

**Russia Repositions Itself Within Europe:
Making a Virtue Out of Necessity?**

by Robert Dodge

At the onset of the 21st century, more effective integration into the world trading system is the key in making the transition from central-planning to a market economy.¹ Within this context, Russia is an example of either a “weak” or “middle-level” state consciously pursuing a policy to position itself vis-à-vis a great economic power like the European Union (EU) or the United States in order to gain advantages from – or be minimally damaged by – regionalization and globalization.² Russia is obviously not an “economic great power” on a par with the United States or the EU. Also, Russia is not in a position to play a leadership role in the EU, let alone attempt to dominate it as Brazil has tried to do in Mercosur in South America. Similarly, Russia’s level of economic development, along with its geo-political and geo-strategic position, does not allow it to be an independent player, a role Professor Peter Leslie ascribes to Canada, although Russia is a member of the G-8, but for political purposes, not its economic prowess.³

In terms of economic options or leverage, Russia is more constrained in the global and regional spheres than many of its “middle-sized” peers. It cannot be in the “independent-player” role like Canada, which is a member of the North American Free Trade Association (NAFTA) and the Commonwealth of Nations. One might foresee Russia being analogous to Brazil in attempting to dominate the Commonwealth of Independent States (CIS); however, the CIS was initially set up to arrange a negotiated divorce among the former constituent republics of the former Soviet Union. The CIS’s dedication to the establishment of an economic union is not very promising for the near

future. Furthermore, the former U.S.S.R. was a “superpower” in a political and military sense, not an economic one, and certainly not in the international arena. Foreign trade and foreign direct investment played a very small role in their centrally-planned economy. In fact when the former Soviet Union inserted itself in the international market, it either served a political goal or was instituted to re-dress a technological disadvantage.

In the wake of the end of the Cold War and the dissolution of the Soviet Union, Russia and its former constituent republics, with the exception of the Baltic states, have been marginalized further in terms of tapping in to international markets. For example, Russia is not a member of the World Trade Organization (WTO), and its relationship with the EU, which is governed by the Partnership and Cooperation Agreement (PCA) that became operative in 1997, places Russia at a disadvantage with its former satellite states in East-Central Europe, all of which were members of the Council for Mutual Economic Assistance (CMEA/Comecon) during the Cold War. The former satellite states, many of which have been approved for membership in the EU next year, have enjoyed the benefits of the EU European Agreements (EA’s) since the mid-1990’s, and have resulted in re-orienting trade and investment with the EU and away from Russia. Thus Russia’s alternatives for integration into the global or a regional economy are severely limited, so where is Russia headed?

The historical legacy of Russia *and* Europe, OR Russia *in* Europe

For the near future, it makes good economic and geographical sense for Russia to pursue the best “integrative deal” it can with the EU. However, the processes by which this might occur, as well as how deep and enduring such a relationship might be is quite

problematical if one examines the historical legacy. While Russia has been inextricably tied to Europe since Kievan Rus' adopted its Christianity from Byzantium at the end of the 10th century, it soon became ostracized by the Latin world with the Great Schism of 1054, at which time Rome and Constantinople became implacable enemies. The division was further exacerbated as a result of the Mongol domination, which further isolated Russia from the West between the 13th and 15th centuries. Following Muscovy's rejection of re-union with Rome at the Council of Ferrara-Florence (1438-1442) and the fall of the Byzantine Empire in 1453, Tsar Ivan III claimed that Muscovy was the "Third Rome," the successor to Byzantium and the sole possessor of the true faith.

Beginning with Russia's modern history, usually associated with the reign of Emperor Peter I, Russia's government attempted to grow closer to Europe, sometimes in a collaborative way diplomatically and commercially, and at other times in a contentious military manner. The collaborative tendency predominated throughout most of the 18th and the first half of the 19th centuries, probably reaching its high point during the Fourth Coalition against Napoleon. This collaboration continued during the Congress of Vienna and the subsequent Concert of Europe until it ended with the Crimean War, which pitted Britain and France against Russia and resulted in an ignominious defeat for Russia. This War helped to accentuate the Westernizer-Slavophile conflict as to whether Russia should and must follow Western European developments, especially along economic and technological lines, or should adhere to their own customs and values.

One of the ironies of the first half of the 20th century is that twice Russia, militarily and politically, was on the side of those countries in Western Europe attempting to thwart German attempts to dominate the continent. Otherwise, they were at

loggerheads. The Bolshevik/communist seizure of power in Russia in 1917 resulted in a continuous rivalry, whereby the Soviet leadership isolated itself in order to implement its new socio-economic political order predicated on the Communist Party's dictatorship and centrally-planned economy. In the aftermath of World War II, a more serious specter arose as the U.S.S.R. came out of the war a military-political winner and expropriated a large chunk of East-Central Europe, which it turned into a political enclave ruled from Moscow. While the creation of the North Atlantic Treaty Organization (NATO) in 1949 was done specifically to thwart the Soviet military threat to Central and Western Europe, the establishment of the European Coal and Steel Community (ECSC) in 1952 and the Treaty of Rome in 1957, creating the European Economic Community (EEC) among the founding six, formalized and intensified the economic and political integration of Western Europe and strengthened this core as a buffer against the Warsaw Treaty Organization and a competitor with CMEA/Comecon.

The failure of Nikita Khrushchev's effort to make CMEA/Comecon an equal to the EEC, let alone demonstrate its superiority in an economic sense, led to Moscow and its communist satrapies making overtures to the West, which in turn brought about Chancellor Willy Brandt's *Ostpolitik*. *Ostpolitik* led to the beginning of the de-coupling process by which the Soviet Union's East European satellite states began to turn to the West for economic and commercial agreements; thus lessening their dependence on Moscow.

The European Agreements (EA's) and the Partnership and Cooperation Agreements (PCA's) by which the EU formalized relations with the former satellite states and the former Soviet Union and its constituent republics, respectively, were logical

corollaries to the G-7's PHARE and the EEC's European Council's TACIS.⁴

Underscoring the differences between the PHARE and TACIS programs, and subsequently the EA's and the PCA's was a conscious EU-12 political decision at the time of the so-called "velvet revolution" that the East-Central European members of CMEA/Comecon, plus the Baltic states, had been victims of Soviet domination and oppression, and therefore, they should be accepted as full participants in the Western European integrative development. Russia, especially, and its former constituent republics of the former Soviet Union, had been the aggressor and oppressor in creating East-Central Europe in its own image following World War II. Thus Russia was to be punished, or more accurately shunned by the EEC/EU for the foreseeable future.

Russia's Skepticism and Opportunities vis-à-vis the EU

If Russia has any leverage vis-à-vis East-Central Europe, and thus the EU, to include the current 15-member states plus the 10 newly-elected ones, is its vast deposits of energy, especially natural gas and petroleum for which Europe has become increasingly dependent since the 1980's. That dependency will grow during the next 20 years.⁵ Russia began its ascendancy as Western Europe's primary supplier of energy beginning in the 1980's when Western Europe consciously wanted to be less dependent on Middle Eastern oil after the Middle East members of OPEC spiked oil prices in the wake of the Yom Kippur War in 1973. With the collapse of the former Soviet Union in 1991, the Russian Federation has been assiduously expanding and firming up control over its transmission pipelines for natural gas and oil.

Thus Russia has been in the trans-border market-building stage for more than two decades. In terms of know supplies of basic energy sources, such as natural gas and oil,

Russia perceives itself, and is so perceived by the current EU members and its aspirants, as having a growing dominance over the next 20 years as demands for energy increase, and other current EU supplier produce less, as the result of depleted supplies, notably in Norway, the Netherlands and Great Britain.⁶ Also, Russia has a legacy of infrastructure and experience in East-Central Europe dating back to Nikita S. Khrushchev's attempt to reform CMEA/Comecon in the early 1960's, during which time the former Soviet Union supplied virtually all the energy resources and raw materials to its energy- and resource-poor former satellite states. Today, many of the East-Central European countries, which have been approved for membership in the EU, are dependent on Russia for as high as 70-80% of their energy needs.⁷

A caveat to this seemingly Russian advantage at the moment is that the producers and sellers of energy commodities are in dire need of a consumer for their products just as much as the consuming countries need a supplier. The quest for both Russia and the EU is a transparent long-term stable source of energy at a reasonable price. From the EU's perspective, it is committed to a strategy to improve the exploitation and management of energy resources and security of those supplies as part of a policy to integrate Russia into a "common European economic and social space." (CEES)⁸ Since the inauguration of Vladimir Putin's presidency in January 2000, he has pressed for a stronger Russia-EU tie as being in the best national economic, political and security interest of the Russian Federation.⁹ Such an effort constitutes another episode of where Russia stands in relation to Europe. Thus is Russia *in* Europe or *out*?

The Russian political leadership, led by president Putin, is very skeptical concerning formalizing an agreement with the EU on long-term energy delivery. Key to

this issue is the Energy Charter Treaty (1994), which 51 countries plus the European Communities have signed, and as of now 45 countries have ratified it, including all 15 EU member states. While Russia and Norway, the EU's two major gas suppliers, have both signed the Treaty, neither has yet ratified it. The goals of the Energy Charter are 1) to strive towards open, efficient, sustainable and secure energy markets; and 2) to promote a constructive climate conducive to energy interdependence on the basis of trust between nations.¹⁰ This is re-enforced as a "common challenge on the European continent" in the Common Strategy on Russia document [see endnote #8 below]: "The Union and Russia have a common interest in developing their energy policies in a such a way as to improve the exploitation and management of resources and security of supplies in Russia and Europe."¹¹ Similarly, Article 65, Title VII, "Economic Cooperation," of the PCA, states "Cooperation shall take place within the principles of the market economy [emphasis added] and the European Energy Charter, against a background of the progressive integration of the energy markets in Europe."¹²

If Russia is going to be the dependable, long-term supplier of natural gas for the EU over the next 20 years, this will require a huge investment for the development of the main fields, especially the Shtokman field on the Barents Sea shelf.¹³ As to the amount of investment required, Burkhard Bergmann, the CEO of Ruhrgas, the largest foreign shareholder in Russia's natural gas giant Gazprom, estimates that it will require as much as 400 billion Euros in investment over the next 20 years, i.e. until 2022.¹⁴ President Putin addressed this issue in a speech in Weimar, Germany, in April 2002:

The reality is that raw materials can be obtained from Russia and rather cheaply. This means we need to work together on both investments and the establishment of the necessary legal foundation [emphasis added]. We don't see such a legal foundation in Europe at

present. It is not enough to say that single economic space should be created in Europe. A single set of rules has to be developed, and Russia has to be included in those rules.¹⁵

Putin is not going to leave the term “common European economic space” (CEES) as an ambiguous shibboleth to be interpreted by the EU in the same way that it perceives the European Economic Area (EEA) to which Iceland, Liechtenstein and Norway plus the current 15 member states of the EU belongs, but subjects the three “outsiders” to all the rules concerning the free movement of goods. Russia is preparing to ratify the European Energy Treaty as soon as it get the contractual guarantees that it needs, including EU investment, and it has its pipeline transport and distribution system in place.

Pipeline Autonomy and Energy Diplomacy

In order to capitalize on its energy reserves, Russia also must upgrade and develop its transport and distribution facilities upon which the EU members will continue to be dependent. Of major importance in this regard are the Russian-led Caspian Pipeline Consortium (CPC) and the Baku-Tbilisi-Ceyan (BTC) consortium in which Russia’s largest oil company, LUKoil, has expressed an interest in participating in building this pipeline.¹⁶ Although the BTC would be in competition with the CPC, it would give Russia give Russia some influence in the Azerbaijan area and would endear Russia even more to Western Europe, because it would expand the diversification of the source and supply of petroleum.

Another deliberate Russian strategy has been to construct oil pipelines that bypass former constituent republics, thus causing them to lose their monopolies on Russian oil transit. This applies especially to Ukraine and the Baltic states. Thus with the opening in

September 2001, Transneft, the Russian state-owned oil transport monopoly, of a new branch of the Sukhodnolnaya-Rodionovskia pipeline, Russia could bypass Ukraine, and in December 2001, President Putin ceremoniously opened the Baltic Pipeline System in Primorsk near St. Petersburg (Leningrad Oblast), which is now the terminus for oil being pumped from Western Siberia and the Timan-Pechora basin. Formerly, the terminus had been the Lithuanian port of Butinge.¹⁷

Conclusion

In making the transition from a centrally-planned economy to a market economy, the Russian political leadership has emphasized an old historical tie, a link-up with Europe, one that it has had and left several times since the 10th century. While the issues of regulatory convergence and “liberalization” on growth competitiveness and trade and investment flows might appear too sanguine for Russia’s national proclivities, the goals set forth by the Russian Foreign Minister Igor Ivanov vis-à-vis the EU suggest that Moscow sees a stronger link to Brussels to be in Russia’s best long-term interest. In referring to the EU-Russian PCA that went into effect in 1997, Ivanov has referred to it as “on the first step” in achieving what President Putin had stressed in 2001, when he decided that “the course of [Russia’s] integration with the EU is one of the keys in the direction of Russia’s foreign policy.”¹⁸

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¹ Constantine Michalopoulos, “The Integration of Low-Income CIS Members in the World Trading System” (paper presented at the Lucerne Conference of the CIS-7 Initiative, 20th-22nd January 2003).

² Peter Leslie, “Regionalization, Multi-Level Governance, and Globalization” (paper presented at the Conference “Globalization, Multilateral Governance and Democracy,” 3-4 May 2002, Kingston, Canada, Institute of Intergovernmental Relations, School of Policy Studies) 1-2. Professor Leslie suggests three

categories of relevancy for “weak” or “countries of middle-size” making strategic choices: 1) such a country may attempt to play a leadership role within a regional grouping, or claims dominance in a regional setting such as Brazil does in Mercosur in South America; 2) or such a country may attempt to play an independent role on the world-economic stage (i.e. to participate in global economic governance as independent actors, while participating in the formation of a regional grouping without claiming leadership in them) e.g. Canada as a member of the G-8 and NAFTA; or 3) such a country may be too small or too weak to play such a role on the world-economic stage, but may strive for a regional grouping in order to resist the emergency of a regionally dominant state, e.g. ASEAN. However, some EU aspirants, especially former CMEA/Comecon countries in East-Central Europe, may see themselves in this category. In this litany of categories, Professor Leslie suggests that Russia, like Brazil, may attempt to play a leadership role within a regional grouping.

³ *Ibid.*

⁴ The G-7 set up the PHARE (*Pologne, Hongrie, Assistance a la Restructuration Economique* – Assistance for the Reconstruction of the Economy for Poland and Hungary) in July 1989 whereby aid from the industrial world would be channeled to Poland and Hungary. The G-7 decided the EEC’s Commission should administer the program, which began in July 1990. Soon after their respective independences had been declared, PHARE aid was extended to the then former Czechoslovakia (now the Czech Republic and Slovakia as of 1993), Bulgaria, former East Germany, and now covers Albania, Bosnia-Herzegovina, Macedonia, Romania and the Baltic states. In December 1990, the EEC’s European Council set up TACIS (Technical Assistance to the Commonwealth of Independent States) for the purpose of channeling economic assistance to the ten members of the CIS to include the Russian Federation. Like the PHARE, the EU’s Commission administers TACIS. The PHARE and TACIS programs are differentiated in terms of purpose. The five areas of focus in the PHARE program include: 1) restructuring and privatization of state-owned enterprises; 2) aid to the private sector, especially small and medium-sized enterprises; 3) the service sector, especially tourism; 4) the modernization of financial systems (e.g. tax, banking and insurance; and 5) welfare systems by helping participating PHARE countries retain their workers. By contrast, the five priority sectors under TACIS include: 1) training the work force; 2) energy, especially nuclear safety; 3) transport; 4) support for industrial and commercial enterprises; and 5) food production and distribution. See Timothy Bainbridge, *The Penguin Companion to the European Union* (Penguin Books, Revised and Expanded Second Edition, 2000) see *inter alia* pages, 249, 392, 394 & 474.

⁵ Jan S. Adams, “Russia’s Gas Diplomacy,” *Problems of Post-Communism* (vol. 49, #3, May-June 2002) 20.

⁶ Christopher Patten, “The EU and Russia,” *International Affairs*, A Russia Journal of World Politics, Diplomacy and International Relations (vol. 47, #2, 2002) 61. Oil and gas alone represented 45% of Russia’s exports to the EU in 1999, and it was more than that in 2000. The oil and gas Russia sells to the EU may amount to as much as 20% of all Russia’s exports to the whole world. See Ruhrgas GmbH, the largest natural gas distributor in Europe, and the largest foreign shareholder in Russia’s *Gazprom* with 5% of the total shares, which receives 35% of its total supply from Russia, or 17.9 billion cubic meters of a total 51.1 billion cubic meters. See online *Annual Report of Ruhrgas* (www.ruhrgas.com/englisch) and Andrei Denisov, *Vremya novostei* (April 11, 2002) 1, as translated in the *Current Digest of the Post-Soviet Press* (hereafter cited as *CDPSP*, vol. 54, #15, May 8, 2002) 19.

⁷ Andrei Denisov, *Vremya novostei* (April 11, 2002) 19. It is the intention of the EU Commission that no single supplier’s share in the energy balance should exceed 30% of the total. This ambitious goal would fall under the rubric of a “market corrector” in order to achieve equity, but there is not much evidence of accomplishment in this endeavor as yet according to Professor Alberta M. Sbragia, “Introduction to Regionalism,” *Comparative Regionalism. The European Union and Mercosur*, A Seminar for College Faculty, University of Pittsburgh, May 15, 2002.

⁸ “Common Strategy of the European Union of 4 June 1999 on Russia,” *Official Journal of the European Communities* (24.6.1999) L157/3 and L157/5. Hereafter cited as the *Official Journal*...

⁹ Igor Ivanov, *Novaia rossiskia diplomatiia, desiat’ let vneshnei politika stranii* (Moskva: “Orl’-Press,” 2001). In Chapter III, “Region’nye napravleniia rossiiskoi vneshnei politiki,” the current Russian Foreign Minister devotes 22 pages, or 16% of the total six regions of the world, by far the longest section, to relations between Russia and Europe, 103-180. In this same comparative context, Foreign Minister Ivanov gives 55% more space to Russia’s relations with Europe than to Russia’s relations with the U.S.

¹⁰ Energy Charter Treaty, “The Energy Charter’s Missions and Objectives,” 1. (<http://www.encharter.org/index.jsp>)

¹¹ *Official Journal...*, *op. cit.*, L157/3, “Common Strategy of the European Union of 4 June 1999 on Russia.”

¹² *Official Journal...* (commencing on L327, vol. 40, November 28, 1997) and on-line version, Title VII, Economic Cooperation, Article 65, page 6 of 17. “Agreement on Partnership and Cooperation establishing a partnership between the European Communities and their Member-States of the one part, and the Russian Federation of the other part.”

¹³ Denisov, *op. cit.*, 19 in *CDPS*.

¹⁴ *Ibid.*

¹⁵ *Ibid.*

¹⁶ Ilia Lysenko, Department of Economic Cooperation, Ministry of Foreign Affairs of Russia, “Caspian Pipeline Consortium: Balance of Regional Interest,” *International Affairs* (vol. 48, no. 2, 2002, Moscow) 39. STRATFOR, “Russian Pipeline Participation May Help Ties With West” (January 3, 2002) (<http://www.stratfor.com/CIS/commentary/0202022230.htm>). Without LUKoil, the BFC consortium consists of nine members with the following share percentage: SOCAR (the Azerbaijan State Oil Company, 45%; BP, 25.1%; Unocal (U.S.), 7.65%; Statoil (Norway), 6.3%; TPAO (Turkey) 5.02%; Agip (Italy), 5.0%; Itochi (Japan), 2.9%; Devon Energy (U.S.), 0.6%; and Delta Hess (Saudi Arabia/U.S.), 2.03%.

¹⁷ Svetlana Mironova, *Noviye Izvestia* (September 28, 2001) 2, as translated in the *CDPSP* (vol. 53, no. 39, October 24, 2001) 18-19; and Maria Ignatova, *Izvestia* (December 28, 2001) 2, and Alexandra Medvedeva, *Izvestia* (December 28, 2001) 1, as translated in the *CDPSP* (vol. 53, no. 52, 2001).

¹⁸ Ivanov, *op. cit.*, 132.