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Mirela Isic, Sebastian Schäffer

## Double win in EU-Russia Relations – Roadmap for a new PCA

*During the EU-Russia summit in Nice on November 14, the European Union and the Russian Federation agreed on several further meetings to discuss the crucial issues of their relationship. The good news is that negotiations between both parties continue after the postponement on part of the EU in course of the Georgia-Russia conflict. The EU as well as Russia should now avail the opportunity to agree on a new Partnership and Cooperation Agreement (PCA) in order to set a new legal framework for their cooperation. It's time for a roadmap to take the EU-Russia relations to the next level.*

Many issues troubled the EU-Russia relations during the last couple of months and disrupted the diplomatic talks between the EU and the Russian Federation. Having agreed to start negotiations for a new PCA on the last EU-Russia summit in June of 2008, after the last PCA expired in December of 2007, the first round of negotiations already took place in Brussels on July 4. The second round of negotiations, however, was postponed due to the Georgian-Russian conflict in August of this year. Since Russia has been attending the Geneva negotiations to appease the situation, the conflict parties seemed to be making steps toward each other. After the withdrawal of Russian troops from the undisputed parts of the Georgian territory on October 9, the main reason for the intermission of the negotiations from the EU's standpoint disappeared. Reducing the Russian troops to its quantity of before the Caucasus crisis has been one of the conditions to continue talks on the recent EU-Russia summit in Nice.

In Nice it was the French president Nicolas Sarkozy who managed to set a framework for another big issue leading to certain constraints between the Russian Federation and the transatlantic community. The American intention to install a missile defence shield in Poland and the Czech Republic led to the Russian reaction of setting up missiles in the Russian exclave of Kaliningrad. Since the deployment of missiles in the nearest neighbourhood is an extraordinary situation for the EU, many observers were reminded of the Cold War era where the United States and Russia tried to exceed themselves with missile positions in Europe. The proposed "zero solution" by Russian president Medvedev, which has both parties abstain from positioning any new mis-

siles, should be discussed first by the transatlantic partners at the NATO summit in Strasbourg and Kehl in April 2009, and then together with the Russian Federation at a special summit of the Organisation for Security and Cooperation in Europe (OSCE), as proposed by Sarkozy.

### The EU and Russia have some issues ...

EU-Russia relations are interdependent, however interests in some fields remain independent from one another. Before Georgia and Russia encountered the problem with South Ossetia, the two 'E's dominated the relations between the EU and Russia:

Economy and Energy. While Russia is the third most important trading partner of the EU, with growth rates of up to 20% per year, EU investments in Russia make for up to 80% of

the cumulative foreign investment in the Russian Federation. The foreign direct investments (FDI) of the EU27 to Russia went up from 6 billion Euros in 2004 to more than 17 billion in 2007. Germany has been the lead investor with 6,7 billion Euro (39% of the EU's FDI in Russia). Still, compared to the high investment potential in Russia for European companies, the FDI stay behind the expectations. The reason for the FDI in Russia being low in comparison with other transformation countries are an inadequate tax law, property and creditor rights, and the Russian accounting system, which does not adapt to the accounting system of most states of the European Union. Subsequently, due to the fact that the EU member states are highly dependent on Russian energy supply, the Russian Federation at the same time needs the EU as a business market without the growth rates of the Russian economy would not be possible.

"Brussels needs to unify their interests and further pursue a common energy policy."

Nevertheless, Russia has used its energy resources as a political tool to put pressure on certain states, including EU member countries like Lithuania. In order to be less prone to this political lever of Russia, the EU needs to reduce dependency and needs to find other energy sources. The European Commission has already proposed such a plan. In reference to the Russian Federation, this can consequently only be a long-term solution. A short- and medium-term solution for the EU is, due to a lack of alternatives, to secure a stable energy supply through an agreement with Russia. Europe should use the mutual interest in a stable relationship in that sector and strengthen its position through abstaining from national bilateral agreements with Russia, and concentrate on speaking with one voice. The European Union can only succeed in doing so if it adopts a common energy policy. Again, a first step towards such negotiations has been taken during the meeting in Nice. A summit between the European Commission and Russia is scheduled to take place in January of 2009, during which talks about the energy sector are going to be pursued.

For a prosperous and stable economic relationship between the EU and the Russian Federation to flourish, Brussels needs to unify their interests and further pursue a common energy policy. Moscow should try to create a better legal certainty to ensure European investments in their economy. In order to reduce trade barriers between both parties, visa policy as well as customs clearance formalities need to be simplified.

However, during the last couple of months the economy has not been the predominant factor in the EU-Russia relations, it was the conflict in South Ossetia. When it came to what can vaguely be described as „security interests“, Russia’s “national interests” outweighed the offsetting position toward the EU. While international terrorism poses an acknowledged threat to both the EU and Russia, the „security interests“ towards third states highly diverge. After the clashes, the ascendant items on the agenda have gotten a security policy character. Especially the further NATO enlargement towards Eastern Europe divided the minds. The hard sector is becoming even harder. While the European Union tries to give the countries of Eastern Europe and the Caucasus a perspective for closer ties to the West, the Russian Federation more and more feels – and

de facto is – surrounded by pro Western countries. A fact that clearly is contrary to Russian security interests, especially when it comes to surrounding NATO member countries. In this field Europe needs to respect the Russian concerns, and Moscow needs to acknowledge that in times of globalized insecurity, security interest of the EU and the Russian Federation overlap in many respects when it comes to their very own security.

To foster a better understanding and to create a security-related certainty, a pan-European security concept as proposed by Medvedev is a possible idea for an improvement of EU-Russia relations in this field that should be kept track.

### ... that can be tackled by a new PCA

Even if the old PCA expired in December of last year, EU-Russia relations don’t need to start from scratch concerning the negotiations for a new agreement. The common economic space, the common space of freedom, security, and justice, the common space on external security, and the common space on research, education, and culture between the EU and Russia still exist. However, a new PCA would provide the necessary legal framework for these so-called four common spaces.

To go the extra mile, the necessity of a new PCA goes far beyond the framework argument. First and foremost, without a new PCA a future Free Trade Agreement between Russia and the EU is not possible. It has been mentioned before that Russia is the EU’s third most important trading partner and Russia needs the foreign investments of the EU for further growth and to continue modernization and diversification of its economy. Therefore, a Free Trade Area (FTA) is in the best interest of both partners. Second, for the European Union the goal of further strengthening the rule of law and human rights in Russia can be achieved through a PCA. Promoting European values of democratization and a state under the rule of law is an effective way to undermine tendencies of authoritarianism in the Russian politics and economy. Third, energy cooperation is vital both for Brussels and for Moscow. Europe cannot deny the dependence of the Russian energy supply, but at the same time the European member states are trying to find alternatives, although they

are costly and complicated, as for example the Nabucco pipeline. At the same time, Russian energy resources are still far from being exhausted, but the transport infrastructure is ailing. Investments from Europe are necessary to keep the energy flow. Constituting their positions in a PCA the EU and Russia could both come off as winners in the contest of interests.

### EU should seize the opportunity for a new PCA

Things have changed since 1997 in EU-Russia relations. Russia is becoming more assertive trying to define its place in the global spheres of influence. The Russian Federation will now be in the position to negotiate in a different way than back in 1997, when the last PCA came into the world. At the same time the EU is not completely powerless when it comes to sanction Russian dealing within the overlapping neighbourhood for example. Nevertheless, overturning the decision for visa exemption for Russian citizens or blocking the Russian accession to the World Trade Organization (WTO) would harm the EU more than Russia itself.

But the EU is not in a position where it has to crave a new PCA. It should seize the opportunity to tackle a new PCA on the next EU-Russia meetings and clarify their position, while maintaining authority. For a long-term strategic partnership, the EU and Russia should ensure the free movement of goods, people, and capital and therefore clear a way for a Free Trade Area. The harmonization and therefore normalization of the trade relations between EU and Russia thus leads to more reliance in other branches. Understanding that Russia can only defend their specific interests in the European framework, a new long-term energy supply agreement is more than attractive for Russia. The EU for their part can achieve a major balance of influence on the world's energy balance with concluding agreements with Russia over energy delivery. Beyond that, the security issues can be solved if EU and Russia define their positions in the arena of the overlapping neighbourhood and create an effective engine for providing security in this capricious area.

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### A roadmap for a new PCA

The EU and the Russian Federation have come to the understanding of having to set a series of meetings in order to deepen their relationship. The major issues have been identified and the problems should be solved in this various meetings to come. The question now is what needs to be done to achieve a new PCA by 2010. The common fields of interest between the EU and Russia are:

1. Establishing a Free Trade Area: Free movement of people, goods, and capital are vital for continuing prospering economic relations between the EU and the Russian Federation. In order to achieve this assembly, a FTA has to be established. This is only possible after the accession of Russia to the WTO. The main obstacle here is the conflict with Georgia.

Since all members of the WTO have to agree upon the accession of a new member and Georgia is a WTO member, problems within the relationship of those two countries have to be settled. In this process, the EU plays a major part as a facilitator. The next round

of the Geneva talks to settle the Georgia-Russia conflict took place on November 19. The next round of accession talks for Russia into the WTO is set for November 24/25.

2. Simplification of Visa policy: The process indicated above is a long-term development. Therefore, as a first step, a simplification of the visa policy as well as customs clearance formalities is desirable for both the EU and Russia.

3. Guarantee of legal certainty: To further ensure EU investments in Russia, a better legislation and legal certainty has to be implemented, respectively guaranteed. This is one possible field for the EU to try to strengthen the rule of law in Russia, since Moscow will directly benefit from ongoing investments in their economy.

4. Clarifying energy security: What the EU strongly needs is a common energy strategy. The EU has already come to an understanding about a foresighted political program to achieve the essential goals in the energy sector: sustainability, competitiveness and security of supply. Thereby, these issues are concerning the EU as a whole. Specific national solutions

are inadequate and insufficient. But the EU is on the right way. In a statement concerning the second revision of the common EU strategy from November 13, the EU Commission aimed at putting more emphasis on the energy issues in EU foreign relations. This is the approach Russia and the EU should build on. Energy issues remain a binding cogency between the two areas.

5. Providing pan-European security: Both the EU and Russia have a common interest in European security. Adequate for discussion are the Council of Europe and the OSCE. The United States is a member of the latter, which enables all three parties to settle the missile-defence issue in Europe. Again the EU could act as intermediary. First in part at the NATO summit in April of 2009 to speak with the new American administration, and second altogether at the proposed OSCE summit in June or July of 2009.

In a second step the EU and the Russian Federation should then set up effective mechanisms to secure the area between the Atlantic and the Pacific Ocean like an overlapping security agenda, including not only the EU and Russia but creating a forum for every country being in the focus of security threats.

Although nobody would see the continuation of the dialogue between both parties as negative, the old selective approach of Russia becomes somewhat obvious when it comes to deal with Europe. Since the EU and Russia don't share common institutions, negotiations could be procrastinated by Russia through the several institutions like the OSCE or NATO. Therefore, the EU should not only think from one expert meeting to another when it comes to negotiate about a new PCA but set a clear roadmap for an adoption.

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