

# Russia: The G8 Summit and Beyond

## FRIDE Democracy Backgrounders

Democracy Backgrounders will provide factual information relevant to topical international challenges related to democratisation, and analyse policy implications for the international community.

## About FRIDE

FRIDE is an independent think-tank based in Madrid, focused on issues related to democracy and human rights; peace and security; and humanitarian action and development. FRIDE attempts to influence policy-making and inform public opinion, through its research in these areas.

This year marks the first time Russia has held the chairmanship of the G8 group of leading industrialised democracies. Russia also holds the chair of the Council of Europe from May to November 2006. Many have questioned Russia's suitability for these positions in light of the well-chronicled tightening of democratic space witnessed under president Vladimir Putin. At the same time, intensified concerns over the security of energy supplies have accorded Russia increased geopolitical influence. The row over gas prices between Russia and Ukraine in January 2006 ironically marked the beginning of the Russian G8 chairmanship, which lists energy security as one of its top priorities. Received wisdom has come to assert that European governments have sacrificed (their already modest) criticism of Putin's authoritarian drift on the altar of a strengthened partnership on energy supplies. Ahead of the G8 summit to be hosted by Putin in St. Petersburg on July 15-17, this Backgrounder outlines developments in EU-Russian relations and suggests some of the most important policy dilemmas facing European governments in their strategies towards Moscow.

# Resurgent Power, Declining Democracy

- Today's Russia is a resurgent and increasingly self-confident power. Since the financial collapse of 1998, and thanks largely to the windfall fruits of high oil and gas prices, Russia's economy has strengthened, with annual growth rates around 7 per cent. The number of Russian citizens living below the official poverty line has shrunk from 42 to 22 million since 2000. Last year, foreign investors pumped €13 billion into the Russian economy. High oil prices have generated unprecedented tax revenues for the state.
- In foreign policy, some analysts detect signs of Russia self-confidently drifting apart from the West. Significance has been attached to the growing links between Russia and China. Russia appears increasingly ready to compete for influence, especially in the former Soviet republics, which the Kremlin still claims as its 'natural' sphere of influence. Since the leaderships of three Commonwealth of Independent States (CIS) countries (Georgia, Ukraine and Kyrgyzstan) were overthrown in a series of 'colour revolutions' between 2003 and 2005, Russia has been anxious not to lose further ground and has worked hard to contain democratic spill-overs in the region (including to Russia itself). Notably, Russia has been the closest ally of autocratic Belarus, most recently supporting president Lukashenko's re-election in March. In January 2006, Russia briefly cut off gas supplies to Ukraine in order to force a hike in gas prices. Moscow has opposed the prospect of EU peacekeeping operations to the 'frozen conflicts' of Moldova (Transnistria) and the Caucasus (Abkhazia, South Ossetia, Karabakh). In order to counter-balance Russian clout in the region, the former Soviet republics of Ukraine, Georgia, Moldova and Azerbaijan have founded the Organisation for Democratic and Economic Development. In his 2005 annual address, Putin asserted that 'Russia should continue its civilising mission on the Eurasian continent'.
- President Putin has transformed Russia's political system into what has been termed a 'managed democracy.' It preserves the appearance of pluralism, but is a firmly controlled, centralised and increasingly autocratic regime that suppresses independent opposition. A traditional paternalism is the path Putin has chosen to lead the country to modernisation. During his six year rule, the Russian president has clamped down one by one on the judicial system, the media, and civil society, through stealthily expanding the Kremlin's powers. Independent broadcasters critical of the Kremlin were forced off the air in Putin's first term, and in 2003 authorities pulled the plug on Russia's last remaining private national TV network. Opposition politicians not approved by the Kremlin have been shut out of state media, and complain of harassment or administrative barriers when attempting to register parties, meet voters, or contest elections.
- Russia's decline into 'soft authoritarianism' has been well charted by the international press and civil society organisations. But in the run-up to the G8 summit, there has been new cause for concern, in particular over a new law on non-governmental organisations (NGOs). Signed by Putin on January 10 and in force since April, this law restricts the activities of both Russian and foreign NGOs working in Russia. It provides Russian authorities with extensive new powers to monitor the activities of NGOs and close the latter down if they are deemed to threaten Russia's national interests. The Kremlin claims the bill is needed to ensure national security. Both in the Kremlin and the State Duma, foreign-funded NGOs are widely seen as a fifth column for outside political intervention in Russia. Fear of

democracy spill-overs from neighbouring countries has made Russian elites more determined to restrict space for civil society. Putin and other government representatives have repeatedly warned that they would not tolerate politically active NGOs that received money from abroad. Groups including Amnesty International and Human Rights Watch fear they may have to close their Russian offices.

- Some observers have pointed to the fact that similar laws in France and Finland are technically even less liberal. Indeed, this comparison has been confirmed by the Council of Europe. In practice, however, NGOs have suffered increasing intimidation in Russia of a type not witnessed in established West European democracies.
- Under international pressure (including from the EU institutions), some of the most draconian aspects of Putin's original proposal were dropped in late 2005, including the requirement for foreign groups to re-register their branches in Russia as local entities. The result, however, is that now the focus is even more tightly aimed at a compulsory registration of foreign funding. In January 2006, the ministry of justice asked a Moscow court to order the closure of one of the country's oldest human rights groups, the Russian Human Rights Research Centre. According to the authorities, this move was a response to the Centre's failure to register information about its activities during the last five years. The Centre, also known as the Human Rights House in Moscow, is an umbrella organisation for a number of well-known human rights groups, including the Moscow Helsinki Group and the Soldiers' Mothers. Russian authorities have also tried to close down the Russian-Chechen Friendship Society on the grounds of tax evasion, and several foreign-funded NGOs working on humanitarian relief in Chechnya have been banned since January. Observers say, however, that it will only be after the July G8 summit in St Petersburg that 'the axe will fall' on NGOs.
- Russia has conducted its relations with the former Soviet republics in a way that appears to collide with European approaches, and has provoked EU concern in the run-up to the G8 summit. In March, Russia imposed trade sanctions on certain products from Georgia, Moldova and Ukraine, causing serious damage, in particular to the Georgian and Moldovan economies. The move was widely seen as politically motivated and incompatible with the EU-supported Russian bid to join the World Trade Organisation (WTO) this year. Russia's relations with Georgia are growing more and more strained both over these sanctions and the continued Russian support to separatist groups in the Georgian provinces of South Ossetia and Abkhazia. The Russian involvement in these 'frozen conflicts' is considered by many to be fuelling tensions and has been subject of frequent criticism from the EU Council and High Representative.
- On 19 May 2006, the day on which Russia took over the chairmanship of the Council of Europe, several leading international and Russian human rights groups issued a joint statement demanding that Russia, in the light of the special responsibilities inherent to its newly assumed position, adopt a series of concrete measures to safeguard human rights domestically. Among the measures asked for by Amnesty International, Human Rights Watch, the International Helsinki Foundation, the Moscow Helsinki Group, Memorial and the Soldiers' Mothers (among others), were the ending of arbitrary detentions, torture, ill-treatment, 'disappearances' and extra-judicial executions in the North Caucasus; the ending of impunity for human rights violators in Chechnya; an end to violent abuse in the Russian Army; the introduction of amendments to the new NGO law in order to safeguard NGOs from arbitrary restrictions; and ratification of the European Social Charter and Protocol 6 to the European Convention for the Protection of Human Rights and Fundamental Freedoms (ECHR).

## European Dilemmas

- The European Union and its member states have struggled to devise a policy capable of meaningfully addressing these concerns over Russia's democratic record in internal and external politics. Significant differences have emerged in EU member states' favoured policy approaches towards Putin's new Russia. While some European voices demand a more 'value-based' relationship with Russia, others have given preference to strategic alliance-building focusing on more immediate European interests. Apparently attempting to divide European governments, Putin has recently singled out Germany, France and Italy as those European countries interested, he claimed, in a real friendship with Russia – not the aim, by implication, of those EU member states who have expressed at least some criticism of his autocratic ways.
- In particular Germany, France, Spain and Italy have prioritised strategic realism over democracy considerations in their relations with Russia. This was most dramatically so in the case of former German chancellor Gerhard Schröder, whose close personal friendship with Putin contributed to both the absence of open German criticism of Russian political trends and the strengthening of business ties between Germany and Russia, notably in the field of energy. The new Angela Merkel-led government has been more critical towards the undermining of Russian democracy, albeit without yet introducing major changes to the bilateral substance of German-Russian relations.
- Schröder's strategic realism towards Russia was backed up by French president Jacques Chirac. Chirac had initially been one of the European leaders most critical of Russian actions in Chechnya. From 2002, however, French policy towards Russia changed sharply, making Chirac one of the European leaders most anxious to water down criticisms towards creeping Russian authoritarianism and most ready to accept Putin's anti-terrorism justifications. From 2004, the new Spanish socialist government under José Luis Rodríguez Zapatero strongly aligned itself with the French and German alliance-building stance towards Russia. These three governments, allies in opposing the US-led invasion of Iraq, additionally sought closer ties with Russia in an attempt to strengthen an axis against US unilateralism. The concern with maintaining good relations with Russia also weakened these three countries' support for Ukraine's Orange Revolution. Italy provided another example of strategic alliance-building at the expense of democracy concerns, as prime minister Berlusconi forged a close relationship with Putin, courting him on energy matters and lobbying in favour of Russian interests in the EU, including in relation to the Kremlin's Chechnya policy.
- In contrast, other European governments including the Nordic states, the United Kingdom, Austria and most of the new member states that joined the EU in 2004, adopted a more critical stance towards the Kremlin. Britain came to be one of the EU governments most critical of the deterioration of democratic rights in Russia after Tony Blair, at first keen on courting Putin, gradually became disenchanted with the Russian leader. In the face of strong Russian objections, a number of Putin's high profile opponents were granted asylum in Britain, and in January 2006 it was revealed that UK embassy officials had been using clandestine methods to communicate with Russian NGOs critical of the Kremlin. Under prime minister Anders Fogh Rasmussen, Denmark was also critical of the Kremlin's tightening political grip, especially with regards to Chechnya. The EU-Russian summit under

the Danish EU Presidency had to be transferred from Copenhagen to Brussels after Russia protested at the Danish government's decisions to allow the World Chechen Congress to be held in Copenhagen and not to extradite exiled Chechen leader Zakajev to Russia.

- Contractual relations between Russia and the European Union are based on a Partnership and Cooperation Agreement (PCA), in force since 1 December 1997 and due to expire at the end of 2007. After Putin's rejection of the European Neighbourhood Policy (ENP), in May 2003 the EU and Russia agreed a framework of cooperation to supplement the PCA. This was to be built around 'Four Common Spaces', comprising the areas of economy; foreign and security policy; justice and home affairs; and culture, information and education. At the core of the 'Common Economic Space' lies the aim of cementing an alliance on energy, including the development of and access to pipelines. The EU's support for Russia's bid to join the WTO also feeds into this area. The 'Common Space on Freedom, Security and Justice' covers cooperation on counter-terrorism, illegal migration and cross-border crime. The 'Common Space on External Security' commits the EU and Russia to cooperation in conflict prevention, crisis management and post-conflict reconstruction, especially with regards to 'frozen' regional conflicts in the European Neighbourhood. The 'Common Space on Research, Education and Culture' aims at promoting scientific, educational and cultural cooperation and foster people-to-people ties through exchange programmes.
- Events in Chechnya have remained the focal point of European human rights concerns. However, as Moscow has presented its war against Chechen separatism as part of the global war against terror in the aftermath of 9/11, the Kremlin has been subject to less Western criticism. The Moscow theatre siege

carried out by Chechen rebels in October 2002, and in which 130 people died, further legitimised Putin's hard-line stance. Likewise, in the aftermath of the Beslan school siege in September 2004, there was little European criticism when Putin controversially scrapped direct elections for regional governors, converting these into direct Kremlin appointees, ostensibly as a counter-terrorist measure. In the run-up to the G8 summit, developments in Chechnya remain a source of concern. In early February, the editor of a US-funded Russian newspaper was convicted to a two-year suspended prison term after being found guilty of inciting 'racial and ethnic hatred' in his coverage of the Chechnya conflict; the editor claimed that the charges were a response to the paper's critical stance on the Kremlin's Chechnya policies. In March 2006, Moscow initiated a limited withdrawal of troops (1,200 out of 35,000) from Chechnya. However, critics suggested the move was part of the Kremlin's efforts to improve its image in the separatist republic ahead of the referendum on a new constitution for Chechnya in late March.

- Some observers point to a consensus among the Russian elite and society that liberalism and democracy had to be deferred until Russia had strengthened itself economically and consolidated its place in world politics. The centralisation of economic and political power has been justified by some Russian commentators as the only way to preserve state and nation. Russia and the EU agree that human rights concerns are essential to their partnership, but while for the Europeans this means above all concern for the respect of human rights in Russian domestic developments, for Russia it refers to safeguarding the rights of the Russian minorities in the Baltic countries. Putin states openly that Russia's domestic affairs, as well as its dealings with third countries, should be none of Europe's business. The Kremlin is offering the EU a partnership based on self-interest, economic pragmatism and

modernisation, instead of on values, civil dialogue and democracy, and Putin sees no reason to deny this. Russia says it needs the EU primarily as a partner for its modernisation, and has enticed Europe with the promise of an energy alliance.

- Growing tensions between Moscow and Washington have impacted on EU-Russian relations. In particular, the EU-Russia summit in Sochi on 25 May 2006 was overshadowed by the tensions between Russia and the US that had been sparked by US vice-president Dick Cheney's blunt accusation a few weeks earlier that Moscow was using oil and gas as 'tools of intimidation and blackmail.' Vladimir Putin, in his federal address a week later, retaliated by calling the US a 'Comrade Wolf' on the prowl, whose talk smacked of hypocrisy: 'everyone knows what methods and means the US use to defend their interests', charged the Russian president. Cheney's remarks provoked the Russian media into accusing the US of 'Russophobia', and some European observers alluded to the apparent re-emergence of dynamics associated with the Cold War. With more than a few in the EU sharing Putin's admonishment of US unilateralism, at least part of EU policy has taken on a mediation-like quality between Washington and Moscow.
- The EU-Russian summit in May 2006, intended by European leaders to pave the way for the new EU-Russian strategic partnership framework, did not bring about the consensus the Europeans had hoped for. Talks between EU Commission president Barroso and Putin in the run-up to the summit already heralded a deadlock, when Barroso told Putin that Russia could not expect to buy into European distribution networks unless it opened up the Gazprom monopoly, and Putin responded he would not contemplate this unless Europe first opened its energy markets. At the summit, the formal signature of a long-awaited reciprocal visa facilitation

agreement, together with a bilateral readmission agreement relating to illegal immigrants, failed to conceal the substantial differences between the parties in the field of energy.

- While the summit was dominated by the issue of energy cooperation, no agreements could be reached in this area, and democracy considerations largely perished. The leaders openly admitted there were serious differences. Putin rejected accusations of Russia's purported use of energy as a political weapon, and again rebuffed the EU's attempt to gain access to Russian pipelines. Efforts on both sides to play down their differences were unconvincing. Claims made by Austrian chancellor and EU President Schuessel that EU-Russian energy 'interdependence' was leading towards a 'win-win-situation' remained unsubstantiated. Putin's tough stance on energy at the Sochi summit set the stage for what may be expected to be a difficult G8 summit.

## Energy Skirmishes

- Russia provides nearly a quarter of total European oil and gas needs. Russia has the world's largest reserves of natural gas and is the second largest exporter of oil after Saudi Arabia. The gas row with Ukraine reinforced Europe's sense of vulnerability, heavily dependent on energy supplies from an increasingly undemocratic Russia. It is universally acknowledged that Europe's reliance on imported energy supplies will increase notably.
- While this situation gives Russia increased geopolitical influence, it too is a *demandeur*, to some degree. While the EU has concerns over the security of supply, Russia depends on security of demand. Fifty-three per cent of Russia's oil exports and 62 of natural gas go to the EU. The energy sector amounts to 40 per cent of the public tax revenue, 55 per cent of export profits and 20 per cent of the entire Russian economy. Russian energy infrastructure needs improving, and the country requires considerable investment to modernise productive and transport capacity.
- Under president Putin, the Kremlin has centralised not only political but also economic power by returning strategic assets to state ownership. The Kremlin has taken steps to reassert its control over Russian energy, becoming the largest force in the Russian oil and gas sectors. It has boosted the powers of Gazprom, the state energy monopoly. Putin wrestled control from the oligarchs and oversaw the dismantling of the largest private oil company Yukos, whose boss Mikhail Khodorkovsky was condemned to eight years in prison for tax and fraud charges, and whose main production assets were seized and taken over by the state-owned oil firm Rosneft. In 2004, Rosneft swallowed up the formerly private Yuganskneftgaz. Likewise, Gazprom gained overwhelming control of Sibneft oil company by buying out businessman Roman Abramovich. Gazprom, whose chairman is first deputy prime minister Dmitry Medvedev, is now the third biggest company in the world (behind Exxon Mobil and General Electric). In June 2005, the Russian state became the majority shareholder of Gazprom with a 51 per cent stake. The Kremlin has also attempted to secure tighter control over energy transport routes.
- In short, there has been a significant degree of de facto re-nationalisation of Russia's energy industry. Crucially for European policy calculations, the centralisation of economic and political power have gone hand in hand. By systematically expanding its assets and limiting competition in the gas and oil sectors, the Kremlin has deepened dependencies on its own political role. In addition to being a means of boosting public revenue, energy is increasingly seen by Putin as a means of advancing Russia's global interests, thereby restoring some of the pride Russia lost after the collapse of the Soviet Union. The gas dispute with Ukraine in January 2006, justified by Russia on economic grounds, was to many observers a form of political rebuke for the Orange Revolution. In fact, Gazprom announced shortly after similar plans to increase prices for its close ally Belarus. Russia has made clear its intentions to phase out the low-price contracts under which gas has been supplied to former Soviet republics, and to move towards more market-based prices.
- The Ukrainian gas row sent shockwaves through the region, reminding Europe of its own energy dependence on an increasingly volatile Russia. Energy security seemed almost at once to become a top EU priority, with a spate of new policy documents being hastily drawn up. While Russia and the G7 agree energy security is a key factor in global stability, and that the principles of transparency and

reciprocity must govern their energy alliance, there is less agreement on what this means in policy terms. On the one hand, Europe plans to diversify both the sources and routes of its energy supplies. It has pressed Russia to ratify the Energy Charter treaty, a 1991 framework laying down terms of energy cooperation across Europe. This Charter would open up access to energy sources and pipelines, and would stop Russia, for example, from unilaterally suspending supplies in a pricing dispute. Russia, on the other hand, argues that granting European and Central Asian companies access to its pipeline network would enable those companies to provide gas directly to Europe at half the price of Russian gas. At the same time, Russia wants to consolidate its control over pipelines. Putin does not rule out ratifying the Energy Charter, but has insisted that he wants 'something in return'. The Kremlin has demanded free access for Russian companies to operate in the lucrative European downstream energy market, which the EU has so far been reluctant to open up. Notwithstanding its state energy monopoly, Russia is prepared to let foreign companies take minority stakes in the development of natural resources, bringing with them money and expertise. While Russia insists on debating the matter in economic terms, Europeans fear the power politics apparently driving Moscow's strategy. While European leaders admit that Russia has been a reliable energy supplier to Europe for the past decade, Russia's recently unpredictable and political use of its energy resources, and the increasing state control over energy supply, have engendered concerns within European governments.

- According to observers, the biggest risk, however, is not that Russia might turn off gas supplies to Europe but rather that it will not be able to cope with growing demand. The International Energy Agency (IEA) recently warned that a supply gap may be developing and that Gazprom might be unable to

meet its obligations to European countries if it does not dramatically increase its production by focusing on the development of new fields and infrastructure. Analysts say such a shortage of gas may become evident as early as 2008. During the late 1990s, the main driving force of oil output growth was the private oil industry, but with the Russian state incrementally increasing its hold over the energy sector, the prospects for further market-generated output growth have diminished. In the gas sector, production has been stagnant for the past few years and the largest gas fields are all in decline. Instead of developing new fields, Gazprom announced it would buy cheaper gas from Central Asia, thus at the same time removing Central Asian countries as potential competitors for Gazprom in the export market. In the event of supply shortages, the concern is that Russia could choose among potential customers on political grounds, which would be a severe test for European unity. Arguably, several EU governments have, in recent years, already begun to 'break ranks' and prioritise bilateral rapprochements with Putin.

- President Putin travelled to Beijing in March and signed a range of economic agreements, including a large-scale deal to supply Russian gas to China. Gazprom plans to build two pipelines to China, one of which will transport gas from Western Siberia, the main source of gas for Europe. According to estimates, future Russian supplies will not suffice to provide both Europe and Asia with the necessary quantities of oil and gas. Gazprom has therefore announced that future increases of gas supply to Europe will become the subject of arbitrage between Europe and China. This may be engineered through artificial shortages, pushing up prices and damaging European economies. The company also warned that attempts to halt its expansion into the European energy sector would encourage it to give preference to energy clients in Asia. Likewise, a Kremlin official has signalled that Russia is ready to provide Europe

with energy over the long term, but that *it* would take the lead in that relationship. Russia will, the government asserts, expand its energy outreach further, regardless of European preferences.

- The European response has been to intensify attempts to agree with Moscow rules of the game to help regulate relations between Russia and transit countries; to make it easier for Western firms to invest in Russian gas production; and to introduce greater competition into energy markets. At the same time, the EU is anxiously introducing measures to secure future energy supplies and reduce its external dependencies by diversifying both sources of supply and transport routes. While Russian gas will, according to the Austrian EU Presidency, remain the backbone of the European energy supply mix, Europeans have to think about energy supply security in far broader terms. Such an approach is to be embodied in a new Energy Policy for Europe (EPE), in principle endorsed by the Council in March 2006 and a draft of which is currently under hasty development in Brussels, with an Action Plan to be adopted in the spring of 2007. However, a recent meeting of EU energy ministers on 11 March was dominated by worries over loss of sovereignty on energy policy and revealed that Europeans are still far from sharing a unified position on energy.
- It is generally agreed that the EU-Russia Energy Dialogue, initiated in 1999, has produced meagre results. Some progress has been made in resolving differences over the restrictive 'destination clauses' included in some contracts; the EU expressly confirming it would not limit the share of energy supplies it receives from any one external source; the creation of an EU-Russia Energy Technology Centre, bringing together representatives of the European and Russian energy industries; and the development of more systematic formal institutional structures, in particular the creation of a Permanent Partnership

Council dedicated to energy issues. However, such progress has been relatively limited to technical issues. No significant headway has been made by the EU in addressing underlying political concerns, the Energy Dialogue generating little beyond platitudes on the importance of a better investment climate in Russia.

- With the exception of Germany, EU member states have been reluctant to let Gazprom buy EU electricity and gas distributors. Germany has been the key country for Putin's attempt to base relations with Europe on the concept of energy alliance. With participation of German firms (BASF and E.ON) and the political support of Putin's close friend, former German chancellor Gerhard Schröder, a German-Russian gas consortium has developed (of which Schröder controversially took over the chairmanship after stepping down as chancellor). In September 2005, Russia and Germany signed a major deal under which the consortium will build a gas pipeline under the Baltic Sea between the two countries. Polish diplomats fear this could be used by Russia as a tool of political pressure.
- At the same time, in its effort to diversify energy supply, the EU is also striving to build supply routes to oil- and gas-rich Kazakhstan, Turkmenistan and Iran, bypassing Russia via the South Caucasus and the Caspian Sea. The proposed Transcaspian gas pipeline hits at the heart of Russia's energy strategy by breaking its monopoly on the transit of cheap Central Asian gas. The Kremlin reacted angrily to these pipeline plans, arguing that the EU was guilty of double standards in accusing Russia of using energy as a political tool while developing itself political strategies to bypass Russia.
- As part of its timetable for developing a coherent strategy on energy, the Council has called on the European Commission to 'revitalise' relations with

key supplier Russia, make 'the EU-Russia dialogue more effective', secure Russian ratification of the Energy Charter and conclude the outstanding negotiations on the Charter's Transit Protocol during Russia's G8 presidency. Given the 'urgency of the issue', the Commission has been asked to submit an Action Plan by mid-2006, which is planned to be adopted at the Council meeting in spring 2007. In June 2006, High Representative Javier Solana and the Commission presented a joint paper ('An External Policy to Serve Europe's Energy Interests'), which explores ways to use EU external relations instruments to secure a reliable energy supply. In a barely veiled allusion to Russia, the document states:

'Increasing dependence on imports from unstable regions and suppliers presents a serious risk. Some major producers and consumers have been using energy as a political lever. Other risks include the effects on the EU internal energy market of external actors not playing by the same market rules nor being subject to the same competitive pressures domestically.'

The paper recommends a series of principles and objectives, and was endorsed by the Council on 15-16 June as a 'sound basis' for future external energy policy. With regards to Russia, the paper envisages, '[c]onsidering that the EU and Russia are and will remain interdependent in the energy sector, [to] work towards a comprehensive agreement with Russia covering all energy products. The aim should be integration of the EU and Russian energy markets in a mutually beneficial, reciprocal, transparent and non discriminatory manner.'

- It is envisaged that such an agreement will be negotiated in the context of the post-PCA contractual framework. While the Action Plan for the new Energy Policy for Europe is still under development, EU representatives are to prioritise,

inter alia, the concluding of negotiations for the Energy Charter Transit protocol and ratification of the Energy Charter, and the setting out of elements for a strategic energy partnership with Russia in the framework of the PCA successor agreement. The EU-Russian summit in Sochi revealed the scale of the challenges on these issues which will be faced at the July summit in St. Petersburg.

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## Issues of European Concern

- In contrast to the EU-Russia summit of 25 May, there are high expectations that the G8 summit will produce meaningful advances in the area of energy cooperation. According to some analysts, the struggle over energy is a powerful catalyst for renewing Cold War rivalries. Beyond the detailed discussions on charters, contract rules, market access regulations and transit protocols lies a potentially crucial geo-strategic crossroads. One route will take Europe and Russia towards energy-based, competitive and zero-sum power politics. The other route offers the prospect of a more mutually-beneficial strategy based on interdependence and market integration. If the latter route is to be preferred over the longer term, both Europe and Russia will need to contemplate what concessions they are willing to agree in the short term to facilitate its achievement.
- The understandable reflex for the EU is overwhelmingly to prioritise issues of energy security. The obvious observation is that this has led, and will continue to lead, towards an alliance-building dynamic that subordinates any focus on issues of democracy and human rights. It is notable, however, that the new Eastern European member states calling for a tougher European line on Russia are even more dependent on Russian energy supplies

than, for example, alliance-forging Germany. European governments urgently need to consider whether the (economic) stability approach is indeed likely to serve their interests over the longer term. The weakening of the rule of law in Russia may in fact not augur well for future European energy security. The confluence of economic and political centralisation during Putin's tenure has been a key factor in limiting European penetration into Russian energy production. Rather than assuming there to be a justified trade-off between energy security and democracy promotion, European governments may increasingly have to ask themselves more critically whether this really is the case. Broader strategic thinking may also be required: the perception that some European governments have expressly propped-up a slide into soft authoritarianism in Russia undermines the credibility of EU strictures on democracy elsewhere in the Neighbourhood, arguably making it more difficult to achieve objectives in other states in the region.

- This relates to the broader nature of Europe's relationship with Russia. Russia is widely seen as one of the most notable failures of the EU's Common Foreign and Security Policy. The EU has failed to find the incentives capable of enticing Russia and positively influencing its actions. President Putin's rejection of the EU's attempt to bring Russia into the European Neighbourhood Policy suggests that a successful strategy is unlikely to flow from the EU treating Russia like another state in 'its' neighbourhood. The current framework based on four 'Common Spaces' looks like a poor version of the ENP, itself a poor version of accession. The current state of EU-Russian relations moreover clearly illustrates how reduced the EU's soft power is when dealing with any country not eligible for membership. Today's Russia is no longer an object of European pity, and is tired of being taught lessons. Acknowledgement of geo-strategic equivalence with Russia is likely to be required.

Potential for geo-strategic partnership exists in the common European and Russian emphasis on multilateralism and the international rule of law. The challenge for Europe will be to harness this potential basis for partnership as a basis for protecting the rule of law within Russia itself.

- Russia is clearly too powerful and too important for the EU to treat it in a coercive fashion. But the design of EU policy in the run-up to talks on a new EU-Russia agreement could play a role in sending the signal that future partnership does depend on respect for democratic norms. This is crucial with the 2007 parliamentary and 2008 presidential elections in mind. Even if successful leverage over Putin fails to emerge, the EU could have some influence over the way in which the 'succession' is managed in 2008. If the liberal parties miss their opportunity to return to the Duma in 2007, a continuity in the current authoritarian course is likely. The March 2008 presidential elections are widely expected to be a three-horse race between the official Kremlin-backed candidate, the candidate of the left-wing nationalist forces and the nominee of the democratic opposition. According to the Russian constitution, Putin cannot stand for a third term, and it seems certain that he will comply with the law and attempt to hand power to an anointed successor. Putin is believed to back one of his deputy prime ministers, Dmitry Medvedev, chairman of Gazprom, or Sergei Ivanov, defence minister. Ivanov, in a recent article titled 'The New Russian Doctrine', published in the Wall Street Journal in February, stated 'interference in Russia's internal affairs by foreign states, either directly or through structures that they support...[and] violent assault on the constitutional order of some post-Soviet states' to be the main challenges to Russian national security. If the 2008 elections see Putin attempt the same kind of tactics as those pursued by Leonid Kuchma in Ukraine in 2004, the EU will need to have its response well prepared.

- A final challenge for the EU at the G8 summit will be in it potentially playing a mediating role between Russia and the United States over Iran. Despite US concerns, in early 2005 Moscow and Tehran signed an agreement under which Russia would supply fuel to Iran's nuclear reactor, and Iran send spent fuel rods back to Russia. The Kremlin has said it strictly opposes any Iranian nuclear proliferation, but does not share the US view on how this can best be prevented. In late 2005, Russia proposed that Iran develop its uranium enrichment efforts on Russian territory. Amid increasing international concern over Iran's nuclear activities, Russia has so far opposed sanctions (and blocked them in the UN Security Council, together with China). On the one hand, Russia could be crucial to a solution over Iran's nuclear programme. Its offer to assist in (and thus limit Iran to) civilian nuclear activity bears resemblance to the EU's own approach to Iran. On the other hand, the EU shares US worries over Russia using the current impasse with Iran to strengthen its own geo-strategic presence and gain further influence over international energy issues.
  - In concrete policy terms, all these overarching considerations on EU-Russian relations imply a need to rethink the current contractual conditions governing relations between the EU and Russia. With the current EU-Russia Partnership and Cooperation Agreement due to expire next year, the G8 summit will be especially significant in setting the context for European deliberations on the form and content of a new agreement. The EU will need to fashion a policy framework on a credible equal footing that both offers Russia more and suffices more effectively to lock Moscow into a partnership based on democratic values. Russian human rights groups, in view of the current energy hype, highly sceptical of the prospects for the Petersburg summit, have already urged the German government to ensure human rights be a top priority in the agenda of the following G8 summit, to be held under German chairmanship in 2007.
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