</strong></td>
<td>11/11</td>
<td>5/5</td>
<td></td>
<td>7/7</td>
<td></td>
<td></td>
<td>25/8</td>
<td></td>
<td>13/13</td>
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<tr>
<td><strong>SAR helicopters</strong></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>2/2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Main battle tanks</strong></td>
<td>80/90</td>
<td>75/75</td>
<td>82/82</td>
<td>123/30</td>
<td>30/30</td>
<td>3/3</td>
<td>505/458</td>
<td>250/260</td>
<td>30/30</td>
<td>14+32</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Infantry fighting vehicles</strong></td>
<td>90/90</td>
<td>43/43</td>
<td>283/120</td>
<td>283/120</td>
<td>94/94</td>
<td>120/120</td>
<td>1268/1277</td>
<td>239/239</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Armoured personnel carriers</strong></td>
<td>120/120</td>
<td>15/15</td>
<td>20/0</td>
<td>15/15</td>
<td>142/142</td>
<td>328/260</td>
<td></td>
<td></td>
<td>79/0</td>
<td></td>
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<tr>
<td><strong>Other military land vehicles</strong></td>
<td>+/+</td>
<td>1/1</td>
<td>13/13</td>
<td>15/15</td>
<td></td>
<td></td>
<td>8/8</td>
<td>337+/337+</td>
<td></td>
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<tr>
<td><strong>Missile systems</strong></td>
<td>+/-</td>
<td>+</td>
<td>+/-</td>
<td>+</td>
<td>+/-</td>
<td>+/-</td>
<td>+/-</td>
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<td>+/-</td>
<td>+/-</td>
<td>+/-</td>
<td>+/-</td>
<td>+/-</td>
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<tr>
<td><strong>Artillery/SALW</strong></td>
<td>+/-</td>
<td>+/-</td>
<td>+/-</td>
<td>+</td>
<td>+/-</td>
<td>+/-</td>
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<td>+/-</td>
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<tr>
<td><strong>Patrol and coastal combatants</strong></td>
<td>9/3</td>
<td>1/0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3/3</td>
<td></td>
<td></td>
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<tr>
<td><strong>Principal surface combatants</strong></td>
<td>1/1</td>
<td></td>
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<tr>
<td><strong>Landing craft and other vessels</strong></td>
<td>9/6</td>
<td></td>
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</tr>
<tr>
<td><strong>Radar</strong></td>
<td>3/3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>26/26</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>+/-</td>
<td></td>
<td></td>
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<tr>
<td><strong>UAVs</strong></td>
<td>+/-</td>
<td></td>
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</tbody>
</table>

_Source: The Military Balance 2016, 2018._
It is clear from Table 1 that the number of legacy Soviet/Russian weapons still in service is slowly but steadily decreasing everywhere. Aging IFVs and APCs are being phased out in large numbers, particularly in the Czech Republic, Hungary and Poland. Bulgaria has begun a massive project to replace ex-Soviet military equipment, and Croatia has finally decided to replace its obsolete MiG-21 fighters.\(^{50}\)

A particular form of phasing out weapons systems of Soviet/Russian origin widely used by EU countries has been to transfer them to third countries in the framework of military assistance. Recent examples include Lithuania, which sent Soviet-era weapons worth 2,000,000 EUR to Ukraine in order to help that country’s armed forces;\(^{51}\) Greece, which donated 100 refurbished BMP-1 IFVs to the Iraqi army; and Hungary, which did the same with 77 T-72 tanks.\(^{52}\)

However, since 2014 not a single weapons system has been procured from Russia by an EU country, as all the aforementioned member states have fully complied with the sanctions regime. The last Russian-made systems purchased were three second-hand Mi-8/17 helicopters bought by Hungary in 2013 but delivered only in early April 2014.\(^{53}\) Since then, the only contract awarded to the Russian MIC by these countries was for the refurbishment of eight Mi-8/17 transport helicopters and a further 8+4 Mi-24 attack helicopters for the Hungarian Defence Forces. However, the option on the refurbishment of the last four Mi-24s was cancelled by Budapest following its decision in late 2018 to procure new Airbus helicopters.

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\(^{50}\) IISS, 2018, p. 88.

\(^{51}\) Kyiv Post, 2017.

\(^{52}\) Origo.hu, 2004.

\(^{53}\) Erdőš, 2014.
CONCLUSIONS

Following the breakup of the Soviet Union, Russia’s military industry struggled with several challenges, originating primarily from its serious technological backwardness, among many reasons. Defence industry companies from EU countries started to fill the gaps from the late 1990s. However, their participation remained limited to a few sectors in which they could deliver components of weapons systems that Russia was unable to produce, such as sensors and modern ship and helicopter engines. Meanwhile, in most parts of the Russian MIC, striving for autarky remained the main guiding principle, even if this resulted in inadequate quality of weaponry and equipment, and massive corruption.

Hence, at first Russia was dependent on military imports from EU countries, but no interdependence existed. This began to change when Anatoly Serdyukov became Minister of Defence, as he strongly encouraged the importation of Western military technology as a form of technology transfer and a tool for fighting domestic corruption. During Serdyukov’s time in office, numerous strong and close partnerships were forged between EU and Russian defence companies, joint ventures set up and common projects launched.

Some of these, particularly the Mistral deal and the IVECO contract to deliver more than 1,700 armoured vehicles to the Russian armed forces, were so significant that it would be no exaggeration to say that elements of interdependence started to emerge. In addition, a plethora of unilateral dependences also existed, as the number of Russian weapons systems that could not be produced in sufficient numbers without Western technology rose to more than 800, including the most promising fifth-generation aircraft, the T-14 Armata tank and drones.

However, all these links were severed by the events of 2014. Although Russia had already started to reduce its dependence on Western (and
Ukrainian) military technology, industrial cooperation ties were cut much faster and more radically than Moscow’s import-substitution policy could have prepared the Russian MIC for. In other words, sanctions significantly accelerated a process that had already been going on since 2012.

It was not only the dependence that was asymmetric, but also the losses that the EU and Russia suffered after 2014. The affected EU companies lost market access, income and further business opportunities. Some EU firms managed to downgrade their Russian operation in a smooth, managed way – such as the Finnish company Wärtsilä, which sold its shares – while in other cases the departure was harder and more painful, for instance with the Mistral vessels. Meanwhile, the events of 2014 meant a sudden and fundamental loss of capability for Russia, for which it was evidently unprepared. Hence, for Russia, emerging interdependence was replaced by vulnerabilities originating from one-sided technological dependences.

The position inherited by Russia’s defence industry in Central and Eastern Europe did not change the situation significantly. Although several former Warsaw Pact countries and Finland inherited massive quantities of Soviet-made arms from the Cold War era, these have been gradually phased out from their inventories. It is a telling sign that the Russian MIC did not win a single tender for the procurement of new weapons systems in these countries. Instead, arms deliveries were composed mostly of selling additional units for weapons systems already in service and the transfer of tanks, APCs, fighters and helicopters to settle the Soviet state debt. Replacement of aging ex-Soviet technology accelerated from 2014, when large-scale procurements of Western military hardware began in many of these countries. The only two countries in the EU where Russia was at least temporarily successful in promoting its military products have been Cyprus and Greece, which both procured significant quantities of ex-Soviet weaponry in the 1990s, particularly air-defence weapons, tanks and
IFVs. However, even these ties were severed after 2014, and the units still in service are at present facing serious maintenance problems.

All in all, a long-term interdependence never existed between the EU and Russia in the field of the defence industry. Although elements of positive interdependence began to emerge during Serdyukov’s time as Minister of Defence, this was put to an end first by Shoigu taking office and thereafter by the sanctions in 2014. In other words, it was Russia’s choice to go back to autarky, even before the sanctions arrived. Since then, rather like the 1990s, the unilateral dependence of the Russian MIC on Western technology imports has dominated the relationship, while Russia’s progress in import substitution has so far remained limited. Given the political environment, it is highly unlikely that any closer defence industry relations between the EU and Russia will emerge any time soon.
These days, serious and organised crime actors almost by definition make use of multiple jurisdictions to conceal their activities. These are truly internationalised: communications, financial transactions and logistics may all be routed through separate jurisdictions. Meanwhile, law-enforcement agencies are confined to their respective territories and in investigations often have to rely on cooperation with their counterparts across borders.

The actual level of reliance on cooperation with partners in other countries depends, of course, on the nature of the crime; some can be successfully investigated without any help from abroad, while the investigation and prosecution of other types of crime is absolutely dependent on cross-border cooperation. Nonetheless, generally speaking good cross-border law-enforcement cooperation makes fighting organised crime much more effective.

That said, the very existence of different jurisdictions creates real impediments to this cooperation. Obstacles commonly encountered by law enforcement in cross-border cooperation can be categorised as logistical, legal, institutional, cultural or political. Within the EU
a favourable context for police cooperation exists with hardly any political obstacles, but such conditions are less often present outside the Union.¹

A prominent current example of a different context is the environment of relative political animosity between the EU and Russia, which appears to result in significant political obstacles to effective police cooperation. This situation provides a relevant case study of the effects that political obstacles can have on the practicalities of investigating organised crime, especially where an interdependence exists for law enforcement on both sides of a border.

The purpose of this chapter is twofold. It will provide an account of current law-enforcement cooperation between Russia and EU member states and will analyse the influence of the acrimonious relationship on that cooperation.² The key question we seek to answer is how law-enforcement deals with the tension between political obstacles and existing (inter)dependences in the cooperation.

This chapter first sketches out the context and discusses more generally the background to police cooperation and in particular the obstacles encountered. Subsequently we discuss the nature of different types of crime and the level of dependence on cross-border cooperation required to investigate and prosecute these crimes successfully. We then review the contemporary history of law-enforcement cooperation between Russia and EU member states and look briefly at some of the developments over the past decade that may have contributed to the current political situation.

¹ Block, 2011, p. 193.
² In addition to the published sources referenced in this chapter, this research draws on four interviews with law-enforcement officers from various EU member states held between September and December 2018. Each of these officers is, or has been, directly involved in cooperation with Russian law enforcement. Due to the sensitivity of the subject, the officers and the agencies they work for are not named.
After this broad introduction to the topic, we look at the current practices of police cooperation between Russia and EU member states. The final section brings together the various insights uncovered throughout this chapter.

**GENERAL CHALLENGES IN POLICE COOPERATION**

The discussion of key challenges will focus on actual operational cooperation, or what Benyon et al. identify as the “micro level” of police cooperation. This involves cooperation in the investigation of specific offences, and the prevention and control of particular forms of crime; in other words, day-to-day operational police cooperation.

In this level of cooperation in investigations, police are confronted with logistical, legal, organisational, cultural and political obstacles. Leaving logistical issues aside, the most prominent hindrances to police cooperation, even under favourable political conditions, are legal and organisational.

Different legal systems have different approaches to the allocation of investigative roles and coercive powers used with different actors. In addition, systems may have various rules of evidence, diverse rules on the admissibility of evidence obtained through the use of covert investigative techniques, different disclosure regimes and, last but certainly not least, differing elements in the definition of certain crimes. Meanwhile, law enforcement is organised in dissimilar ways, with tasks and accompanying resources assigned to diverse agencies,

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3 Benyon et al., 1993.
4 The other two levels of police cooperation defined by Benyon and his colleagues are the “meso” level and the “macro” level. While further detailed discussion of their model goes beyond the scope of this chapter, we will touch upon the meso level.
6 “Element” being here a set of facts that must be proved before the accused can be convicted of a crime.
while competences may also be divided differently, or even fragmented. Finally, all law-enforcement agencies are confronted with resource constraints, as is common in the public sector.

Police have developed various strategies, as well as geographical and functional cooperation arrangements, in attempts to overcome some of these obstacles. Interpol and Europol are, of course, well-known examples of multilateral police cooperation arrangements, and a myriad of other platforms and arrangements exist in Europe and beyond. In investigating organised crime, direct bilateral contacts and the use of liaison officers take a very prominent place in cross-border cooperation.

Are all these arrangements effective? That depends on several factors. The most prominent current theory on police cooperation from Mathieu Deflem distinguishes three key elements that are relevant in predicting the extent to which it can be effective. Deflem argues that police cooperation can thrive where the police on both sides have relative institutional independence from their respective political centres and have a shared organisational interest. However, he notes as the third element that, no matter how good the cooperation, national interests remain paramount.

For Deflem the establishment and growth of Interpol is a key case in point. Only when international police cooperation escaped the political straitjacket of the 19th century and started to focus on ordinary crime could a multilateral cooperation arrangement like Interpol become successful. In this light, Interpol takes the position, often very explicitly, that “police work and politics should not mix” and has for that reason long steered away from terrorism cases and aims to be neutral with respect to politics.

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7 Block, 2011, pp. 51–73.
8 See, for example, Boer & Block, 2013.
9 Deflem, 2002.
10 See, for example, Noble, 2006.
Nonetheless, the view (or wish) that politics and police cooperation should not mix may be not only inadequate, but also somewhat naïve. Whatever its exact duties, law enforcement is inherently linked to one of the core functions of the nation-state: the monopoly of force. When push comes to shove, police cooperation can therefore not be seen as independent of its political environment.\footnote{Block, 2011, pp. 18–19.} Hence, it should come as no surprise that the current political turmoil between EU member states and Russia also has some impact on police cooperation between them.

Of course, there are nuances. The actual practices of police cooperation between the EU and Russia are diverse, with some cases in which it is still very close and effective and other cases and situations where little or no cooperation takes place. For example, by all accounts cooperation during the 2018 FIFA World Cup in Russia was very close and successful,\footnote{Conn, 2018.} while at the same time the UK and Spain received almost no cooperation at all from Russia in some high-profile cases.\footnote{On the lack of cooperation received by the Spanish authorities, see Rotella, 2017; for the UK see, for example, the Skripal case, The Moscow Times, 2019.}

Before we focus on these real cases, first we need to discuss what dependences are caused by the nature of different crimes.

**What Kind of Investigations Require Cooperation?**

To answer this question, we must look at some practical aspects of investigating organised crime. Broadly speaking, there are two key factors that influence the level of dependence on cooperation from law enforcement across borders. Both are the result of jurisdictional boundaries.
First, of course, is the location of the suspect. If, for example, the suspect of a robbery has fled to another jurisdiction, cooperation with its law-enforcement authorities is a *sine qua non* for a successful prosecution. This factor is regularly used in Hollywood crime movies, where the protagonists make their way to remote beaches in faraway (non-cooperative) countries to avoid prosecution.

The second factor that influences the level of dependence on cross-border cooperation is the location of the intelligence and evidence related to the crime. If crucial intelligence needed to identify the actual suspects, or evidence needed to secure a conviction, is located in another jurisdiction, investigation and prosecution is wholly dependent on cooperation with law enforcement there.

This second factor – often overlooked in movies – differs significantly from one offence to another. For many offences committed by organised crime groups, such as murder, extortion, bribery and violence, the evidence can usually be obtained in the jurisdiction where the offence took place. Even cases of drug trafficking can usually be investigated without cooperation across borders, albeit perhaps less efficiently and also less effectively as the mastermind behind the trafficking may stay out of the sight of local law enforcement and only lower-ranking criminals can be apprehended and convicted.

However, the situation in cases of cybercrime, for example, is completely different. There are no borders in cyberspace and those with malicious intent generally steer their digital traffic through various jurisdictions with the click of a mouse. Intelligence and evidence often have to be collected from logfiles on servers in multiple jurisdictions, for which law enforcement is fully dependent on colleagues across borders. Moreover, this evidence is ephemeral in nature, which explains why the G8 agreed more than 20 years ago to establish a network of 24/7 contact points on cybercrime to be able to react quickly.¹⁴

¹⁴ See, for example, FBI, 2009.
Another offence for which successful investigation and prosecution usually requires obtaining evidence from abroad is money-laundering. Modern banking systems allow funds to be diverted through multiple jurisdictions with ease, and in these cases too intelligence and evidence often needs to be obtained in more than one jurisdiction. However, the need for cross-border cooperation in these cases also depends on the elements in the legal definition of money-laundering in the jurisdiction where the investigation and prosecution take place.

In many jurisdictions, the so-called underlying (“predicate” in US law) crime through which the laundered money was obtained must also be proved before a conviction can follow. But in other jurisdictions there is no need to prove that funds or property are the proceeds of a specific criminal offence, and it is sufficient to establish that objects must have been derived from criminal activity due to lack of a legitimate origin. In the latter case, the burden of proof is obviously much lower than in cases where an exact predicate offence has to be proved, and consequently there is less dependence on intelligence and evidence from abroad.

**Police Cooperation Between Russia and the EU**

This section briefly describes the contemporary history of police cooperation between Russia and EU member states. With some rare exceptions, this began only after the dissolution of the Soviet Union. While Interpol was, and perhaps still is, the most used arrangement for police cooperation around the world since 1923, the then Soviet Union only applied for membership in 1990. The Interpol National Central Bureau (NCB) in Moscow started operations in January 1991,  

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15 Bell, 2003.
first as the NCB of the Soviet Union and from August 1991 as the NCB of Russia. In 1996 Russia’s membership of Interpol was formalised by a presidential decree and set out in a government resolution. That resolution also formalised the NCB Moscow as a unit in the Russian Ministry of Interior (MVD), and the NCB later established some 70 regional branches throughout the country. In the first decade of this century the NCB Moscow handled between 35,000 and 40,000 messages a year, of which the great majority concerned the European region of Interpol. The extension of the Interpol communication network i24/7 in Russia to the regional branches and even the security service (FSB) in 2008–9 was financed by the EU.

While Interpol is an important multilateral arrangement for police cooperation and fulfils an important task in the rapid exchange of information, cooperation between law-enforcement agencies in Europe largely takes place on a bilateral level. Much of this cooperation, especially when related to more complex and sensitive cases, is facilitated by liaison officers. These act as the “human interface” between the agencies and are usually active in investigating more complex cases of organised crime; they may have long been, and may still be, the most important conduit for cooperation between Russia and EU member states in fighting organised crime.

Since 1992, most EU member states have posted liaison officers in Moscow and St Petersburg, totalling over 30 officers in 2004. As a result, Moscow was at that time the stage for a significant number of

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17 President of Russia, 1996; Government of the Russian Federation, 1996.
21 Block, 2008a, p. 75.
22 Boer & Block, 2013.
cooperation activities between Russian and EU member state law-enforcement agencies.

At the same time, there were ongoing efforts to enhance cooperation at levels other than direct bilateral contacts. For example, much effort went into initiating cooperation between Russia and Europol. Cooperation between the EU member states and Russia via Europol has so far only been formalised in a strategic agreement without an operational component. During a first presentation of Europol in Moscow in 1999, the Russian attitude was somewhat sceptical; however, in November 2003 a strategic agreement between Europol and Russia was signed in Rome. In 2004, the Moscow NCB was appointed by the Russian government as the central contact point for Europol, although the agreement did not allow the actual exchange of operational information.

In 2010 negotiations began between Europol and the MVD on an operational agreement and by 2011 a first draft was on the table. The negotiations focused on two stubborn obstacles. The EU insisted on having an adequate level of data protection in the agreement, while for Russia its Law on State Secrets appeared to impede the sharing of operational information. Several expert meetings were organised, but negotiations stopped following the Russian annexation of Crimea.

In addition, the Baltic Sea Task Force on Organized Crime (BSTF-OC) is a well-known meso-level cooperation initiative, in which

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26 Europol, n.d.
29 European Union, 2010; 2013.
30 Benyon et al. define the meso-level of police cooperation as the structural and procedural frameworks in which operational policing occurs. The arrangements on this level are supposed to directly facilitate operational police cooperation and do not need intergovernmental agreements or parliamentary ratification (Benyon et al., 1993).
several EU member states and Russia participate with the aim of strengthening the ability to prevent and combat organised crime in the Baltic Sea region. The task force was established in 1996 and its mandate has subsequently been renewed every three years. An operational committee, in which law-enforcement representatives originally met four times a year, was established in 1998.

To summarise, the beginning of this century showed a level of cooperation between Russia and EU member states that was largely characterised by a positive upward trend in both quality and quantity. However, even at that time there were some obstructing factors.

Cooperation was, of course, hampered by the usual obstacles in cross-border cooperation such as differences in (legal) systems, culture and language. On top of this, there were some very specific additional challenges, which largely originated from the Russian institutional environment. Compared to the situation in other European countries, law enforcement in Russia is plagued by frequent structural changes, lack of central coordination, overlapping and conflicting mandates and interests, lack of funding, rampant bureaucracy, an elevated risk of human rights abuse and corruption issues. As Heusala and Koistinen eloquently note, “the motivation and ability of the Russian law-enforcement organizations is often paralysed by central government policies and abrupt legal changes, which weaken organizational learning.”

In addition, a more direct political influence on the activities of law-enforcement agencies can be seen. Another type of obstacle that may be relevant is the different understanding in Russia of the concept of independent courts, which can be seen from the reactions to

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31 Baltic Sea Task Force on Organized Crime, n.d.
32 Block, 2007, pp. 378–379
33 Heusala & Koistinen, 2018, p. 366.
34 Block, 2007.
the UK’s refusal to extradite, and its subsequent grant of political asylum to, Boris Berezovsky\(^{35}\) and Akhmed Zakayev.\(^{36}\) The latter case, for example, led to strained relations between Russia and Denmark.\(^{37}\)

This reflection on the heyday of cooperation at the beginning of the century begs the question whether EU law-enforcement agencies really relied on their Russian opposite numbers to the extent that cooperation in investigating organised crime can be qualified as either interdependence or EU dependence. The available evidence suggests that this has not been the case. Especially compared to police cooperation amongst the EU member states, that with Russia has never come close to a level of maturity where it could be relied upon.

More recent years have seen an increasing number of incidents that had a negative influence on cooperation. The first well-publicised case that had a significant influence was the assassination of Alexander Litvinenko in London in 2006;\(^{38}\) several geopolitical actions by Russia followed, such as the war in Georgia and the annexation of Crimea, the latter resulting in EU sanctions.

Independent of these incidents, the officers interviewed for this study generally noted the chilling effect on cooperation of the increasingly centralised control of Russian law-enforcement officers’ international contacts. In the early 2000s a foreign liaison officer could have an impromptu meeting on the premises of one of the agencies in Moscow, but a few years later this was virtually impossible without announcing the visit many days in advance.\(^{39}\) At the same time, their Russian counterparts at the operational level had less room for

\(^{35}\) Jones, 2013.

\(^{36}\) Cowell, 2003.

\(^{37}\) See, for example, BBC News, 2002 and Slobodanuk, 2002.

\(^{38}\) BBC News, 2016.

\(^{39}\) For a practical example of how Russian officers circumvented their own organisational security procedures to facilitate cooperation, see Block, 2008, p. 193.
manoeuvre. For example, on international visits someone from a central department in Moscow would always be present, without obviously adding any value.

Heusala and Koistinen made similar observations and quote one of their respondents in their research as saying: “All liaison officers share the feeling that closedness and excessive bureaucracy have increased in recent years. 1998–2003 was still an open time; from then on centralisation and control – among others on the part of the FSB – has increased”.

CURRENT PRACTICES

Current practices in police cooperation between Russia and EU member states vary significantly. While the UK, Sweden and Spain appear not to have any form of active cooperation, countries like Finland, Germany and the Netherlands do. It is impossible to analyse in the scope of this chapter every example of cooperation (or the absence of it). We therefore focus on some clear examples of the situations encountered.

Finland’s border with Russia is over 1,300 kilometres long, so the country has a clear interest in maintaining good contacts with its neighbour, regardless of the broader political environment. The ties between Finland and Russia in this field have a long history; as early as 1978 Finland and the USSR agreed a treaty on legal protection and legal aid in civil, family and criminal matters.

In 1994 an operational agreement between the Finnish police and the MVD was concluded that formed the basis for the stationing that

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40 Heusala & Koistinen, 2018, p. 365.
41 Laine, 2015.
year of the first Finnish liaison officer in St Petersburg. The then Tax Police and the FSB later also became partners in the agreement. Finland currently has liaison officers in St Petersburg, Moscow, Petrozavodsk and Murmansk, while four Russian liaison officers are stationed in Helsinki.

Active direct cross-border cooperation also takes place, governed by regional cooperation plans agreed between the MVD and the Finnish police ten years ago and renewed in the autumn of 2018. Two of our interviewees with direct knowledge of the plans noted the extreme importance of the fact that these plans were signed at the highest level in the MVD, because that high level commitment from the Russia side legitimises the valuable direct contacts.43

In spite of the historically good cooperation between Finnish and Russian police, it appears to have been somewhat less intensive in recent years. This is visible in the 2016 annual report of the Finnish police which notes that law-enforcement cooperation with Russia became closer when, after a hiatus of several years, a coordination committee convened at the end of that year.44 Heusala and Koistinen note in this respect that: “Even as the current political crisis has paralysed governmental contacts, the face-to-face operational work has continued”.45 In their research they show that cross-border cooperation between Russia and Finland, and in particular parallel investigations, is actually hampered mostly by legal and organisational differences between the two systems; the political situation appears to have only a limited effect.

Finnish law enforcement’s good contacts in Russia do not go unnoticed, and agencies from some other EU member states use them to initiate cooperation in certain cases. As the interviewees noted,

43 Interview respondents 1 and 2, 23 October 2018.
45 Heusala & Koistinen, 2018, p. 356.
Finland is happy to support these, always with full transparency, and when cooperation needs to be formalised it should become direct.\textsuperscript{46}

While the relationship with Russia is good, one interviewee observed that Finland has also probably been lucky in the sense that it has not had incidents like the Litvinenko and Skripal cases, which led to direct confrontation between the UK and Russia. A smaller incident occurred in 2015–16 when undocumented asylum-seekers came into Finland across the Russian border in the Arctic, but this was quickly resolved at the highest level.\textsuperscript{47}

The interviewees observed that cooperation on money-laundering cases in particular very much depends on whether there is a national interest from the Russian side. In one well-publicised case, in which Russia had a clear interest, cooperation was efficient and effective.\textsuperscript{48} However, in a number of other cases a lack of interest from the Russian side resulted in limited progress.

A similar situation can be found in cooperation between the Netherlands and Russia. For example, the Dutch police, which has had a liaison office in Moscow since 1999, has very close operational cooperation with the FSB on cybercrime. This began in 2007, and the Dutch police follows a very pragmatic approach which is sometimes regarded with scepticism by the Dutch foreign ministry and security service. The close cooperation on cybercrime continued even after the invasion of Crimea, although holding the meetings at the offices of the Dutch High-Tech Crime team became politically too complex as the investigation into the downing of flight MH17 was also led from that location.\textsuperscript{49}

\textsuperscript{46} Interview respondents 1 and 2, 23 October 2018.

\textsuperscript{47} Piipponen & Virkinnen, 2017.

\textsuperscript{48} Teivainen, 2017.

\textsuperscript{49} For detailed articles on this, see Modderkolk & Kreling, 2017a; 2017b.
One respondent believed that cooperation is kept going by long-standing personal contacts and trust.\(^{50}\) Politics are kept outside the operational cooperation and the Dutch representatives sometimes spend more time convincing their own superiors to pursue certain cases than they do persuading the Russian side to cooperate. Of course, there should be a mutual interest in making the cooperation work; no country will cooperate on a case against its own interests. Meanwhile the Dutch contacts with Russia on cybercrime are also used by law-enforcement agencies from other EU countries. The Dutch-Russian police cooperation effectively forms a kind of back channel, and is consequently in line within the Dutch diplomatic approach towards Russia of “druk en dialoog” (pressure and dialogue).\(^{51}\)

Another EU member state that has similar close police cooperation with Russia is Germany. There are currently two Bundeskriminalamt liaison officers stationed in Moscow and there is close operational cooperation in particular on drug trafficking between the two countries. Germany, of course, also has an overt friendlier political relationship with Russia than do other EU member states.

The picture is completely different when we look at Spain. An account of Spanish efforts to curb the Russian mafia in Spain asserts that the Spanish police could not count on any real cooperation from the Russian authorities. In some instances, investigators and prosecutors came to believe that their Russian counterparts were actually leaking information about the Spanish cases to the mafia suspects and trying to undermine their prosecutions.\(^{52}\)

Although Sweden currently does not have very active law-enforcement cooperation with Russia, it is hard to say whether this is a result of political developments. One interviewee noted that Swedish

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\(^{50}\) Interview respondent 3, 23 November 2018.

\(^{51}\) Kerres, 2018.

\(^{52}\) Rotella, 2017.
customs withdrew its liaison officer from Moscow in 2014 when the exchange of information with Russia dried up.\textsuperscript{53} The Swedish police had pulled out its liaison officers earlier, and the interviewee noted that budgetary issues also played a role in that decision. Over the past decade, austerity measures have led more EU countries to rationalise their liaison networks and, as a result, international cooperation in general.\textsuperscript{54}

The decision to pull out its Moscow liaison officer had little impact on Sweden, not least because, under the Nordic Police and Customs cooperation arrangement – the so-called \textit{Polis Tull i Norden} or \textit{PTN} cooperation – Sweden can ask Norwegian or Finnish liaison officers to represent it in any third country. Moreover, the continuing personal contacts through the BSTF-OC could be activated in case of emergency to open a channel.\textsuperscript{55}

**Conclusion**

The foregoing observations show that, while not uniform, the overall picture is of decreasing law-enforcement cooperation between Russia and EU member states, in terms of both volume and closeness. While the Litvinenko and Skripal incidents had a clear effect, especially for the UK, the annexation of Crimea had an overall effect on cooperation that is widely visible. In addition, the increased central control in Russia over international contacts, a development that started years ago, appears to have had a negative influence. In the context of interdependence in the investigation and prosecution of organised crime, however, the question is whether this situation is new and creates major problems.

\textsuperscript{53} Interview respondent 4, 5 December 2018.

\textsuperscript{54} Boer & Block, 2013, p. 183.

\textsuperscript{55} Interview respondent 4, 5 December 2018.
That does not appear to be the case. For the investigation of crimes such as cybercrime and money-laundering, which are of a cross-border nature almost by definition, technical interdependence indeed exists. However, there are several reasons why that interdependence should not be overestimated.

First, it exists for a small number of crimes only and, while in most cases cross-border cooperation can make the investigation more effective and efficient, it is not a *sine qua non*. In fact, Spanish law enforcement was able to dismantle a Russian mafia network without any meaningful cooperation from its Russian analogues, although some convictions for money-laundering were not secured.

Second, even though police cooperation between the EU and Russia progressively developed in the ten years following the posting of the first liaison officers in Russia in 1992, we have seen that in its overall effectiveness the cooperation remained limited. With the possible exception of the direct cross-border cooperation between Finland and Russia, actual dependence by EU law enforcement on cooperation from Russia is unlikely to have developed.

Third, although the overall level of cooperation seems to be less thriving than in the first decade of the 21st century, it cannot be concluded that there is none at all. It may not be business as usual, but law-enforcement agencies in some EU member states still have close cooperation, based largely on long-standing personal relationships. Other member states make informal use of these back channels.

Authors writing on police cooperation often stress that it should be primarily based not on personal relationships but rather on legal norms and official channels of assistance.\(^{56}\) However, reality is stubborn and formal official systems do not always work, especially in

\(^{56}\) E.g. Heusala & Koistinen, 2018, p. 356.
an environment of political animosity. Police cooperation to a large extent takes place in what Sheptycki calls the “transnational interstices of state power”.\(^{57}\) Here formal systems are replaced by trusted personal relationships between operational actors and their proficiency in understanding and navigating all the rules and obstacles in transnational policing.

As direct personal contacts have formed the backbone of police cooperation for decades,\(^{58}\) the findings in this chapter suggest that these are also an indispensable strategy in dealing with political obstacles. Perhaps especially in situations of political animosity, personal contacts – whether direct or via a third country – help to deal with the interdependences that exist.

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\(^{57}\) Sheptycki, 1995, p. 629.

\(^{58}\) Block, 2011, p. 30.
Cross-border cooperation (CBC) has become a widespread phenomenon in Europe, including in Russia. In the post-Cold War period, CBC is developed not only by states/national governments but also increasingly by subnational/non-state actors such as regions, counties, cities, companies and non-governmental organisations (NGOs). This process has been part of the growth of complex interdependence, involving different types of actors and policy sectors.

Russian regional and local actors regard this type of external policy (labelled “paradiplomacy”, parallel to federal diplomacy) as a suitable and preferable response to numerous challenges (socioeconomic, environmental, ethnic, religious, cultural, etc.) that they face on a daily basis. It is viewed by many Russian regions and municipalities as an effective instrument not only for solving local problems but also for ensuring their sustainable development. These actors believe that border-related resources can be utilised more effectively with cooperation extended beyond national boundaries, although the effectiveness and scale of CBC projects vary considerably among Russia’s border regions and municipalities.

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1 This work was supported by the ERA.Net RUS Plus/RBRF, project no. 18-55-76003.
2 Paradiplomacy is international activity developed by subnational/non-state actors such as those mentioned in the previous paragraph. On the paradiplomacy of north-western Russian subnational units, see Joenniemi & Sergunin, 2014.
Russia’s north-western regions and municipalities are especially active in developing outside contacts, in both the quantitative sense (number of international partners and projects) and the qualitative (diversity of methods and forms of international cooperation as well as its intensity). This is explained by their economic status – their foreign neighbours see them as relatively advanced and promising international partners – and geographical proximity to the EU.

The harsh realities of the 1990s also provided the initial thrust for Russia’s north-western subnational actors to make connections with the outside world. During the Boris Yeltsin presidency, many north-western Russian territories perceived themselves as abandoned by the federal government, and thus left dependent on themselves for survival. They regarded foreign aid and investment as effective instruments for keeping local economies afloat. Given the rather broad autonomy enjoyed by all regions of the Russian Federation under Yeltsin, the north-western regions managed to develop rather diverse international contacts, including with European countries.\(^3\)

Over time, as the socioeconomic situation in Russia improved under Vladimir Putin’s presidency, subnational entities have come to regard international cooperation as an integral part of their sustainability strategy rather than an emergency or survival “kit”. This paradigm shift in subnational units’ motivation has wrought a radical change in their attitudes towards paradiplomacy, including CBC. Given the scarce resources available and the changes to the EU’s CBC programme financing since the EU introduced a 50–50 matching funds rule,\(^4\) collaborative projects have become less ambitious and more realistic, directed at meeting the partners’ practical needs.

The research objective of this chapter is two-fold. First, it aims to examine the historical experience of EU-Russia CBC in the post-Cold

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\(^3\) For detail, see Joenniemi & Sergunin, 2014; 2012; 2003.

War era. Second, the role of CBC in maintaining and further developing the mechanism of EU-Russia interdependency is studied.

**LEGAL FRAMEWORK**

Early EU-Russia CBC projects were implemented under the TACIS,\(^5\) PHARE\(^6\) and Interreg\(^7\) programmes of the 1990s and 2000s. A new policy and implementation framework for CBC was developed in the European Neighbourhood and Partnership Instrument (ENPI)\(^8\) and further detailed in the Implementing Rules.\(^9\)

In the case of Russia, the Road Map for the EU-Russia Common Economic Space (2005)\(^10\) acknowledged the need for deepening and diversification of interregional cooperation. The involvement of local and regional authorities in CBC was also given prominence in the context of the Northern Dimension (ND) of the EU’s Common Foreign and Security Policy (CFSP), which was launched in 2000 with the adoption of the first Action Plan for 2000–3.\(^11\)

For the 2014–20 EU budget cycle, a European Neighbourhood Instrument (ENI)\(^12\) was adopted in March 2014. A programming document for EU support to ENI CBC\(^13\) and new ENI Implementing rules\(^14\) were

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\(^5\) Technical Assistance to the Commonwealth of Independent States.

\(^6\) Poland and Hungary: Assistance for Restructuring their Economies.

\(^7\) A series of programmes to stimulate cooperation between regions in the EU, funded by the European Regional Development Fund.


\(^9\) European Commission, 2007

\(^10\) European Commission, 2005.

\(^11\) On the early phase of the Northern Dimension Initiative, see Joenniemi & Sergunin, 2003.

\(^12\) European Parliament and European Council, 2014b.

\(^13\) European External Action Service, 2014.

\(^14\) European Commission, 2014.
approved the same year. The rules established for the ENPI CBC have been simplified and adapted based on experience.

According to the above EU documents, CBC is a key element of EU policy towards its neighbours. The CBC programme aims to support sustainable development along the EU’s external borders, as well as to help reduce differences in living standards and address common challenges across these borders. Of the 16 programmes identified in the ENI CBC Programming Document 2014–20, eight involve Russia. The CBC budget comes from two sources: ENI and contributions from the European Regional Development Fund (ERDF).

In 2006, the ND was reformatted. Instead of being one of the regional dimensions of the CFSP, it became a joint policy of four equal partners: the EU, Russia, Norway and Iceland. The ND now operates through four partnerships: the Northern Dimension Environmental Partnership (NDEP), and the Northern Dimension Partnerships in Public Health and Social Well-being (NDPHS), on Transport and Logistics (NDPTL) and on Culture (NDPC). The structure, nature and tasks of partnerships vary from project-centred financing to expert-oriented cooperation.

Until recently, Russia lacked specific legislation on CBC. Drafts of a federal law on CBC were introduced into the Duma, the Russian Parliament, several times over the last two decades. However, only in July 2017 did president Vladimir Putin sign into law a document titled “On the Foundations of Cross-Border Cooperation”\(^\text{15}\). The law defined the principles, main objectives and venues of Russia’s CBC with neighbouring countries as well as the prerogatives of border regions and municipalities in this sphere. It was stipulated that specific CBC programmes should be the subject of international agreements concluded by either the federal government or regional and municipal

\(^{15}\) Putin, 2017.
authorities with same-level partners. The law identified potential/preferable areas of CBC: the economy, transport, communications, energy, science, education, culture, the arts, sport, healthcare, etc.

To sum up, EU-Russia CBC is now provided with a proper legal framework on both national and international levels that creates a favourable legal environment for further development of cooperation between European and Russian border regions and municipalities.

CROSS-BORDER COOPERATION PRIOR TO THE CRISIS IN UKRAINE

EU-Russia CBC took several institutional forms: the ENPI CBC programme, the Northern Dimension, Euroregions and city twinning. The ENPI CBC programme. In the pre-crisis period, which almost coincided with the 2007–13 EU budget cycle, EU-Russia CBC developed rather dynamically. Russia participated in five ENPI CBC programmes:

- **The Kolarctic Programme** covered several border regions in Russia (Murmansk and Arkhangelsk regions, Nenets Autonomous District), Finland (Lapland), Norway (Finnmark, Troms, Nordland) and Sweden (Norrbotten). The so-called adjoining areas included Pohjois-Pohjanmaa (Finland), Västerbotten (Sweden), Republic of Karelia, Leningrad Region and St Petersburg (Russia).16

- **The Karelia Programme** united several regions in Finland (Pohjois-Pohjanmaa (Northern Ostrobothnia), Pohjois-Karjala (North Karelia) and Kainuu) and Russia (Republic of Karelia). The adjoining areas included Lapland and Pohjois-Savo (Finland), as well as the Murmansk, Arkhangelsk and Leningrad regions and St Petersburg (Russia).17

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16 Evaluation Unit of the DG NEAR, 2018, p. 144.
17 Ibid., p. 129.
• **The South-East Finland–Russia Programme** involved three Finnish regions (Etelä-Karjala (South Karelia), Etelä Savo (South Savo) and Kymenlaakso) and two Russian (Leningrad Region and St Petersburg). Uusimaa, Päijät-Häme, Pohjois-Savo (Finland) and Republic of Karelia (Russia) formed the adjoining areas.\(^{18}\)

• **The Estonia–Latvia–Russia Programme.** This covered three Estonian (Kirde-Eesti, Lõuna-Eesti, Kesk-Eesti), two Latvian (Latgale, Vidzeme) and three Russian (Leningrad, Pskov and St Petersburg) regions. Põhja-Eesti (Estonia) and Pieriga and Riga (Latvia) belonged to the adjoining areas.\(^{19}\)

• **The Lithuania–Poland–Russia Programme** focused on three Lithuanian regions (Marjampolis, Taurages and Klaipėdos), six Polish (Gdansk-Gdynia-Sopot, Gdanski, Elblaski, Olsztynski, Elcki, Bialostocko-Suwalski) and one Russian (Kaliningrad). The regions of Slupski, Bydgoski, Torunsko-wloclawski, Lomzynski, Ciechanowsko-plocki, Ostroleckosiedlecki in Poland and Altyaus, Kauno, Telsiu, Siaulii in Lithuania formed the adjoining areas.

These CBC programmes had three main objectives:

• promoting economic and social development in border areas;
• addressing common challenges (environment, public health, safety and security);
• putting in place better conditions for persons, goods and capital mobility.

Despite the overall positive assessment of the ENPI CBC programme’s results, neither Brussels nor Moscow wanted to produce a rosy picture of their CBC in the 2007–13 period and were quite self-critical in their assessments of the experience with CBC activities.

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\(^{18}\) Oxford Research, 2016, p. 5.

\(^{19}\) ENPI Cross Border Cooperation Programme, 2007–2013, pp. 27–33.
However, the ENPI CBC experience shows that the main obstacles came from political factors rather than from any technical inexperience of project participants. First and foremost, CBC suffered from the spillover of political conflicts between its participants. For example, the Estonian-Russian conflict over the “Bronze soldier” monument (2007), the Russo-Georgian armed conflict (2008), tensions over the human rights situation in Russia and the opposition of some Baltic countries to the construction of the Nord Stream gas pipeline all had a very negative impact on the implementation of CBC programmes. As the “lessons learned” from the ENPI CBC programmes demonstrate, it is impossible to develop CBC cooperation against the political will of participating countries. However, as evidenced by rather positive experiences of the Kolarctic, Karelia, South-East Finland–Russia, Estonia–Latvia–Russia and Kaliningrad programmes, with a little political support or at least governmental neutrality, CBC programmes can be successfully implemented and have positive “confidence-building” effects and some useful practical results for participants.

Northern Dimension. In the 2007–13 period, the ND policies aimed to support stability, well-being and sustainable development in the region by means of practical cooperation. This covered a wide range of sectors, such as the environment, nuclear safety, health, energy, transport, logistics, promotion of trade and investment, research, education and culture.

For example, under the NDEP’s auspices, dozens of wastewater treatment plants were built or rehabilitated in Arkhangelsk, Kaliningrad, Leningrad Region, Novgorod, Komi Republic, Petrozavodsk, Pskov and St Petersburg. Heating systems were modernised in Kaliningrad and Vologda. A solid-waste management project was implemented in Petrozavodsk. The NDEP participated in the construction of the St Petersburg Flood Protection Barrier.20

20 Northern Dimension Environmental Partnership, n.d.
The NDEP’s nuclear “window” has become a major multilateral initiative in dealing with nuclear waste management in north-west Russia. Its focus was on the Kola Peninsula, Arkhangelsk and Murmansk regions, which constituted the largest repository of nuclear waste in the world. The NDEP coordinated its work with the Contact Experts Group of the International Atomic Energy Agency. NDEP nuclear safety projects included the construction of facilities for the storage of spent nuclear fuel, defueling of nuclear submarines and modernisation of transportation systems for spent nuclear fuel on the Kola Peninsula.\textsuperscript{21}

**Euroregions.** Euroregions are in essence administrative-territorial units designed to promote CBC between neighbouring local or regional authorities in countries that share land or maritime borders. In fact, they constitute well-known mechanisms for cooperation between regions and municipalities. Several of Russia’s north-western regions and municipalities were involved in Euroregions projects. For example, the Kaliningrad Region currently belongs to five Euroregions – Baltic, Saule, Neman, Lyna-Lava and Sesupe.\textsuperscript{22} Karelia and the Pskov Region have participated in Euroregions with Finland, Latvia and Estonia.

The projects implemented under Euroregions auspices aimed to develop regional transportation, energy and border-crossing infrastructure; monitor environmental risks; train municipal officials; and establish cultural, educational, youth and other people-to-people contacts. In this respect, the Euroregions foster Europeanisation, de-bordering, de-marginalisation, increased awareness and familiarisation.

It should be noted, however, that, despite some successes, the overall results of the Euroregions projects remain rather modest. Moreover, the Euroregions were often reduced to what Russians call

\textsuperscript{21} Ibid.

\textsuperscript{22} Sergunin, 2006.
“bureaucratic tourism,” by which they mean exchanges between regional and municipal officials. Only the Baltica, Saule and Karelia Euroregions really promoted cooperation and horizontal links at the people-to-people, company-to-company or NGO levels.23 Thus, the Euroregions concept, although a potentially important tool for CBC, does not work properly.

To improve the Euroregions’ performance, Russian and international experts recommended (1) clarifying the legal status of Euroregions in Russian and European law; (2) providing them with a sustainable financial base through EU and national long-term funding schemes; and (3) through local and regional budget allocations, publicising the activities of Euroregions to facilitate lobbying in national and international agencies.24

City twinning. Twin cities have become one of the most successful and interesting forms of CBC in the post-Cold War era. They are a relatively new urban form. As an aspect of regionalisation, twinning shows that national borders are losing their capacity to impose order, even as it turns marginality from a disadvantage to a competitive advantage and increases familiarity.25

To coordinate and institutionalise twinning, the City Twins Association (CTA) was established in December 2006. This comprises 14 cities, including four pairs in northern Europe: Valka and Valga (Latvia and Estonia), Imatra and Svetogorsk (Finland and Russia), Narva and Ivangoorod (Estonia and Russia) and Tornio and Haparanda (Finland and Sweden).

These pairs differ in terms of experiences and effectiveness. Tornio–Haparanda can be seen as a success story, and Valka–Valga and

23 Ibid.; Scott, 2013.
25 City Twins Association, 2011.
Imatra–Svetogorsk as relatively successful pairings; but the Narva–Ivangorod duo exemplifies, if not complete failure, something close to it.

Twin-city projects covered spheres such as wastewater treatment systems, the assessment and measurement of water quality and fish stocks, culture, tourism, employment policies, border policies, spatial planning coordination and infrastructural improvements.

**CROSS-BORDER COOPERATION IN THE AFTERMATH OF THE UKRAINE CRISIS**

The crisis in Ukraine, followed by mutual EU and Russian sanctions and the Russian economic crisis caused mostly by the sharp fall in oil prices and remilitarisation of the Baltic Sea Region (BSR) and Northern Europe region had a very negative impact on EU-Russia CBC. For example, investment risks rose for those European companies that planned to take part in CBC projects with Russia. The European Investment Bank (EIB) and European Bank for Reconstruction and Development (EBRD), which were involved in financing EU-Russia CBC projects, had to cancel or seriously limit their activities in this field. The EU’s sanctions, which targeted several leading Russian banks, also complicated the participation of these financial institutions in CBC activities. In general, mutual mistrust and suspicion rapidly increased in EU-Russia relations, which resulted in the cancellation of or delay in many cooperative efforts in border regions.26

On the other hand, given tense relations between Brussels and Moscow, the EU leadership believed that shifting the focus of EU-Russian bilateral cooperation from the national to the regional and local levels would be an appropriate solution. As was stated in one EU

26 Golunov, 2017.
document, “The EU-Russia relationship is currently under strain and CBC provides a valuable channel for cooperation between communities on both sides of the border during these challenging times as well as laying down the foundations for deeper regional cooperation in the future”.27

It should be noted that the main forms of EU-Russia CBC for 2014–20 remained nearly the same as in the previous period: the ENI (instead of ENPI) CBC programme, ND partnerships, Euroregions and city twinning.

### ENI CBC programmes

The EEAS 2017 mid-term review noted that most ENI CBC programmes were at the inception stage (i.e. implementing the preparatory actions required to start the programme).28 This can be explained by hesitation in Brussels about the future of the programmes in the context of the tensions between the EU and Russia.

**Baltic Sea Region programme.** Russia participates in the BSR programme for 2014–20. The area cooperation covers 11 countries: eight EU member states and three partner countries. The EU member states taking part are Denmark, Estonia, Finland, Germany (the Länder of Berlin, Brandenburg, Bremen, Hamburg, Mecklenburg-Vorpommern, Schleswig-Holstein and Niedersachsen (Lüneburg region)), Latvia, Lithuania, Poland and Sweden. Partner-country participants are Belarus, Norway and Russia (St Petersburg, Arkhangelsk, Kaliningrad, Leningrad, Murmansk, Novgorod, Pskov and Vologda Regions, Republic of Karelia, Komi Republic and Nenetsky Autonomous District) (see Map 1).

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28 Ibid., p. 2.
The overall objective of the programme is to strengthen integrated territorial development and cooperation for a more innovative, better accessible and sustainable BSR. The programme’s priorities include the development of innovation infrastructure, efficient management
of natural resources, regional transport systems, maritime safety, environmentally friendly shipping and urban mobility.\textsuperscript{29}

Projects must involve at least three partners from three different countries within the programme area. Funds available for the programme come from the ERDF (EUR 263.8 million), ENI (EUR 8.8 million), Russia (EUR 4.4 million) and Norway (EUR 6.0 million).\textsuperscript{30}

The \textbf{Kolarctic programme}'s geographical area (including the core and adjacent regions) remained the same as in 2007–13 (see Map 2). The overall aim of this programme is to promote a viable economy and the attractiveness of the region, where inhabitants and visitors come to enjoy the Arctic flora and fauna and where natural resources are used in a sustainable way.

\textit{Map 2. Kolarctic programme area, 2014–20.}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{map2.png}
\caption{Kolarctic programme area, 2014–20.}
\end{figure}

\textit{Source: European Commission 2015, p. 1.}

\textsuperscript{29} Interreg Baltic Sea Region, n.d. (c).
\textsuperscript{30} Interreg Baltic Sea Region, n.d. (b).
The programme has the following thematic objectives: business and SME (small and medium enterprises) development; environmental protection, climate change mitigation and adaptation; improvement of accessibility to the regions, development of sustainable and climate-proof transport and communication networks and systems; and promotion of border management and border security, mobility and migration management.\textsuperscript{31}

The indicative allocation of EU funding for the Kolarctic CBC programme 2014–20 is EUR 24.718 million. Availability of an additional ERDF allocation of EUR 10.355 million for years 2018–20 is subject to a mid-term review by the EU and the availability of matching ENI funds. Norwegian equivalent funding totals EUR 7 million. National co-financing from EU member states (Sweden and Finland) is a total of EUR 12.359 million; Russia is to provide the same amount. The programme requests all individual projects to allocate their own contribution of a minimum of 10% of the total project budget.\textsuperscript{32}

The \textbf{Karelia CBC programme} for 2014–2020 retained its core geographical area and extended its adjoining regions by including three new Finnish regions (North Savo, South Savo and South Karelia) (see Map 3). Its Joint Operation Programme defines the overall objective of the programme as follows: to make the programme area attractive for the people to live and work and businesses to locate and operate. The programme’s thematic objectives are similar to the previous one with one addition: promotion of local culture and preservation of historical heritage.\textsuperscript{33}

\textsuperscript{31} European Commission, 2015b, p. 4.
\textsuperscript{32} Ibid., p. 5.
\textsuperscript{33} Karelia CBC programme, 2015, pp. 9–10.
The programme is co-funded by the EU out of the ENI and ERDF allocations, and by Russia and Finland, with each source providing EUR 10.75 million. Thirty-four Forty joint projects were selected for funding by the stakeholders.

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34 Ibid., p. 4.
35 Karelia CBC programme, 2018.
The South-East Finland–Russia CBC programme in 2014–20 has the same core area as in 2007–13 but its adjoining region was extended by including North Karelia (Finland) (see Map 4). The programme’s overall objective will be achieved through “improved competitiveness, increased economic activity, a knowledge-based economy, skilled labour force, high-level cultural events and tourism, pure nature and waters, easy mobility, good transport corridors, and smooth and modern border crossing points”.


Source: South-East Finland-Russia CBC 2014–2020, 2015, p. 11.

The programme’s total funding is EUR 72.294 million, of which the EU will provide 50% and Finland and Russia the other half (divided between them on a 50–50 basis).37

The **Estonia–Latvia–Russia CBC programme** for 2007–13 was divided into two bilateral programmes.

The **Estonia–Russia programme** retained the same Estonian and Russian core and adjoining areas as in the trilateral programme (see Map 5).


Similar to other ENI CBC programmes, this one has the following strategic objectives: (a) promote economic and social development in

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37 South-East Finland–Russia CBC 2014–2020, 2015, p. 100.
regions on both sides of the common borders; (b) address common challenges in the environment, public health, safety and security; and (c) promotion of better conditions and modalities for the mobility of people, goods and capital.\textsuperscript{38}

The EU’s financial contribution to the programme is EUR 16.808 million, while Estonia and Russia will contribute EUR 9.013 million and EUR 8.404 million respectively.\textsuperscript{39}

The \textbf{Latvia–Russia programme} for 2014–20 includes the Vidzeme and Latgale regions in Latvia and the Pskov region in Russia as a core area. The adjoining area includes the Pieriga and Zemgale regions of Latvia and the Leningrad Region in Russia (see Map 6).

\textit{Map 6. Latvia–Russia CBC programme area, 2014–20.}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{map6}
\caption{Map 6. Latvia–Russia CBC programme area, 2014–20.}
\end{figure}


The programme’s strategic goal is to support joint efforts to address cross-border development challenges and promote sustainable use of the existing potential of the area across the border between Latvia and Russia.40

The EU contribution is EUR 16.055 million (EUR 17.554 million together with co-financing partners), while Latvia will contribute EUR 1.035 million and Russia will give EUR 7.938 million (EUR 8.743 million together with partners’ co-financing).41

The Lithuania–Poland–Russia trilateral CBC programme for 2007–13 was divided into two bilateral programmes.

The Lithuania–Russia programme 2014–20 includes Russia’s Kaliningrad Region and Lithuania’s Klaipeda, Marijampole and Taurage counties as core regions. Alytus, Kaunas, Telsiai and Siauliai counties form Lithuania’s adjoining regions (see Map 7).


41 Ibid., p. 87
The programme’s thematic objectives include (a) promotion of local culture and preservation of historical heritage; (b) promotion of social inclusion and the fight against poverty; (c) support for local and regional good governance; (d) promotion of border management and border security, mobility and migration management.\(^\text{42}\)

The EU and Russia together with co-financing partners will contribute EUR 18.71 million and EUR 8.5 million respectively.\(^\text{43}\)

The Poland–Russia CBC programme in 2014–20 covers Russia’s Kaliningrad Region and the following subregions of Poland: Gdański, Trójmiejski and Starogardzki (all in Pomorskie region); Elbląski, Olsztyński and Ełcki (all in Warmińsko-Mazurskie region); and Suwalski (in Podlaskie region). The subregions of Słupski (Pomorskie region) and Białostocki (Podlaskie region) form the adjoining region in Poland (see Map 8).

The programme’s specific priorities include (1) cooperating on historical, natural and cultural heritage for their preservation and cross-border development; (2) cooperation for a clean natural environment in the cross-border area; (3) accessible regions and sustainable cross-border transport and communication; and (4) joint actions for border efficiency and security.\(^\text{44}\)


\(^\text{43}\) Ibid., pp. 77–8.

\(^\text{44}\) Poland–Russia CBC programme 2014–2020, 2016, p. 11.

According to the indicative financial plan the total programme’s co-financing amounts to EUR 68.012 million. The financial allocations of the EU are 41.645,86 million, while the Russian contribution to the programme is EUR 20.652,617 million and minimum co-financing is EUR 5.713,532 million. Table 1 contains aggregated data on funding EU-Russia CBC programmes for 2014–20.


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45 Ibid., p. 112.
Table 4. EU–Russia CBC programme funding for 2014–2020 (million EUR).

<table>
<thead>
<tr>
<th>Programme</th>
<th>ERDF</th>
<th>ENI</th>
<th>Finland</th>
<th>Sweden</th>
<th>Norway</th>
<th>Russia</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baltic Sea Region</td>
<td>263.8</td>
<td>8.8</td>
<td>–</td>
<td>–</td>
<td>6.0</td>
<td>4.4</td>
<td>283.0</td>
</tr>
<tr>
<td>Kolarctic</td>
<td>24.718</td>
<td></td>
<td>12.359</td>
<td>7.0</td>
<td></td>
<td>12.359</td>
<td>56.436</td>
</tr>
<tr>
<td>Karelia</td>
<td>10.75</td>
<td>10.75</td>
<td>10.75</td>
<td>–</td>
<td>–</td>
<td>10.75</td>
<td>43.0</td>
</tr>
<tr>
<td>South-East Finland–Russia</td>
<td>36.147</td>
<td></td>
<td>18.0735</td>
<td>–</td>
<td>–</td>
<td>18.0735</td>
<td>72.294</td>
</tr>
<tr>
<td>Estonia–Russia</td>
<td>16.808 (EU) + 9.013 (Estonia)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>8.404</td>
<td>34.225</td>
<td></td>
</tr>
<tr>
<td>Latvia–Russia</td>
<td>17.554 (EU) 1.035 (Latvia)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>8.743</td>
<td>27.332</td>
<td></td>
</tr>
<tr>
<td>Lithuania–Russia</td>
<td>18.71</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>8.5</td>
<td>27.21</td>
</tr>
<tr>
<td>Poland–Russia</td>
<td>20.653</td>
<td>20.992</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>20.653</td>
<td>62.298</td>
</tr>
<tr>
<td>Total</td>
<td>459.73</td>
<td>34.7535</td>
<td>6.18</td>
<td>13.0</td>
<td>91.8825</td>
<td>605.546</td>
<td></td>
</tr>
</tbody>
</table>

Assessment of ENI CBC Programmes

Given the early stage in the implementation of ENI programmes, it is too early to draw any far-reaching conclusions about their effectiveness. Some preliminary observations, however, can be made.

It should be noted that ENI CBC programmes are much better designed than ENPI ones. Building on previous experience, and mirroring the approach of the Interreg programmes, important efforts were made towards narrowing down the thematic focus of the ENI CBC programmes with a view to maximising their impact.
The Joint Monitoring Committees of the specific programmes provided an effective forum for all parties to articulate concerns about various aspects of programme progress and/or to propose alternative approaches to the achievement of overall programme objectives. All partners had an opportunity to participate and some fundamental changes were made to some programmes as a result. While the constant reformulation of programmes is not to be recommended, the responsiveness of programme management to changing circumstances is an important success factor.\textsuperscript{46}

Russian co-funding is very important for the success of the CBC programmes. At a general level, it has helped to create a sense that the CBC programmes are recognised as a genuine joint effort to address shared social and economic problems, rather than being some external aid programme over which the participants have little control. At the more operational level, Russian co-funding has imposed legal and administrative obligations on Russia to obtain a good return on the investment.\textsuperscript{47}

The activities of the ENI CBC programmes have been implemented with a high level of mutual understanding and respect between the partners on both sides of the border. This “parity of esteem” is extremely important for the Russian partners in particular and is an important ingredient in the maintenance of good diplomatic and political relations between the programme countries.\textsuperscript{48}

Again, building on the experience from the past, the ENI CBC programmes are increasingly aware of the importance of communicating their results. At the time of submission of the Joint Operational Programmes, programmes also submitted a communications strategy for their whole duration as well as an indicative information and

\textsuperscript{46} Evaluation Unit of the DG NEAR, 2018, p. 72.
\textsuperscript{47} Ibid., p. 54.
\textsuperscript{48} Ibid., p. 72.
communications plan for the first year, including visibility measures. The majority of programmes developed dedicated websites from the outset, considered as their main communications tool. Another improvement is the increased use of social media to promote the programmes and their results.\textsuperscript{49}

On the other hand, some problems and shortcomings in the implementation of ENI CBC programmes can be identified. According to some accounts, progress in these programmes has been somewhat slower than initially anticipated.\textsuperscript{50}

The impact of global issues, such as conflict, terrorism and migration, on the scope of cooperation is still felt by a number of participating countries. For example, the use of the “polar routes” (via the Finnish–Russian and Norwegian–Russian borders) by refugees from the Middle East in 2015–6 was a major shock for Helsinki and Oslo.\textsuperscript{51} Previously the assumption had been that these were well-managed borders, but since then the perception has changed and migration from the south and from the north-east has become a challenge for the Nordic countries.

Another negative example is the case of Estonian Internal Security Service officer Eston Kohver, who, according to Estonian sources, was abducted from Estonian territory by Russian agents in September 2014; Russia insisted that he was arrested for crossing the border illegally.\textsuperscript{52} Kohver was sentenced to 15 years in jail but was exchanged for an imprisoned Estonian security officer in September 2015. The Kohver case had a direct and negative effect on Estonian-Russian CBC. The incident induced Estonia to begin to delineate and secure its border with Russia, an action strongly condemned by Moscow.

\textsuperscript{49} EEAS-DG NEAR, 2017, p. 11.
\textsuperscript{50} Ibid., p. 8.
\textsuperscript{52} Golunov, 2017.
Estonia also created a new border task force, proclaimed its intention to build a border fence and refused to participate in planned Zapad 2015 joint border-guard training exercises.\textsuperscript{53}

The decision by Poland in 2016 to suspend (allegedly for security reasons) the visa-free regime for residents of the Kaliningrad oblast and two Polish border regions in the aftermath of the crisis in Ukraine\textsuperscript{54} has had a negative effect on the Poland–Russia ENI CBC programme because it made the free movement of people in the region more difficult and resulted in a reduction in tourism and cross-border trade.

There are also challenges around the complexity of procedures relating to implementation, reporting, control, audit and recoveries, the capacity of projects to create synergies with other processes and the delineation of roles and responsibilities between stakeholders, which could have impacts on the pace of implementation.\textsuperscript{55} Problems like the signature of financing agreements and the making of special provisions for Russian procurement, visibility and administrative concerns can absorb a significant amount of management time and leave less resources to deal with the practical challenges of project implementation.\textsuperscript{56}

\section*{Northern Dimension, Euroregions and City Twinning}

In contrast with the ENI CBC programme, other forms of EU-Russia CBC since 2014 have developed rather sluggishly: some projects were cancelled or suspended, only projects approved before the crisis were continued and no new projects were launched. For example, the

\textsuperscript{53} Ibid.

\textsuperscript{54} Polygraph, 2018.

\textsuperscript{55} EEAS-DG NEAR, 2017, p. 13.

\textsuperscript{56} Evaluation Unit of the DG NEAR, 2018, p. 73.
NDEP did not initiate any new projects with Russia in the 2014–20 EU budget cycle. Instead, it turned its attention to cooperation with Belarus. Some modest activities and progress can be observed only in the cases of the NDPHS\textsuperscript{57} and NDPC.\textsuperscript{58}

The same slow progress can be seen in the case of the Euroregions. While most of these remain dormant, Euroregion Baltic demonstrates some modest activity. It is involved in three projects funded by the EU Interreg South Baltic Programme: CaSYPoT (youth issues), INTERCONNECT (travelling with one ticket by various means of transport in a selected region of the South Baltic) and UMBRELLA (support for small NGOs, local and regional authorities, associations, chambers of commerce, etc. in developing CBC in the region).\textsuperscript{59}

The two city-twinning projects with Russian participation (Narva–Ivangorod and Imatra–Svetogorsk) have been reduced to some routine activities and do not exhibit any potential for a breakthrough. On the other hand, these city pairings continue to benefit from the ENI CBC Estonia–Russia and South-East Finland–Russia programmes.

**CONCLUSIONS**

These days regions and municipalities work together across borders to solve concrete and shared problems, for their own reasons and with their own inherent capacities. They aim to increase their strength by crossing various borders – conceptual, identity-related and spatial. To that end, they join forces in various regional endeavours or lobby in broader contexts.

\textsuperscript{57} Northern Dimension Partnership in Public Health and Social Well-being, 2018.

\textsuperscript{58} Northern Dimension Partnership on Culture, 2017.

\textsuperscript{59} Euroregion Baltic, 2018.
A range of CBC programmes provide opportunities for dialogue with a number of different stakeholders, including civil society organisations, local and regional authorities, academia and the private sector. In other words, CBC offers one of the few available funding platforms for certain stakeholders who would otherwise not have access to such cooperation. It should also be noted that CBC networks strengthened dialogue both between neighbouring countries and regions and within participating countries.

Many CBC programmes are characterised by the participating countries’ strong commitment and ownership based on a balanced partnership between them and non-state actors. The programmes are not only planned but also implemented in a coordinated manner, and through joint management structures involving partners at different policy levels (national, regional, local). This is certainly an important contribution to good neighbourly relations and the creation of a climate of trust between the partners that is especially valuable in the context of current EU-Russia tensions.

In general, EU–Russia CBC programmes provide a very effective instrument for the promotion of strategic cooperation between the partner countries, even in the post-2014 environment. Relations between some EU member states and Russian institutions in the transport, border management, environmental, healthcare, educational and cultural sectors seem to be very strong and there is great willingness to continue cooperation. These practical forms of cooperation appear to be strongly supported at high political levels in both the EU countries and Russia, despite ongoing diplomatic tensions.

There are, however, a number of caveats regarding the role of CBC in developing strategic cooperation between the EU and Russia. While relations between European and Russian national and subnational authorities seem to be strongly supported by past and present programmes, the same impact is not so evident in relations between Brussels and
Moscow. There are many complex geopolitical factors that negatively affect EU-Russian relations, including in the CBC sphere. For this reason, CBC programmes probably have the greatest strategic value at the regional and local/municipal levels rather than at the top tier.

Meanwhile, there is a growing feeling in Brussels that CBC provides a valuable forum for practical cooperation between the EU and Russia, which may eventually facilitate a broader political engagement. The European Council decision (taken in the aftermath of the crisis in Ukraine) to exclude CBC from the restrictions on cooperation with Russia confirms this trend.

On a practical note, better coordination and synergies could be sought between ENI CBC and other ENPI instruments (bilateral, regional and Neighbourhood-wide assistance) and EU political initiatives (the EU Strategy for the Baltic Sea Region and the ND policy). It is especially important to establish a proper division of labour between ENI CBC programmes on the one hand and the ND partnerships and Euroregions on the other. Some duplication currently exists in terms of specific projects, participants and funding schemes. The ND partnerships, Euroregions and city twinning should be revived because they have proved to be important CBC instruments that complement and reinforce ENI CBC programmes.

To conclude, in spite of a number of negative factors – such as an unfavourable geopolitical environment, EU-Russian tensions and mutual sanctions, the lack of some stakeholders’ commitment to specific CBC projects, some partners’ inexperience in managing international projects, and numerous technical difficulties in project implementation – EU–Russia CBC appears to be a useful and effective instrument in building practical cooperation and trust at the transnational, national, regional and local levels. This in turn results in creating and sustaining a solid interdependency mechanism between the EU and Russia.
There are a significant number of Russian-speakers living in the European Union, including in the Baltic states and Germany. From the perspective of interdependence theory, these people might be a positive element in advancing people-to-people relations, while possibly contributing to improved political relations. To some degree, this is indeed the case, especially with regard to cross-border cooperation.¹ A good example is the Karelia region, situated partly in Russia and partly in Finland. Many Russians live in Finnish Karelia but maintain their ties to the Russian side of the border. In this region, it is common to have relatives, burial sites and property on the other side of the border. If the relationship between the EU and Russia followed the liberal paradigm, it would be natural to develop these regional ties as a means of facilitating good relations on the political level. In the current context, however, this does not happen.

This chapter focuses on a different aspect of the Russian-speaking communities in the EU: the way the Russian state and state media

¹ See the chapter by Kuznetsov & Sergunin in this volume.
approach these people in the framework of its compatriot policy and the concept of the “Russian World”, trying to instrumentalise the “compatriots” in spreading Russian narratives in the EU and occasionally using them to stir up instability and protest against their host countries. Only a small proportion of Russian-speakers in the EU may be receptive to such a role, but this has been sufficient to provoke pro-Russia protests in a number of cases, as discussed below. Hence, the Russian-speaking communities are to some degree a source of vulnerability for the EU. It is important, however, not to make generalisations about Russians as a minority group that is very diverse on the individual level.

The key characteristics of complex interdependence are the multiple channels of communication between actors, the absence of hierarchy among issues, and the minor role of military force.\(^2\) The founders of interdependence theory considered the role of non-state actors important. In this context, they also highlighted transtransnational relations. Keohane and Nye proposed seven possible levels of relations, including the individual.\(^3\) Furthermore, in *Power and Interdependence*, Keohane and Nye define interdependence as reciprocal effects among actors resulting from “international transactions—flows of money, goods, people and messages across international boundaries”.\(^4\) Thus, the flow of messages, a factor addressed in this chapter, is also an important aspect of interdependence. An important addition to the original interdependence theory is to study the specificity of interdependence in the information age.

Russian-speakers in the EU are in many aspects a special case. In general, Russians in the EU have left Russia for good, and live their

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\(^3\) The other levels are: states as units, government subunits, international organisations, sub-units of organisations, transnational organisations and subunits of transnational organisations (Coate, Griffin & Gower, 2015).

\(^4\) Rogerson, 2000.
everyday lives in their new country of residence. They are different from other diasporas: for example, compared to other immigrants the remittances they send home are relatively low. At the same time, Russians living in the EU are still connected to Russia through the Russian media. In this respect, one can characterise the interdependence in this field as a vulnerability of the EU, as Russian-speakers are being influenced by negative narratives broadcast by the Russian state media about the EU. Social media networks are an important factor in this relationship.

Many Russian-speakers try to maintain their identity in a foreign environment. The Russian state uses Russian and Soviet identities as items in its toolbox of influence and hybrid threats, trying to mobilise the population on the basis of their origin. Information campaigns may claim that their target countries are negatively discriminating against ethnic Russians living there, highlighting real or fabricated injustices, and offering Russian support to protect their minority rights.

The relationship between the Russian state and Russian-speakers in the EU remains rather top-down and distant. The individuals who either left Russia voluntarily or remained in the independent states formed after the collapse of the Soviet Union are treated by the Russian state as a group of compatriots. In this case, it can be said that Russia is “claiming its diaspora.” This relationship can therefore be characterised as one between the state and an imaginary group of individuals. Multiple channels of communication, a factor highlighted by interdependence theory, do exist, and the communication mostly takes place through media and social networks. The Russian state tries to embrace all Russians and those connected to Russian

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5 Remittances to Russia averaged 235.56 million USD a year from 2001 to 2018, with an all-time high of 436 million USD in the fourth quarter of 2013 and a record low of 44 million USD in the first quarter of 2002. As a comparison, remittances sent home to Lithuania were on average worth 236.53 million EUR a year between 2004 and 2018 (Trading Economics, n.d.).

6 Weitz, 2014.

7 Kallas, 2016.
culture through Moscow’s compatriot policy and the amorphous concept of the “Russian World”. However, while Moscow’s “Russian World” policy towards its compatriots is a well-researched topic, a lot less is known about the attitudes of individual Russian-speakers towards this policy.

In this chapter, I first describe the statistics and classification of the Russian-speakers in the European Union, then analyse the Russian policy of compatriots and the “Russian World”, and finally give some examples of the mobilisation of Russian-speakers under the influence of the Russian authorities and their media messages.

**RUSSIAN MINORITIES IN THE EU: OVERALL CLASSIFICATION AND STATISTICS**

There are two major problems when defining the Russian minority in the EU: first, the question of definition; and second, reliable statistics. From Russia’s perspective, the so-called “Russian World” has at its core all the people somehow associated with Russia. The narrower definition would be Russian-speakers, i.e. those who use the Russian language as their mother tongue whatever their ethnicity. An even narrower definition is to refer to ethnic Russians. The narrowest group of all is citizens of the Russian Federation.

The “Russian World” ideologists would naturally like to set the number of their subjects as high as possible. For example, Lyudmilla Verbitskaya, chair of the board of trustees of the Russkiy Mir Foundation, stated in 2013 that there were around 300 million Russian-speakers in the world. Though this obviously includes all the Russians residing in the Russian Federation and those who speak Russian as non-natives, the number still seems too high. For Russian-speakers

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8 Russkiy Mir, 2013
outside Russia, the figure of 30 million is often mentioned.\textsuperscript{9} This number is clearly unrealistic, however, as the statistics for the former Soviet Union (FSU) are around 15 million,\textsuperscript{10} and it is not possible that so many Russian-speakers live in countries other than the FSU.

Theoretically, one can identify minorities according to their origin. For example, Robert Cohen classifies diasporas into different types: victim (Jewish, African, Armenian), labour (indentured Indians), imperial (British), trade (Lebanese, Chinese) and de-territorialised (Caribbean peoples, Sindhis, Parsis).\textsuperscript{11} The imperial diaspora can also be called “settler” or “colonial” diaspora. One can differentiate the recent migration trends out of Russia very roughly as a flow of economic migrants. Cohen suggests that the Russian minorities in the FSU are “stranded minorities” and not diasporas, because they do not correspond to the criteria of being dispersed.

In general, though, the Russian diaspora can be best classified as either imperial or economic. EU member states are divided into two groups, with Estonia, Latvia and Lithuania falling into the imperial category and the rest being mostly home to economic migrants. There are also borderline cases such as Finland, which was part of the Russian Empire prior to the Bolshevik Revolution, and Germany (\textit{Aussiedler}), where a large proportion of Russian-speakers are ethnic Germans from the FSU, mostly from Kazakhstan, repatriated after 1991.

The other difficulty is how to classify those Russian-speakers who actually have all the conditions of being compatriots—Soviet origin and Russian affinity and ethnicity—but left Russia voluntarily to seek better career prospects, economic conditions, and freedom of expression. Mikhail Suslov defines these people as “global Russians”.\textsuperscript{12}

\textsuperscript{9} Suslov, 2012.
\textsuperscript{10} Karachurina, 2019, p. 188.
\textsuperscript{11} Cohen, 2008, p. 18.
\textsuperscript{12} Suslov, 2017.
Vladislav Inozemtsev also differentiates this category of immigrants, calling them “Russian professionals”. These are independent people who took the risk of starting a new life in a new country; they are educated, integrate into society, and do not need Moscow’s protection. Another, larger group could be called “professional Russians”: those who never moved and found themselves outside Russia against their own free will. They are not striving for integration and are nostalgic about the time of the Soviet empire.\(^\text{13}\)

It is difficult to find aggregated statistics on this subject, as various EU countries use different sets of data to measure population, and the timing of censuses also varies. The European Commission has comprehensive data on the population of member states, with some exceptions.\(^\text{14}\) The 2013 data summarise the main countries of previous citizenship, with Russia in 14th place (out of 30) with 18,600 new citizens.\(^\text{15}\) The data for 2014 show the population by immigrants’ countries of origin or birth. Russia appears among the top six countries of immigrants’ citizenship in the Czech Republic (proportion of foreign/foreign-born population: 7.3%), Bulgaria (28.2%), Estonia (46.4%), Latvia (12.7%), Lithuania (47.7%) and Finland (14.9%).

Germany has the largest Russian-speaking population outside the FSU in absolute terms, with some three million. They are split into three groups: from largest to smallest, Russian-speaking ethnic Germans (Aussiedler), ethnic Russians, and Jews. In 2018 there were 250,000 citizens of the Russian Federation living in Germany.\(^\text{16}\) According to 2017 statistics, 1,381,000 people have a migration background connected to the Russian Federation (around 1.7% of the total population). A further 1,237,000 residents have a migration background

\(^\text{13}\) Inozemtsev, 2018b., p. 276.

\(^\text{14}\) The countries not included are Austria, Croatia, Cyprus, France, Greece, Luxembourg, Malta and Poland.

\(^\text{15}\) European Commission, 2015a.

\(^\text{16}\) Statistisches Bundesamt, n.d.
connected to Kazakhstan (about 1.5% of the total population). According to 2018 data, 487,250 residents of Latvia define themselves as Russian—around 25% of the total population. In Estonia, 2017 data show that the overall population was 1,315,635, of which ethnic Russians comprised 330,206 (around 27%). In Lithuania, 2018 data show that 4.5% of the population (around 126,000) have Russian ethnicity, out of around 2,800,000 residents in total. In Finland, the number of Russian-speakers has been growing steadily since 1991, when it comprised fewer than 10,000 people. By 2017, the figure was almost 80,000 (around 1.5% of the total population). In the Czech Republic, the number of Russian citizens in 2017 was 36,642 (around 0.34% of the total population). In the 2011 census in Cyprus, there were 10,520 people whose country of origin was given as Russia (about 1.25% of the total population).

Table 5. Largest populations of Russian-speakers in the EU, 2017.

<table>
<thead>
<tr>
<th>Country</th>
<th>No. of Russians</th>
<th>% of total population</th>
<th>No. with other USSR background</th>
<th>% of total population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>1,381,000</td>
<td>1.7%</td>
<td>1,556,000</td>
<td>1.9%</td>
</tr>
<tr>
<td>Latvia</td>
<td>487,250</td>
<td>25%</td>
<td>138,129</td>
<td>7.9%</td>
</tr>
<tr>
<td>Estonia</td>
<td>330,206</td>
<td>27%</td>
<td>45,439</td>
<td>3.7%</td>
</tr>
<tr>
<td>Lithuania</td>
<td>126,000</td>
<td>4.5%</td>
<td>61,600</td>
<td>2.2%</td>
</tr>
</tbody>
</table>

18 Latvia Central Statistical Bureau, 2018.  
19 Statistics Lithuania (Lithuanian Department of Statistics), n.d.  
20 Statistics Finland, n.d.  
21 Czech Statistical Office, n.d.  
22 Cyprus Statistical Service, n.d.  
23 Table 1 was compiled by the author based on data from the national statistical boards. “USSR background” means the nationalities of the FSU; for Germany, the data available is for Kazakhstan and Ukraine.
RUSSIA’S COMPATRIOT POLICY AND THE “RUSSIAN WORLD”

The importance of the compatriot policy could be clearly seen as early as the Yeltsin era. Many documents were adopted during that period, among them: the Report on Urgent Measures for Socio-cultural Cooperation between Citizens of the Russian Federation with their Compatriots Abroad (January 1993); Presidential Decree No. 1681, Guidelines on State Policy regarding Compatriots Living Abroad (11 August 1994); Resolution of the Russian Government No. 1064, List of Primary Measures to Support Compatriots Abroad (13 August 1994); Declaration on Support of the Russian Diaspora and Protection of Russian Compatriots (8 December 1995); Resolution of the Government No. 590, Action Programme for Protecting Compatriots Abroad (17 May 1996).24

The most important document, from which the legal concept of “compatriot” comes, is the Federal Law on the State Policy of the Russian Federation in Relation to Compatriots Abroad of 1999, which came into force on 1 June that year.25 This law actually does not define precisely who a “compatriot” is. Legally speaking, a compatriot is any citizen of Tsarist Russia, Soviet Russia or the Soviet Union. But compatriots are also descendants of citizens of other states who do not belong to the “titular” nation and are presumably Russian-speaking—or anyone who feels a link with Russia or considers him or herself a compatriot. But in the last case, the categorisation is no longer legal, but rather an ethno-psychological one.

Amendments to the law were submitted for consideration by the State Duma in February 2010 with the aim of defining the term “compatriot” more precisely, by stressing the individual’s self-identification and his/her practical connection to Russia. Such a connection could

25 Rossiyskiy federal’nyy zakon, 1999b.
be, for example, membership of a Russian non-government organisation operating abroad.\textsuperscript{26} The current edition of the law defines the compatriots abroad as follows:

1. Compatriots are the individuals born in one state, having lived or living in this state and having commonality of language, history, cultural heritage, traditions and habits, and also the descendants of the above-mentioned individuals by direct descending line.

2. Compatriots abroad (hereinafter “compatriots”) are the citizens of the Russian Federation permanently residing outside of the territory of the Russian Federation.

3. Recognised as compatriots are also individuals and their descendants who live outside the territory of the Russian Federation and belonging, as a rule, to the peoples historically residing on the territory of the Russian Federation, and also those having freely chosen spiritual, cultural and legal connection to the Russian Federation, whose relatives by direct ascending line earlier resided on the territory of the Russian Federation, including:

- individuals who held the citizenship of the USSR, residing in the states which were part of the USSR, and who received the citizenship of these states or became stateless persons;
- emigrants from the Russian state, Russian Republic, Russian Soviet Federal Socialist Republic, the USSR and the Russian Federation, having had the citizenship of those states and having become the citizens of the foreign state or stateless persons.\textsuperscript{27}

In addition, the Federal Law clarifies the principles and objectives of state policy towards compatriots, including support in the areas of culture, education and information.

In the 2000s, the concept of the “Russian World” began to dominate the political discourse of the Russian authorities, while remaining much more amorphous than the compatriot policy and lacking a legal

\textsuperscript{26} Kudors, 2010.

\textsuperscript{27} Federal’nyy zakon, 1999a (author’s translation).
definition. President Putin mentioned the concept as early as his speech at the World Compatriot Congress in 2001. The “Russian World” is the community of those speaking Russian and culturally aligned to Russia. The Russian language and the Russian Orthodox Church are the main cornerstones of this concept. The Church also uses the term “Holy Rus”. This discourse is closely connected to the notion of a unique civilisation and messianic mission of the Russian people.

The “Russian World” is operationalised through different programmes, which Russia promotes abroad.

In 2008, the Russian Centre for International Scientific and Cultural Cooperation (RCISCC or Roszarubezhtsentr), a successor governmental organ to the Union of Soviet Societies for Friendship and Cultural Relations with Foreign Countries, became the Federal Agency for the Commonwealth of Independent States, Compatriots Living Abroad and International Humanitarian Cooperation (Rossotrudnichestvo). The new agency took possession of a wide network of RCISCC missions abroad. Rosotrudnichestvo is now the coordinating centre for various types of Russian humanitarian activity abroad, including support for Russian compatriots living abroad, preserving Russian cultural heritage, and promoting the Russian culture and language and educational and scientific cooperation. It currently has 95 representative offices in 80 countries: 72 centres of science and Russian culture in 62 countries, plus 23 representatives serving in Russian embassies in 21 countries.

In 2010 president Dmitry Medvedev ordered the establishment of two new institutions with foreign-policy goals: the Gorchakov Fund for Public Diplomacy Support and the Russian International Affairs Council. The former was named after Alexandr Gorchakov, a

29 Shakirov, 2013.
30 Rossotrudnichestvo webpage.
prominent and highly respected 19th-century Russian diplomat. The Russian International Affairs Council, which began operations in July 2011, serves as “a link between the state, expert community, business and civil society in an effort to find foreign policy solutions”.\textsuperscript{31}

It is often asked whether “Russian World” programmes are no more than harmless “soft power” tools to promote the language and culture, and function using the same principles as the Goethe Institute or the British Council. The foundation’s activities include not only cultural events, but also libraries proving access to Russian media and events of a political nature. For example, at the 11th Conference of Russian Compatriots in Italy in Palermo (May 2017), agreement was reached on marking the Centenary of the Russian Revolution, Victory Day celebrations and the “Immortal Regiment” initiative.\textsuperscript{32} There are voices in Russia stressing that the “Russian World” policy is good for politics, as “Russian-speakers would continue to live and work on the territory of the post-Soviet space, keeping and spreading Russian culture and keeping the political space in Russian in their countries”.\textsuperscript{33}

It has long been government policy to repatriate Russians. The Programme of Voluntary Repatriation of Compatriots has been in operation since 2006. In 2017, it received 84,500 applications for repatriation in respect of 195,100 people (including family members). The data for the fourth quarter of 2017 also show that the vast majority of these applications came from Kazakhstan (27%), Ukraine (14.2%), Tajikistan (13.8%) and Armenia (10.2%). By comparison, just 0.2% of applications came from Estonia, Latvia and Lithuania combined.\textsuperscript{34}

The compatriot policy and the “Russian World” concept had evolved by 2018, when the 6th World Congress of Compatriots took place in

\textsuperscript{31} Shakirov, 2013.
\textsuperscript{32} Russkiy Mir, 2017.
\textsuperscript{33} Rossiya v global’noy politike, 2018.
\textsuperscript{34} MIA of Russian Federation, 2017.
Moscow. Putin’s speech there seemed to repeat the same narratives, but the new topic, or rather emphasis, was on the repatriation of compatriots. On the day of his speech, Putin signed the Concept of State Migration Policy, and promised to develop the Programme of Voluntary Repatriation of Compatriots. Putin also claimed that in the framework of this programme around 800,000 people had already been repatriated to Russia.

Repatriation figured prominently in Russian political discourse over the Ukraine crisis and the annexation of Crimea, and following the escalation of the situation in the Kerch Strait. After Ukraine banned all male Russians citizens aged 16–60 from entering the country, Russia made a statement claiming that it would not make it difficult for Ukrainian citizens to enter Russia. Instead, it would ease the procedure for migrants from Ukraine to obtain citizenship. This was considered an “asymmetric” response to the Ukrainian measure.

It can be seen that, through the “Russian World” concept, the Russian authorities wish to embrace different waves and layers of people connected to the Soviet Union and Russia, with the Russian language and culture and Russian Orthodox religion as the main building blocks in this process. The situation surrounding the Orthodox Church remains strained following the grant of autocephaly to Ukraine.

**Examples of Mobilisation of Russian-speakers**

The above analysis shows how diverse the Russian-speakers in the EU are and how difficult it is to define them and to have reliable statistics.

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36 Interfax, 2018.
37 RIA Novosti, 2018.
38 Sherr, 2019.
These people are certainly much more diverse than the Russian state would like to see them, and have their own wishes and attitudes, but also obligations towards the countries in which they physically live.

At the same time, there were a number of occasions that showed the wider world that the Russian-speakers living in the EU have some degree of connection, for example via social media networks, and can be mobilised in the context of certain events. The Russian state media play an important role, but these narratives have recently also been widely supported by social media networking.

**The “Bronze Soldier”**

One example is an incident in Estonia in 2007. The Bronze Soldier monument had originally been erected to honour the Soviet troops who entered Tallinn in the autumn of 1944 (as liberators in the Soviet view, as occupiers according to Estonians). The statue continued to be venerated by Estonian Russians after Estonia restored its independence. In 2005–6, it started to attract small but fairly extremist groups of pro-Soviet demonstrators in addition to regular visitors. The majority of visitors still wanted to honour those who lost their lives in the war.39

Disagreements over plans to relocate the monument culminated in a night of rioting in which a crowd of around 1,000 Russian-speakers protested by waving Russian flags, chanting “Rossiya, Rossiya”, looting stores and throwing Molotov cocktails. The Estonian government decided to move the monument immediately. On 27 April, violent clashes with the police continued, and as a result one Russian citizen, Dmitri Ganin, was killed, 153 were injured and 800 people arrested. Tensions were accompanied by rallies around the Estonian embassy in Moscow and assaults on the ambassador, Marina Kaljurand, most

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notably by the youth movement “Nashi”. This constituted a breach of the Vienna Convention on diplomatic relations. The riots were soon followed by cyber-attacks on Estonian government and commercial entities, which were traced back to Russia.

The mobilisation of protesters took place at a time when social media networks were not as widespread as now. The gatherings were organised through informal networks, while phone calls were made and messages were sent by mobile phone. For example, one of the protests organisers, Maksim Reva, sent 68 identical messages on 26 April.\textsuperscript{40}

“Lisa case”

The notorious case of a 13-year-old girl who had supposedly gone missing for 30 hours dominated the headlines and influenced German public discussion for two weeks in January 2016. The girl was reported by First Russian TV to have been raped by migrants. The story turned out to be false; German police established that she had been with a friend on the night in question. Nevertheless, the story was heavily reported in the Russian domestic and external media and caused diplomatic tension between Berlin and Moscow. Russian external media such as RT, Sputnik and RT Deutsch reported on the case, and social media as well as right-wing groups distributed the information online.

This extensive reporting in the media was accompanied by demonstrations organised in at least 43 towns in Germany. All these protests had the same official slogan: “We are against violence”. Reporting on these demonstrations reached the mainstream German media. At the top political level, Russian foreign minister Sergey Lavrov made two public statements about his concern at the inability of the German police and legal system to take such cases seriously, due to

\textsuperscript{40} Filippov, 2009.
political correctness. This is another example of swift mobilisation, initially due to the widespread consumption of Russian state television by Russian-speakers. In addition, social media networks played an important role; in this case, the social networks Odnoklassniki and Vkontakte were mostly used. At the same time, no public calls to gather were issued; instead, they were distributed using closed groups. The call to attend demonstrations was sent out either using a contacts list or through relatives, friends, acquaintances and colleagues of a similar political persuasion.\textsuperscript{41}

**Latvia’s education law**

In 2018, a new “amendment” to the Latvian law on education made the headlines. This foresaw the transition to Latvian as the language of instruction in schools for minorities. The transition was to take place gradually, with 80% of instruction in Latvian starting from the seventh grade, and 100% in high school. The transition was to start in the autumn of 2019 and would be complete by 2021–22. Local Russian-speakers protested against this move by the government. Russian sources claimed that a rally brought together about 3,000 protesters in a park in downtown Riga, the capital, on 24 February 2018. In March, the Russian Ministry of Foreign Affairs issued a statement referring to “discrimination” and “forceful assimilation”.\textsuperscript{42} In April, the Russian Duma condemned the situation.\textsuperscript{43}

In Latvia the language issue is mainly politicised by pro-Russia political forces, which try to maintain interest in the topic, including the mobilisation of resources for protests. However, these attempts did not gain general support among Latvia’s Russian-speaking population.\textsuperscript{44} The demonstrations that took place in the spring drew most

\textsuperscript{41} Mitrokhin, 2017.

\textsuperscript{42} Ministry of Foreign Affairs of the Russian Federation, 2018.

\textsuperscript{43} Gosudarstvennaya Duma, 2018.

\textsuperscript{44} Euractiv, 2018.
of their support from the elderly. Some groups try to keep this topic live, and claim that the Latvian Security Police arrested pro-Russia activists Vladimir Linderman and Aleksandr Gaponenko for their actions. The authorities accuse these people of illegal activities. For example, shortly before the arrests, Gaponenko posted on Facebook that he had received information that a bloody provocation would be organised in Riga in May with the participation of US special forces, with the blame being laid on local Russians.45

Conclusions

In terms of interdependence, the presence of Russian-speakers in EU countries certainly contributes to the links between Russia and the Union. This chapter has looked at the EU side’s vulnerabilities created by such links. Russia has developed a compatriot policy and the “Russian World” concept to unite everyone connected to Russia into a unified group. However, the people who Russia wants to embrace by these policies are a very diverse group.

Many of the Russian-speakers living in EU member states are citizens of these countries and have interests and obligations other than being connected to and mobilised by the Russian state. But a relatively small proportion do have close connections both among themselves and with Russia and can be swiftly mobilised at the time of specific events, as the cases described above show. This relationship cannot be described as interdependence between the EU and Russia, as the situation contributes, rather, to the EU’s vulnerability and there is no dependency on the Russian side.

Though the three cases highlighted above contain different features, they all show that the Russian state makes use of original grievances

45 LSM.LV (Latvia Public Broadcasting), 2018.
existing in European countries, and also among Russian-speakers. Though the “Lisa case” was false, it drew on pre-existing feelings against immigration among Russian-speakers. In Germany, the “Lisa case” was motivated mainly by negative sentiment in the face of massive new migration. In the case of Estonia’s Bronze Soldier, the main issue was the different ways in which World War II was remembered. In the Latvian case, the issue of mother-tongue education triggered the protests. In all these cases, a relatively small part of the Russian-speaking population was mobilised. At the same time, pre-existing negative sentiments were massively encouraged and provoked by Russian state propaganda and supported by social media networks. Free media and society make European countries vulnerable to such provocations.
PART III

CONCLUSIONS AND WAY AHEAD
Chapter 14

Weakened Preconditions for Positive Interdependence

András Rácz and Kristi Raik

When assessing the interdependence of the EU and Russia since 2014, one needs to be aware of the very different initial approaches by Brussels and Moscow. Before 2014, both the EU as a whole and many of its influential member states emphasised that strengthening interdependence between the EU and Russia would serve as a stabilising factor, and thus did their best to reinforce ties in various sectors. This approach was particularly present in economic cooperation, in line with the traditional Ostpolitik of Germany, despite the shock of the 2008 war in Georgia and increasingly repressive Russian domestic politics from 2012 onwards. This approach has been connected to the liberal theoretical assumption that stronger interdependence can contribute to greater security and more stability, and was manifested, for instance, in the jointly agreed aim of the EU and Russia in 2003 to establish four “Common Spaces” (the economy; freedom, security and justice; external security; research, education and culture). At the time, many hopes were linked to the fact that this was a mutually agreed document, unlike the Common Strategy dating back to 1999, which was a unilateral instrument of the EU. Thus, on the EU side many assumed that Russia had finally decided to jointly foster mutually beneficial relations with the European Union.
In reality, however, Russia has always had a different approach to the whole notion of interdependence. As mentioned, on the EU side there was a strong focus on economic cooperation, which was expected to have positive implications for security. For Russia, by contrast, security considerations dominated over economic matters even in the 1990s, when the relationship with the West was more tuned to cooperation. From the mid-2000s onwards, the Russian approach became more confrontational, while the Kremlin leadership put security even more clearly at the heart of its domestic and foreign policies. From this perspective, interdependence with the EU was predominantly perceived as a vulnerability that was necessary for economic and technological reasons but was supposed to be decreased in every way and sector possible. In fact, the Kremlin had already been striving for autonomy and even autarky well before 2014. Hence, the sanctions and other restrictive measures were not catalysts but only accelerators in a process that had already been going on in many sectors of the Russian state, most notably in the defence industry. Nevertheless, Moscow would have preferred a much smoother, segmented decoupling, avoiding the shock the Russian economy suffered after 2014 and the technological difficulties its energy and defence industries have been facing ever since.

One might conclude from this that both the EU and many of its member states committed a crucial mistake by assuming or hoping that the liberal theory of positive interdependence was the dominant driving factor in relations with Russia. One of the reasons the EU pursued this policy was the strong linkage it made between the notions of interdependence and of transformation, as pointed out by Katrin Böttger in Chapter 3. According to this approach, which was based on the positive experience of the EU’s integration of the Central and Eastern European member states, closer economic and political ties with Russia were also supposed to foster the latter’s political transformation by transferring the norms and values of the EU. In fact, however, Russia perceived these as a potential threat to its security
interests—notably the security of its regime—and thus did its best to counter their transfer, particularly following the Orange Revolution in Ukraine in 2013–14.

This leads to the conclusion that the connection between security and interdependence in the EU-Russia relationship did not develop in accordance with the liberal interdependence theory. None of the preconditions for the development of positive interdependence to take hold existed. Economic relations were hugely unbalanced to the EU’s advantage, trade was asymmetrical and one-sided, and there was no genuine basis of shared values on which to build the relationship, particularly after the return of Vladimir Putin to the presidency in 2012. Instead, since 2014 if not before, ties between the EU and Russia could be described more accurately by realist theories of international relations. Since then, a securitised approach has become dominant also on the EU side, thus creating a situation in which security-related considerations are the main driver of the relationship on both sides. The EU has turned its attention and efforts to self-protection and strengthening its resilience, while practically abandoning the aim of projecting its norms and values to Russia.

However, it must be added that the “securitisation” mostly affected the high-level political ties that were severed and to some extent suspended after the annexation of Crimea. At the same time, energy, trade and some segments of cross-border cooperation have been largely maintained in spite of the political tensions and sanctions. However, from the EU’s perspective, the remaining economic ties have not enabled the Union to achieve the expected political influence on Russia.

Post-2014 change was also spectacular on the Russian side. As pointed out by Igor Gretskiy, the annexation of Crimea and the subsequent introduction of restrictive measures have transformed the perception of the EU in Russian society. From the moment the USSR collapsed
through to 2014, the Russian population viewed interdependence with the EU in a positive light, expecting it to help improve the quality of life by adopting the best European practices. However, since the annexation of Crimea, Russia’s dependence on the EU has been increasingly perceived as a sign of weakness. Some Russians even consider positive interdependence and win-win cooperation with the EU to be impossible and even dangerous. According to surveys since 2014, for the first time in the history of EU-Russia relations, those sympathetic to the EU were outnumbered by those with a negative attitude.

Russian state mass media undoubtedly contributed greatly to this shift in Russian public perception by creating and broadcasting a very unattractive image of the EU. The main efforts of the Kremlin’s media machinery have been focused on discrediting the EU as an integration project, as well as on interpreting the sanctions imposed on individual Russian politicians and firms as restrictions against the whole Russian nation.

As for the Russian government’s policies vis-à-vis the EU, since 2014 Russian officials have been promoting the so-called “equal partnership” formula, implying cooperation on a limited number of issues, combined with complete non-interference by the EU in affairs that Russia considers its own. Notably, for Moscow “non-interference” means a complete absence of criticism of the Russian government for corruption, shortcomings in democracy, human rights violations and its aggressive foreign policy, perceiving the post-Soviet space as its own special zone of influence.

Energy is one field in which strong connections have prevailed despite post-2014 tensions. The EU used to view energy interdependence in a positive light, assuming that, while the Russian state was dependent on the income from selling oil and gas to the EU, the latter was dependent on Russian energy supplies and both sides benefited from the relationship. A closer look by Anke Schmidt-Felzmann, however,
reveals that the composite nature of the EU results in important differences between the member states over both their energy relations with Russia and the ways in which they are able to shape EU energy policy towards it. The key conclusion here is that, as long as the largest and most influential member states bilaterally pursue national energy interests that diverge from a shared EU energy policy, the EU as a Union is in a weaker bargaining position vis-à-vis Russia than the combined energy market power of member states would suggest.

In addition to differing national energy policies, the post-2014 situation has also shed light on the strengths and weaknesses of EU energy policy in respect of Russia. On the one hand, the EU has been able to constrain the latter’s ability to play EU companies and member states off against each other, and forced Gazprom to play according to EU rules when doing business on EU territory. On the other hand, the Union has been unable to level the playing field within Russia, where the highly restrictive, politicised and corruption-marred business environment is clearly unfavourable for EU companies. In other words, the opportunities enjoyed by Russian energy companies in the European market stand in contrast to the strong regulation of foreign access to the Russian energy sector.

Apart from considerable but asymmetric interdependence in the field of energy, EU-Russian trade was limited even before 2014 and was not greatly affected by the post-Crimea political tensions. As noted in Chapter 7 by Heli Simola, overall volumes of trade declined primarily as a result of reduced oil prices. The negative impact of EU sanctions and Russian countersanctions is estimated to be more limited. Geopolitical tensions have visibly affected Russia’s external trade policy. In response to tensions with Western countries, Russia has pushed for closer economic ties with Asia, especially China, but so far with limited success. Importantly, Russia does not share the EU’s positive approach to an open economy and free trade: Russia’s attitude to trade liberalisation was positive in the 1990s but began to shift back to a
more protectionist approach and emphasis on self-sufficiency in the course of the 2000s. There are other sectors in which the events of 2014 resulted in more radical negative changes. Western sanctions have particularly hit the field of finance, where the relationship has been strongly asymmetric, with Russia being the dependent and vulnerable side. Through the sanctions, the EU and, even more importantly, the US have used Russia’s dependence in this sector as a tool of geo-economic influence. As a consequence, since 2014 Russia has worked hard to regain financial self-rule, as described by András Deák.

In the field of the defence industry, it is important to note that deep, long-term interdependence never existed between the EU and Russia. Elements of positive interdependence started to emerge during Anatoly Serdyukov’s time as Minister of Defence. However, when Sergei Shoigu took over in 2012, this opening was put to an end and Russia began to strive to reduce dependence on the EU. In other words, Russia decided to return to autarky before sanctions were imposed, and the restrictive measures are only accelerating a process that was already ongoing. Meanwhile, the EU’s dependence on Russian-made arms and weapons systems is decreasing, as these are gradually being phased out from the inventories of the EU countries that have them.

Police cooperation has been less affected, not least because the level of interdependence was never high. Cross-border cooperation provides a more positive example, as a sector in which not only interdependence but also mutually beneficial cooperation has continued even after 2014, although high-level political tensions have caused some complications here too. The final example of interdependence examined in the book is the role of the Russian-speaking minorities in the EU, and again shows more problematic aspects of interconnectedness, as Russia has been seeking to use these people as a tool of its political interference, the spread of disinformation and stirring up protests — with limited success.
To conclude, this book shows that the preconditions for the logic of positive interdependence to take hold in EU-Russia relations were never strong and have weakened further since 2014. Differences between the political systems have grown larger and it has become clear that Russia is not on a transformational path to becoming like European democracies. Energy interdependence has continued, but the relationship is tense due to different interests and different market environments on each side. Apart from energy, the trade relationship is unbalanced, with little importance for the EU side and declining significance for Russia. While the EU holds on to the principles of free trade and a liberal economy, Russia has become increasingly protectionist and focused on strengthening its self-reliance. Finally, security concerns, which always dominated over economic cooperation for the Russian side, have also become the primary focus of the EU’s approach to Russia. In an atmosphere of mutual distrust, strategic competition prevails over win-win cooperation. In such conditions stagnation in EU-Russia relations is a long-term trend, and one can hardly expect the concept of positive interdependence to become a platform for effective cooperation any time soon—and particularly not until a generational change among the political elites in Russia takes place.
EU-RUSSIA RELATIONS: WHERE DO WE GO FROM HERE? IN SEARCH OF “BUSINESS NOT AS USUAL”

Kadri Liik

They heard Gandalf go back down the steps and thrust his staff against the doors. There was a quiver in the stone and the stairs trembled, but the doors did not open. “Well, well!” said the wizard. “The passage is blocked behind us now and there is only one way out – on the other side of the mountains.”

J.R.R. Tolkien, The Lord of the Rings

In Europe’s conversation about Russia, “business as usual” has become a loaded term. “We must not go back to business as usual,” warn Eastern European politicians. “We are not back to business as usual,” affirm officials in Brussels. “It’s not business as usual,” echo even businesspeople, who probably rather wish it was. Even the European Parliament recently approved a report that stated: “the EU cannot envisage a gradual return to ‘business as usual’ until Russia … restores the territorial integrity of Ukraine”.1

In reality, there is no need to worry, wish or reiterate the mantra. The EU and Russia cannot go back to the old model of their relationship, referred to as “business as usual”. The path is blocked: both sides’ expectations, ambitions, fears, hopes and the sense of what is possible have shifted so as to close it. The way ahead can only go through reconceptualisation of the relationship, but this is bound to be a long and at times painful journey.

1 Jozwiak, 2019
The EU and Russia are still digesting the story of the past 25 years, which tends to lead to recriminations and backward- rather than forward-looking policy discussions. But, while understanding the past remains important, it can offer only limited clues about the future that will take place in a profoundly different setting. In addition, for the time being, the EU and Russia are both moving targets, going through – or on the brink of – a complicated internal evolution, the destination of which remains unknown. Finally, the differences between the EU and Russia are first and foremost of a deeply philosophical, normative kind, and this means that they cannot really be settled in isolation, bilaterally – because only the direction of history and the choices of other powers can validate or disprove their different claims and show who is “on the right side of history”. The new relationship needs to be anchored in a wider world order; any settlement outside that is bound to be of a limited and provisional nature. But the world is, alas, in flux itself, and fails to provide a framing order. Thus, the journey to a new model of relationship will be long and complicated, but it’s a mountain that needs to be climbed.

**WHAT IS “BUSINESS AS USUAL”?**

What does “business as usual” in fact mean, and why can one not go back to it? The history of the term, as applied to Russia’s relations with the West, is long. One can find it used, albeit in a somewhat different context, as long ago as 1993, when Russia’s political landscape was dominated by president Yeltsin’s stand-off with parliament – later deemed a fateful moment for Russian democracy – during which Western businesses declared that, for them, operating in Russia was “business as usual”. In 2001, NATO Secretary General George Robertson suggested that the terrorist attacks in the US “oblige[d] [NATO and Russia] to go beyond ‘business as usual’.” But the term acquired its current negative connotation after the 2008 war in Georgia, when it came to signify a

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2 Liik, 2018.
3 Gilpin, 1993.
situation in which Russia violates the essential rules of international conduct, and the West, despite some thunderous statements (“no business as usual now!”\textsuperscript{5}), fails to react in a meaningful way. The EU, in particular, not knowing what to do, simply resumed its dialogue with Russia – frozen as a punishment – after a hiatus of just a few months.

In retrospect, the Russo-Georgian war and the Western reaction to it were both logical manifestations of the late and painful stage of the relationship between Russia and the West built on misleading expectations, misunderstanding and miscommunication. Today, the West tends to blame Russia for reverting to authoritarianism and an imperialist mindset. At the same time, Moscow accuses the West of taking geopolitical advantage of Russia’s weakness and of imposing its own rules, as opposed to meeting “in the middle” and creating a common European home there – as supposedly proposed by Mikhail Gorbachev.

However, on closer examination it seems that, deep down at its roots, this misconceptualisation of the relationship was not really caused by anyone’s ill-will but, rather, by the spirit of the time. In “the end of history” world of the early 1990s, Western values and global power became blended in ways that confused both Russian and Western thinking about the nature and parameters of their relationship.

Wanting a role in a “unipolar” Western-led world and, at least for a while truly believing in its own Western/European destiny, Moscow signed up to a long list of Western norms. But its inability to adhere to them meant that it never quite became a fully-fledged member of the Western system with an equal say in decision-making,\textsuperscript{6} and this obviously caused frustration. Moscow’s failure (and increasing unwillingness) to be a rule-taker led to it becoming a rule-faker, an imitation democracy that used the form of rules-based society to escape its substance – which caused frustration in the West.

\textsuperscript{5} Cooper & Rachman, 2008
\textsuperscript{6} Liik, 2017
The spirit of the time also made it hard to distinguish between interests and values and the limits of how far to go to promote them. The West is now facing up to the consequences of its too-heavy-handed promotion of democracy in the Middle East. Russia, however, largely missed the chance to articulate the interests of a democratic Russia. The foreign policy of independent Russia was first shaped by those who carried on the Gorbachevian version of universalism: people from the 1960s’ generation who believed in technocratic globalisation and the disappearance of borders, and dismissed everything country-specific as an out-of-date concept. Formulating a more Russia-specific concept would also have been inconvenient: “We had beaten communism, but our global status had slipped. That was unpleasant, so people preferred to focus on universal questions, such as UN reform or arms control,” says Russian analyst Andrey Kortunov.7

That is why Russia’s “Russia-specific” interests were articulated only in the mid-1990s, and then by Yevgeny Primakov, an adherent of the concept of “spheres of influence”. Paradoxically, Vladimir Putin might have been a more Western-minded politician than Primakov. The latter had decided by 1996 that Russia had no common path with the West, but Putin, when he came to power in 2000, made serious attempts to be friendly. “Putin asked the Duma to quickly ratify many arms control treaties that the earlier Communist Party-dominated Duma had refused to consider,” says Russian analyst Alexei Arbatov.8 “That was his way of indicating that the West should value his friendliness over the Duma’s independence.” Similarly, analyst Dmitri Trenin has repeatedly said that Dmitry Medvedev’s presidency was “Putin’s attempt to see what in principle one can achieve with the West”. Alas, these attempts clashed with the West’s totally different concept of a friendly Russia: one where parliament is independent, and presidents, however friendly, are genuinely elected, not nominated.

7 Author’s interview, April 2019
8 Author’s interview, summer 2016.
Thus it was that Russia and the West got stuck in a relationship of pre-tence: Russia pretended, though ever more lukewarmly, to be in the Western camp; while in the West many believed, and many pretended to believe, that Russia would “fake it until it makes it” and eventually get there. This constituted “business as usual” for a long time, until it ended abruptly in 2014.

**WOULD RUSSIA WANT TO GO BACK?**

In the West, it is customary to think that today Russia would like nothing more than to go back to the previous model of the relationship, to “business as usual”. But this is not necessarily the case. While Russia has certainly benefited from many of its opportunities, especially economic ones, it grew increasingly irritated with the other side of the coin: the need to pretend to be sharing the Western world-view. Russia’s political leadership had long ago become dissatisfied with the role of a “student of democracy” that left it in an inferior position, permanently criticised and unable to have its desired influence on global affairs that were conducted in the paradigm of a “unipolar world”. President Putin made this quite clear in his speech at the Munich Security Conference in 2007. “Incidentally, Russia – we – are constantly being taught about democracy,” he said. “But for some reason those who teach us do not want to learn themselves. … countries that forbid the death penalty even for murderers and other, dangerous criminals are airily participating in military operations that are difficult to consider legitimate.”

On his return to the Kremlin in 2012, Putin set about reconceptualising Russia as a (politically) non-Western country and creating the political capacity for autonomous action, in defiance of the West if necessary. Joining the war in Syria in 2015 was the first big manifestation of that stance: it was done against the West’s wishes and making use of the absence of a coherent Western policy in the region. Most importantly, it was rooted in Russia’s philosophical world-view that values

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the inviolability of borders over humanitarian interventions, and the rule of a strongman over a popular revolution.

A less visible, but no less telling, sign of that new era was Russia’s recalibrated relationship with Iran. If Moscow had earlier leveraged its influence over Tehran to shape its relations with Washington, after 2012 things changed: Iran was no longer a bargaining chip, but rather a regional ally with whom relations blossom or sour thanks to their own, or regional, dynamics, not great-power relationships.\textsuperscript{10}

Today, Russia is not ready to give up this autonomy and capability to shape events independently of the West. It might want to improve its relations with the West – and Europe – but on its own terms, and keeping its gains, such as Crimea. Such a stance pretty much excludes going back to the old “business as usual”.

Furthermore, Moscow seems to realise that “business as usual” may no longer be available to Russia. First, the path back is blocked by the conflict with Ukraine, and it may remain so for a long time. Interviews conducted in Moscow in the spring of 2019 show that Russia’s policy in the Donbas is increasingly viewed as a mistake that is not, however, easy to rectify. “Syria was a big success, but Ukraine was a big failure,” said a high-level government official working for the prime minister. He went on:

“Our notion of Ukraine was drastically divergent from reality. Our goal should be to have normal relations with Ukraine as well as Europe; many people worked many years to achieve that; but then we blew it all. … Maybe it might have been possible to avoid this failure at a much earlier stage, but now it is too late.”\textsuperscript{11}

Finally, it appears that president Putin also senses that the path back is closed for him personally. His take on European-Russian relations

\textsuperscript{10} Geranmayeh & Liik, 2016.

\textsuperscript{11} Author’s interview, Moscow, March 2019.
– which probably relies on his intuitive reading of fellow leaders’ moods – is a curious phenomenon in general. As a rule, Russian politicians are not good at understanding the workings of the European Union. Their interpretation of it tends to be somewhat crude, primitive and Marxist-influenced, overemphasising the importance of economic interests and the influence of Washington. But Putin has, at times, displayed a very astute feeling for Europe’s positions – sometimes long before Europe itself has managed to formulate them. For instance, when Europe’s faith in Russia’s democratic journey vanished in the wake of Putin’s 2011 announcement that he would run again for the presidency, he was among the first to feel the change of mood. “They have all ganged up against me,” he said, according to several sources, in early 2012, referring to Western leaders. In the 2014 speech in which he announced the annexation of Crimea, he made long overtures towards Germany as a former “divided nation”, which should thus understand Russia’s wish to be reunited with Crimea. It seems that, deep down, Putin realised that the legalistic Germans would not swallow the annexation quite so easily, so he went to great lengths to persuade them.

And now, even though Europe nominally promises to unfreeze relations once Russia leaves the Donbas, Putin seems to sense that things would still not be the same: “There is a strong belief that certain things, for instance dual-use technologies, will not be available for us anymore,” said one Russian analyst in December. “Before the elections, [Russian politician Alexey] Kudrin tried to show Putin that economic solutions that involve modernisation are available for Russia. But Putin does not believe they are available to him. So, if they actually are, it would be important to clearly communicate it to him.”

12 Liik, 2019a.
14 The EU has made fulfilment of the Minsk Agreements and Russia’s departure from the Donbas a formal condition for substantial change in the relationship (see EEAS, 2016.) The Crimea-related sanctions would remain in place, but these are much smaller in scope than those related to the Donbas.
15 ECFR EU-Russia Strategy group meeting in Moscow, held under Chatham House rules, December 2018.
Would Europe Like to Go Back?

Putin’s intuition may well be correct here. One should not doubt that, if Russia leaves the Donbas, the EU would lift the related sanctions – but this is not the same as returning to the old relationship with all its perks and ambitions.

Research by the European Council on Foreign Relations shows that almost all EU member states perceive Russia as a threat – though first and foremost of a normative kind, as Moscow is perceived to be seeking to dismantle the post-Cold War European order. Moscow’s influence is viewed as actually or potentially destabilising in almost all regions: from Europe’s eastern neighbourhood and the Baltic Sea to the Western Balkans, the Middle East and the Mediterranean (including on the question of Cyprus); negative expectations even affect the Arctic, where the relationship between Russia and EU countries has in fact been mostly constructive. It seems that bad experiences with Russia on issues such as Ukraine, Syria and interference in European domestic politics have now spilled over into low expectations from almost everyone in nearly all areas.16

This stands in stark contrast with the period between 1991 and 2011, when the EU was split by an analytical debate about Russia’s trajectory: the European mainstream, led by Germany, hoped that Russia was democratising and becoming Westernised, albeit with setbacks and detours, while the minority – such as the Baltic states and Poland – saw a dangerous authoritarian regime consolidating itself.17 But this debate ended in the autumn of 2011, when Putin announced his intention to return to the Kremlin. As so acutely observed by Putin himself in 2012, any remaining faith in Russia’s democratic journey vanished on that September day in 2011. The annexation of Crimea simply crystallised and cemented the new, negative view.

16 Liik, 2018.
17 Raik, 2016.
It is quite clear that this new consensus needs to be matched by a new policy. Some EU countries had earlier sought to change Russia – Germany with the carrot of dialogue and engagement, the Baltic states with the stick of bitter criticism – while others, such as France and Italy, adopted a more hands-off attitude, saying that one needs to deal with Russia as it is. Now, all need to adapt to the new reality. Germany is beginning to acknowledge that there are limits to how far engagement and dialogue can actually influence Russia, especially its internal development. The Baltic states are still eloquent critics, but struggle to convert their analytical assessment into workable policy proposals. Italy and others in its camp mostly do realise and accept that “dealing with Russia as it is” now needs to include some restrictions – though there is no clarity or unanimity on how far these should go.

Most crucially, the EU as a whole needs a new conceptual Russia strategy that should seek realistic answers to certain questions. What does the EU want to achieve with Russia? What can it achieve? What leverage does it have? How can Russia fit into the liberal world order that the EU seeks to promote, and what happens if it does not fit at all?

**START SMALL**

As explained earlier, some of these questions may take years, if not decades, to sort out. But the EU will still need a Russia policy of some sort for the coming years – in circumstances where the West is split, its credibility as a norm-setter is shattered and the world order is in flux. Coherent vision may take a long time – and perhaps more crises – to emerge, but one could start in a small way, by conducting a review of the relationship and asking what needs to change. Most cooperation and dialogue formats between Russia and the West have been set up under the assumption that Russia is a like-minded partner. Today many of them could be made more functional by honestly admitting that, for the foreseeable future, it is not.
The EU has defined norms and values as an integral part of its foreign policy, especially when it comes to its neighbours. When it comes to Russia, however, it should not give up on that aim, but should drastically change the means. Direct promotion of democracy is treated as a threat by Russia’s leadership – and with a yawn by the general population, who have been overexposed to didactic westerners telling them how to live. The view of the West as a cynical hypocrite is widespread. But the EU still has a reliable way to help democracy in Russia, and this starts at home: putting its own house in order and thereby revalidating liberal democracy as a governance model for the 21st century is the best thing the EU could do for Russia’s democracy.

The EU should change its rhetoric: giving up the position of a paternalistic norm-setter, acknowledging that, at the moment, the European world-view is losing out in the world market of ideas and admitting that the West had made some mistakes would make Moscow take Europeans a lot more seriously than eloquent moralising that lacks policy to back it up. “Say less but mean it more” would be a good recommendation for the times ahead. The rhetoric of humility is also a good way to reach out to Russian society, activist groups and NGOs. When a Western speaker addresses Russian audiences, it is noticeable how people’s eyes brighten up and attention grows when he or she departs from the rehearsed moralistic lines and tries to give a more in-depth take of the world, Europe and Russia.

The EU should begin to accept Russia “as it is”, as Moscow has long wanted. But this would not have the implication of accepting Russia’s domestic arrangements as being as good as those of the EU – as Russia wishes, and some Europeans fear. Democracies, even if in trouble, remain a special club. And the EU is perfectly capable of distinguishing and showing – subtly, politely, but matter-of-factly – the difference between those it considers its own and those it does not.
Finally, the EU should stop treating dialogue with Russia as a reward. Fixation on dialogue, fear that its resumption means legitimising Russia and going back to “business as usual”, is rooted in the humiliating trauma of the Russo-Georgian war, when Europe indeed failed to react. But now it has reacted to events in Ukraine: for five years, it has stuck to sanctions; it is working on its resilience in the cyber and information spheres; it has reshaped its energy market; it is slowly starting to tackle illicit Russian money; and, as NATO members, EU countries are providing military reinforcements in the Baltics and Poland. In these circumstances, contacts with Moscow would not show weakness and surrender: while insisting that “not talking is a punishment” hands too many cards to Moscow, the Kremlin can currently present each contact (and some are inevitable) as a victory, which it is not.

This does not, however, mean that the EU must seek to restore the whole format of the previous interactions with its pompous twice-a-year summitry. These formats were not always filled with relevant content even before 2014, and much of the old agenda has now become entirely obsolete. But some elements of a new agenda, rooted in the new reality, are emerging, and the EU should not fear talking about this with Moscow as and when needed.

The EU should stop fearing the return of “business as usual”. One cannot return to the old model of the relationship: that door is closed. The way ahead is long and vague: it goes through a re-examination of the past, the “five stages of grief”, mutual recriminations, occasional tests of will, and a confused search for new concepts – and all against the background of internal and external turbulence. But in the end, it may result in a more sober, clear and functional relationship between the EU and Russia.

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The relationship between the EU and Russia is characterised by a considerable degree of interdependence. In the 1990s and 2000s, the EU’s approach to Russia was based on the expectation that economic ties and interaction in various fields would contribute to regional stability and security and possibly even the democratisation of Russia. However, looking at the relationship today, one has to admit that the expected positive effects of interdependence have not materialised. Since 2014, the conflict over Ukraine and rising geopolitical tensions have pushed the Europeans to reassess their approach and put more emphasis on reducing the vulnerabilities created by mutual ties, notably (but not only) in the field of energy. Russia, for its part, has been keen to reduce its dependence on Europe, for instance in the financial sector and in respect of food imports. As a result, the preconditions for developing the EU-Russia relationship in accordance with the logic of positive interdependence have weakened further.

In this book, a number of internationally renowned experts explore mutual dependences between the EU and Russia in various fields, including energy, trade, the financial sector, the defence industry, cross-border cooperation and, perhaps most importantly, security. The book analyses perceptions, vulnerabilities, and ways to manage the ties on both sides.