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What should Europe's policy be towards Russia ?

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Abstract:

Russia's annexation of Crimea in March 2014, its on-going support for separatist groups in eastern Ukraine, and the robust diplomatic and economic response from the EU have led to the biggest rift in EU-Russia relations since the Cold War. The EU and Russia are heading, at best, towards a protracted stalemate. At worst, they could be on the verge of a serious deterioration in their relations, should Moscow fan further the flames of conflict in the region [1].

Russia's recognition of the elections in the separatist-held parts of Lugansk and Donetsk and Russia's continuing supply of heavy weaponry to the separatists have fuelled a bloody new conflict on Europe's borders. In addition, Russia has blatantly raised tensions with its European neighbours with a spate of Cold War-style military incursions into European airspace and waters. The message seems to be that Russia will not compromise on its strategic objectives in return for economic reconciliation. How then should Europe respond?

This essay offers three sets of thoughts. First, a return to the *status quo ante* in EU relations with Russia is both unachievable and would run counter to European interests. Second, European leaders must calibrate their policies to the new *status quo*, especially on sanctions. Third, the EU must strengthen its resilience in the face of a revisionist Russia, both by committing itself to the future success of Ukraine as an independent nation and by developing a form of defensive containment against the growth of Russian influence inside the EU and the EU's eastern neighbourhood.

NO RETURN TO THE STATUS QUO ANTE

Even after the events of 2014, there are still those in Europe and Russia who believe that restoring EU-Russia relations to their prior status is possible and desirable. The case is made that Europe needs to find an accommodation with its powerful neighbour, and that Putin's actions, however distasteful, have principally been reactions to Western actions. In other words, if Europe accommodates President Putin's concerns, Putin will be more accommodating in return.

This is to misunderstand the situation. President Putin has made it abundantly clear that his strategic priority is to re-define the terms imposed on Russia at the end of the Cold War. Russia will no longer be treated as the war's loser, while the United States, with the help of its allies, plays the role of the world's and Europe's hegemon.

This Russian outlook carries two critical implications. First, Putin and his inner circle must acquire absolute control of Russia's politics, economy and security, so as to lead Russia's resurgence. This means continuing to hollow out its democratic institutions and moving towards a tightly-managed, elected authoritarianism. Second, Russia must re-establish dominance over the countries in its neighbourhood, so that they serve as a buffer against the encroachment of Western rules and market forces, which threaten the Kremlin's centralised control.

This outlook explains why EU-Russia relations had been on a downward spiral prior to the Ukraine crisis and, particularly, since Vladimir Putin's return to the Kremlin in 2012. The EU's efforts since 2003 to engage Russia economically – including creating "common spaces" for political, technical and economic cooperation, an ill-fated

1. This text was published in the "Schuman Report on Europe - State of the Union 2015", Lignes de Reperes Editions, March 2015

"strategic partnership" and the 2010 Partnership for Modernisation – had led to an ever-growing back-log of uncompleted commitments on Russia's part and growing exasperation among European leaders. Most notably, Putin's domestic crackdown had already undermined his personal relationship with Angela Merkel well before the overthrow of President Yanukovych.

It is true that neither Europe nor Russia can afford to cut itself off from the other. Russian energy exports will remain essential for future European and Russian prosperity, however much EU states reduce their current over-dependence. And Russia retains the potential to be a dynamic emerging market in Europe's back-yard. But President Putin has no interest in the sort of modern, integrated relationship with Europe than many Europeans hoped would be possible.

EU SANCTIONS AGAINST RUSSIA AND MILITARY SUPPORT TO UKRAINE

If there is to be no return to the *status quo ante*, then European leaders need to prepare now for a new sort of relationship with Russia. Calibrating correctly the EU's sanctions on Russia will be a critical element.

The sanctions were imposed to make clear to the Russian leadership that its actions in Crimea and Ukraine were unacceptable. They were not expected to change Russian policy in the near-term. Rather, they use limits on EU investment in the Russian oil sector and on Russian access to international financial markets as a way of imposing a gradually increasing cost on the Russian economy without the sanctions needing to be expanded.

By foregoing more drastic punitive measures, such as Russian exclusion from the SWIFT financial communication system or restricting EU investment in the Russian gas sector, the EU can still escalate its sanctions if the situation deteriorates further. And the EU has something to offer as a reward should Russia change its position.

Although the sanctions have hurt some European companies, their impact has been more severe on Russia. President Putin can boast very low government debt and still sizeable foreign reserves, but imminent recession, the collapse in the value of the rouble, difficulties in servicing high levels of foreign corporate debt, and a doubling in the amount of capital flight are coinciding dangerously for Russia with a dramatic fall in the oil price. Over time, Europeans can adapt more easily to a falling share of the Russian market than Russia can pivot away from the EU. Being driven into the arms of the Chinese on Beijing's terms is not the sort of strategic flexibility that President Putin was looking for.

The question now is what to do about the sanctions as they approach their expiry. On 29 January, the restrictive measures, including asset freezes and travel bans, were extended until September 2015, in response to the separatists' re-escalation of military action in mid-January. The more serious economic sanctions are currently scheduled to expire on 31 July 2015. Should they be lifted, maintained or strengthened?

If the situation in eastern Ukraine continues to deteriorate, as it has done since the separatists launched their operations to take additional territory beyond the cease-fire lines in Lugansk and Donetsk, then additional targeted sanctions should be imposed, commensurate with the scale of the fighting.. Only concrete steps, such as abiding for an extended period to whatever new agreement can be negotiated in the structure of the September 2014 Minsk agreement, including ending rebel shelling of Ukrainian towns and military positions; allowing the OSCE unfettered monitoring of the rebel-held areas and their border with Russia; and convincing the separatists to lay down their weapons and return to the negotiating table, should lead the EU to ease the sanctions. Even then, the illegal annexation of Crimea means that some level of sanctions should be maintained indefinitely.

In the meantime, EU members can still look for areas of cooperation on issues of shared interest

with Russia, including the nuclear negotiations with Iran, fighting ISIL, or the future of Afghanistan. Russia is unlikely to hold these areas of cooperation hostage to a Western change of EU policy over Ukraine, just as the EU easing its approach would be unlikely to make Russia more accommodating on these topics.

The more urgent question at the start of 2015 is whether the European governments and the United States should provide military support to the Ukrainian government, as it has requested. The arguments in favour of arming the rebels are that economic sanctions have not deterred Putin from escalating the conflict. Nor has the withholding of military support. By delivering more modern equipment, Ukrainian forces could increase significantly the damage they inflict on the separatists and the domestic political cost to President Putin of Russian soldiers' deaths, potentially driving him to the negotiating table.

The argument against was clearly laid out by Chancellor Angela Merkel at the February 2015 Munich Security Conference. There can be no military solution to the conflict in Ukraine because President Putin will always be able to escalate further than the West. And he is likely to do so, as he has more at stake. Moreover, given the hysterical reporting in Russia about American plots to bring down the Kremlin, President Putin is no more likely to cave into Ukrainian forces backed by US arms than to accept a diplomatic compromise under economic pressure. If European nations were to join the United States in providing lethal defensive weapons to Ukrainian forces, European nations' relations with Russia could enter, at best, a confrontational deep freeze that would be deeply damaging to both sides for decades.

Given growing support in Washington for supplying arms to Ukraine, there is a serious danger of a transatlantic split over the best next steps. Western governments will need to take a similar approach to the one they took over sanctions in 2014. Transatlantic consultation need to be translated quickly into clear Western demands of the Russian government. Failure to arrive at and implement a Minsk II agreement along with any further westward spread of the conflict would likely undermine the political sovereignty of the government in Kyiv. In this case, if 'Minsk II' fails and the conflict expands further, it will be very difficult for Europe as a whole to stand in the way of those nations which decide to help the Ukrainian government by providing it with non-lethal and lethal defensive weapons.

BUILDING A MORE RESILIENT EUROPEAN UNION

Since the Russian government will not change its global and domestic outlook any time soon, European politicians must strengthen their national and collective resilience and present Russia with a European strategic environment that is less tempting for Russia to try to coerce. Five courses of action stand out.

First, the EU needs to commit now to the future of Ukraine, which risks descending into economic and political chaos. Ukraine needs massive financial assistance early in 2015 if it is to avoid financial default and then seize this chance to wean itself off its wasteful and corrupt political economy. The EU should step up to this challenge – using national, European (EU and EIB) and multilateral (IMF) vehicles – and offering as far as possible grants rather than loans, so as not to add to Ukraine's increasingly unsustainable debt burden. In return, the EU should insist that Kyiv implement its reform plans, including radically improving its energy efficiency, which would not only boost economic growth, but also reduce its vulnerability to Russian economic blackmail.

Given the current restrictions on the OSCE's operations in eastern Ukraine, the EU could contribute to Ukraine's security by deploying a monitoring mission to observe any future cease-fire with the separatists and the non-contested parts of Ukraine's border with Russia. Although these monitors would be powerless in the face of a

military assault, their presence would escalate the risks to Russia of extending its incursions.

However, the success or failure of the EU's Russia policy cannot be contingent on Ukraine. A second priority, therefore, is to strengthen solidarity among EU member states. If President Putin believes he can divide EU members, he will try to do so. No EU member should be left to cope alone again with Russian economic coercion. The same goes for European security. At the NATO Wales Summit in June 2014, European NATO members made commitments to the security of their central and east European allies that are a positive step. Now, EU members must ensure that current defence investments contribute to NATO's new Readiness Action Plan. They also need to prepare explicit contingency plans for an escalation of the conflict in Ukraine and in other parts of the EU's eastern neighbourhood, and assess what scenarios would justify arms sales to the Ukrainian government.

Third, given Russia's use of its energy policy for strategic ends, the EU must prioritise the establishment of an 'energy union' that would include a role for the European Commission in energy deals with third parties. Decisions on whether to proceed with major energy transportation projects, such as the South Stream pipeline, should also be taken with the long-term energy security of the whole EU in mind, not just on the basis of the short-term economic interests of particular member states.

Fourth, the actions of Russian companies and investors operating inside the EU should receive added attention from national and European regulatory authorities. Over-dependence on Russian gas has led some EU governments to accept levels of opacity in the terms and pricing structures of their imports that undermine moves towards energy integration in the EU. Allowing state-controlled Russian companies to deepen their penetration of EU markets could start to erode the EU's rules-based approach to economic governance and expand corruption across Europe, including into vulnerable national political systems in South East Europe. Russian corporations' governance structures should have a bearing on their access to European markets and finance.

Fifth, EU governments must help build the resilience of those EU member states, such as Bulgaria, Romania and the Baltic states, which are most vulnerable to 'hybrid' pressure from Russia. This means devising joint initiatives to strengthen border controls, professionalise police forces, protect the rights of Russian and other minorities, ensure transparency and diversity in media ownership, improve cyber security and crackdown on corruption and organised crime.

Equal focus must be given to aspirant members of the EU, such as Serbia, Moldova and Montenegro, to which Russia has now turned its attention. In this context, EU leaders should recognise that the Eurasian Economic Union is a 'Trojan horse' for Russian political influence; they should give it no more credibility than it merits. The EU will gain nothing by delaying agreed schedules for EU concluding enlargement negotiations and association agreements with its neighbours.

These five steps are not designed to punish Russia. Rather, they recognize that the EU and Russia are involved in a test of wills; between the EU's vision of a Europe made secure and prosperous by the spread and deepening of the rule of law and President Putin's belief that the EU's vision must be checked before it threatens his system of political control in Russia and its neighbourhood. The Russian leadership will use its economic actors, as much as its military and intelligence services, as levers of power in this contest. The EU must consistently and coherently impose limits to how that power can be wielded.

CONCLUSION: DIG IN FOR THE LONG HAUL

President Putin is not interested in integration with Europe or the West. He wants a Russia-EU relationship that accepts the two sides' fundamental differences in political and economic governance.

Above all, he wants recognition of Russia's status as a great power and the right to apply that power in its neighbourhood, irrespective of the wishes of the citizens living there. Accepting such a 'sphere of influence' approach should be unacceptable from the European perspective.

Assuming Europe does not offer Russia this outlook, then the bilateral relationship will remain combative in the future, especially in Central and Eastern Europe. The two sides can still offer each other mutual economic benefits, providing European governments appreciate that they are dealing not with a partner, but with a competitor. Irrespective of how Russia behaves vis-à-vis Ukraine, therefore, Europe should still limit growth in its economic dependence and integration with Russia.

In the meantime, European leaders need to focus on the brief window of opportunity that has opened for Ukrainians to build a European future for themselves. While testing Ukraine's resolve to achieve that future, Europe needs to dig in for the long haul and hope that the next generation of Russian leaders will want something more for Russia than the thin gruel of historical revisionism that President Putin is currently offering.

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