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Italian foreign policy survey

Recoupling Russia to Europe: Staying the Course

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As Russia approaches a new peak in its electoral cycle (with parliamentary elections in December 2003 and presidential elections in March 2004), and against a background of a world in turbulence, pressures for conciliatory "grand gestures" towards Russia are once again gathering steam. The main rationale behind these efforts is that Russia deserves better compensation for its much more constructive attitude in international relations than it has so far received. The last thing we want, so the reasoning goes, is that President Putin would be electorally punished for a foreign policy that has in the Western assessment benefited both Russia and the West.

Apparently sensitive to these pressures, the Italian government at the beginning of this year indicated that upgrading the EU's relationship with Russia would be one of the priorities of the incoming Italian presidency in the external relations field. Although the harsh realities of the current international system (and some minor changes made under the Greek presidency) may already have moderated those ambitions, this article will argue that any more radical changes in the Russia-EU relationship are neither necessary nor desirable. It will instead suggest that the energies of the Italian presidency in this area would be better directed at some more

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concrete elements of the relationship – both substantive and procedural.

The article will start by taking a look at the priorities of the Italian EU presidency and will then test those against current trends in Russian domestic and foreign policies, as well as in the present Russia-EU relationship. It comes to the conclusion that there is no compelling need to review Western – especially EU – policies towards Russia at this stage. The article finishes with some suggestions on what the EU should and should not do with respect to Russia.

Italian presidency plans

The Italian presidency was late in publishing its (mandatory) "Presidency Work Plan on the implementation of the Common Strategy of the EU on Russia". Yet its early intentions could be gleaned from earlier documents and statements, including the "joint work plan" presented together with Greece on 17 January 2003. This joint plan argued that

> developments both in the EU (establishment of EMU, development of ESDP, enlargement, process of institutional reform) and in Russia (transition to market economy, institutional reform, gradual enhancement of the rule of law) bring forward the need to assess whether the existing framework is still adequate. EU-Russia cooperation has in many areas gone beyond the Partnership and Cooperation Agreement (PCA) and new initiatives have been launched, covering a wide range of issues (economy, energy, JHA, ESDP). Furthermore, EU enlargement will bring Russia closer to the Union, offering new opportunities of cooperation. We should prepare ourselves to cope with the needs that will emerge in the near future. Based upon an assessment of the existing framework to be presented by the Commission and the Council Secretariat before the General Affairs and External Relations Council of March, the Council will reflect on the future of EU-Russia relations. The EU-Russia summit in St. Petersburg could provide the appropriate occasion to examine, at the highest level, the prospects of further enhancing EU-Russia cooperation.[1]

This paragraph already heralded the focus of the two presidencies on upgrading the institutional framework of the Russia-EU relationship. To amplify their good intentions, both the Italian and the Greek presidencies consulted with their Russian counterparts on the Russian part of their presidency agenda, a laudable exercise in transparency.

[1] <www.mfa.gr/english/foreign_policy/eu/eu_relations/grworkplan.html>.

Yet while the Greek Presidency was pursuing some modest institutional changes;[2] Italian Prime Minister Silvio Berlusconi, appeared to be thinking of bigger and bolder initiatives. The political utility of Russia to Berlusconi cannot be overestimated. Domestically, being seen as the "statesman" travelling to Moscow and Washington – especially as the President of the European Council – provides an invaluable escape valve for his many domestic troubles.[3] But also internationally, Berlusconi has used Russia to counterbalance his strong pro-American stance (which is quite unpopular in both Italy and Europe as a whole) by arguing that the European Union needs to take other powerful neighbours (such as Russia, but also Turkey, Ukraine and Israel) on board to counterbalance American raw power.

All of this has led him to cultivate closer ties with Russian President Vladimir Putin, both personally[4] and politically, by arguing that Russia should become part of a "Big Europe". On a visit to Moscow on 3 February 2003, he said the Italian presidency would look into the possibilities of setting up a consultative council with Russia in Brussels. The idea was explained by Italian Foreign Affairs Minister Franco Frattini as meaning that Russia will participate in informal EU ambassador meetings during the Italian EU presidency. "We see Russia as one of the privileged neighbours," he said. "The EU-Russia relationship does not only have to be on economy but spread over a 360 degree level." Berlusconi furthermore made headlines by repeatedly suggesting a sort of fuite en avant policy to deal with the EU's visible CFSP problems. He argued at the end of the first EU summit in Brussels under the Greek presidency that the way forward for the EU would be to enlarge and strengthen itself. "We either have a superpower with military capabilities far greater than the EU, or else the US can have another partner – the EU – which must eliminate its divisions and enlarge to countries like Russia, with its military capabilities, Ukraine, Moldova, Turkey and even Israel."

Berlusconi also repeated these provocative ideas on his recent trip to Moscow in July 2003.[5]

[2] The May 2003 Russia-EU summit in St. Petersburg did make a small change in the institutional setup by upgrading the main body of the Partnership and Cooperation Council from a "Cooperation council" to a "Permanent Partnership Council".

[3]. See The Economist's unprecedented – but representative – personal attack on Berlusconi in July 2003: "An open letter to Silvio Berlusconi", The Economist, 30 July 2003 <www.economist.com/displayStory.cfm?Story_ID=S')HH%2FRA_%24%23P!T%0A>

[4] Viz. the much-publicised – at least by the Italian side – stay last summer of Putin's two teenage daughters at the Italian leader's estate on the island of Sardinia.

[5] "Putin meets with Berlusconi", The Russia Journal, 29 July 2003 <www.russiajournal.com/news/cnews-article.shtml?nd=39706>.

Needless to say, these ideas were never officially proposed in a EU context. But they still provide an important aspect of the background against which Italian plans with respect to Russia should be evaluated. In a presentation to the Italian Senate, Foreign Minister Frattini gave more details about the plans for the presidency:

> [T]he Italian Government is ready to institute more regular and closer consultations to prepare the main European Union-Russia relations-related issues that will have to be dealt with under the Italian presidency. We then agreed to set up a permanent bilateral working group[6] and place Russia's expectations in relation to method and substance on its agenda for 2003. This agenda, if we plan it now, will make it possible to obtain concrete results during the latter half of the year under the Italian presidency, specifically giving a powerful impetus to negotiations over the common economic area. This could be one of the most important results, because the plan of work for implementing the common Russia-European Union economic space will be examined, and I hope approved, under our Presidency.[7]

The Commission politely brushed off many of these great ambitions: Jonathan Faull, the European Commission's chief spokesman, said on 4 February that the Italian ideas were interesting, "The Commission is aware of it, and we're always receptive to ideas of how to strengthen the cooperation between the EU and Russia. We have an existing institutional framework which functions well, but interesting ideas are always welcome to see how things could be further improved."[8]

In the subsequent months, Italy's ardour for making Russia into a big priority seemed to abate, and the more 'orthodox' approaches (such as the

[6] The special working groups about which Frattini spoke have met over the past few months but in a three-sided format – representatives of the Greek presidency, of the Italian presidency of the European Union, and of Russia. The last one took place in Athens on June 19 on the tasks arising from the results of the Russia-EU summit held in St. Petersburg on May 31. The three delegations were headed by Vladimir Chizhov, Deputy Minister of Foreign Affairs of the Russian Federation; Dimitrios Kondoumas, Director General for the EU at the Greek Ministry of Foreign Affairs; and Ferdinando Nelli Feroci, Deputy Director General for European Affairs at the Italian Ministry of Foreign Affairs.

[7] Hearing of the Minister of Foreign Affairs, Franco Frattini, on the main current foreign policy issues before the Joint Meeting of the Foreign and Community Affairs committee of the Chamber of Deputies and the Foreign Affairs and Migration Committee of the Italian Senate, Wednesday, 12 February 2003 <www.esteri.it/attualita/2003/eng/statint/i030212a.htm>.

[8] A. Lobjakas, "EU: Brussels Ponders New Institutions In Cooperation With Russia", RFE/RL, 5 February 2003 <www.rferl.org/nca/features/2003/02/05022003171732.asp>.

Commission's "Wider Europe" proposals) gained the upper hand. When presenting his priorities to the Lower Chamber of Parliament in Rome on 26 June 2003, Berlusconi talked about "intensifying the relationship with the Russian Federation, Ukraine, Belarus, and Moldavia", but he still singled out the importance of deepening relations with Moscow "through increasingly close dialogue and specific measures that give a strong signal of Russia's desire to belong to the political, economic and cultural fabric of Europe [and the West.]".[9] This sentence was repeated word for word in his ill-fated speech before the European Parliament on 2 July.[10]

The final official work plan on Russia of the Italian Presidency, presented to the Council on 21 July 2003,[11] shows few signs of any new initiatives – whether institutional or substantive. Institutionally speaking, it proposes to make the new Permanent Partnership Council (PPC) fully operational (suggesting on a very conditional basis that meetings of various sectoral ministers and of Coreper in Troika format with their Russian analogues could take place on an ad hoc basis and as appropriate). Substantively, the main focus is on the development of a joint definition of the Common European Economic Space concept, which is to be adopted at the 6 November Russia-EU summit in Rome. Does the Russia-EU relationship require more of a "push" under the incoming Italian presidency?

Russia on the right track

There is a growing consensus in the Western analytical community that Russia is on the right track, although it still has a long way to go on its painful path to normalisation, both in the economic and political realms.

Economy

The Russian economy continues to perform well, albeit far under its potential[12] and with a perilously high degree of micro- and macro-economic

[9] Resoconto stenografico dell'Assemblea. Seduta n. 330 del 26/6/2003 <www.camera.it/_dati/leg14/lavori/stenografici/sed330/s200.htm#STitolo30 59>

[10] <www.ueitalia2003.it/NR/rdonlyres/474C4688-E636-410D-B815-193F1813C264/0/0701_DiscorsoBerlusconi_EN.pdf>

[11] <www.eur.ru/eng/neweur/show_file2.php?ident=64> <http://europa.eu.int/comm/external_relations/russia/intro/gac.htm#ru210703>.

[12] See International Monetary Fund, IMF Country Report No. 03/144. Russian Federation: 2003 Article IV Consultation-Staff Report; Staff Supplement; and Public Information Notice on the Executive Board Discussion, May 2003.

concentration.[13]

Despite the global economic slowdown, Russia recorded a fourth successive year of relatively strong GDP growth and large current account surplus, and a third successive year of fiscal surplus. The economy has continued to benefit from the structural impact of earlier reforms, although conjunctural factors, in particular, strong world energy prices and the post-crisis real depreciation of the ruble, have also played an important role in growth performance. This robust economic growth has been accompanied by gradually declining inflation, rising incomes, a large increase in international reserves, and warming international investor sentiment – all signs that the Russian economy is on its way back.

But reform has been stalling recently. Following rapid progress on structural reform in 2001 (in the areas of tax reform; urban land reform; labour reform; deregulation of economic activities; pension reform and judicial reform), the pace of structural reform slowed down significantly in 2002. Only two priority legislative initiatives (bankruptcy und agricultural land laws) were enacted and the implementation of the broader reform agenda encountered delays. Reform areas that are most central to the improvement of the business and investment climate are either at an early stage (banking, administrative reform) or delayed (natural monopolies) which, together with the long implementation schedules envisaged, suggest continued slow diversification away from natural resource dependence.

Another serious impediment to the further normalisation of the Russian economy is the alarmingly high degree of economic concentration. Many sectors in Russia today are dominated by relatively few but enormous oligopolistic businesses. A 2002 survey of the 64 largest Russian companies by Brunswick UBS Warburg showed that 85 percent of privatised companies were controlled by eight large shareholder groups, whose combined revenues in 2001 significantly exceeded total federal government revenues.[14] The deepening and widening of these business empires (now somewhat euphemistically called "integrated business groups") is further aggravating the dangers of oligopolistic behaviour across sectors. Thus big business continues to dominate Russia's economy, and small and medium-sized enterprises – so important in the successful transition of the central European economies[15]

[13] For more on this, including scenarios for Russia in the next decade, see S. De Spiegeleire, T. Corver and I. Geesink, *Russia 2010 Scenarios* (Leiden: RAND Europe, ING Barings, 2002).

[14] P. Boone and D. Rodionov, "Reformed Rent-Seekers Promoting Reform?", *Moscow Times*, 23 Aug. 2002.

[15] P. Mitra, M. Selowsky and World Bank, *Transition - the First Ten Years. Analysis and Lessons for Eastern Europe and the Former Soviet Union* (Washington: World Bank, 2002).

– and have barely made any progress over the past few years. The resulting distorted economic structure has profound implications for both the economy and the political economy of the country, and in all likelihood will not change significantly throughout this decade.

Foreign trade continues to be a critically important part of the Russian economy. In 2002, exports rose 38 percent year-on-year (with non-energy exports up 13 percent), while imports rose 24 percent. For better or for worse, the dependence of the Russian Federation on the export of its natural resources is unlikely to decline in the coming decade. The importance of foreign trade (and especially hydrocarbon exports) to Russia's economy (and polity) is of special and lasting significance to the European Union, Russia's primary foreign trading partner and source of investment (as well as assistance). This pre-eminent position of the EU in Russia's economy will only strengthen after the EU's eastward enlargement next year.

Looking ahead, IMF projections are that GDP growth is expected to slow somewhat in 2003 (to about 4 percent), and could ease further in 2004 (to about 3.5 percent), reflecting the impact of low investment in the non-oil sector in recent years and the absence of any new impetus from structural reforms. What is important, however, is that no major economic crises are foreseen in the near-term. In the longer run, Russia will have to find ways to avoid becoming chronically afflicted with the Dutch disease and all the ensuing pathologies.

Politics

Politically, Russia also continues to present a very mixed picture.[16] On the one hand, after the many turbulences of the past decade, President Putin appears to have succeeded in stabilising Russian politics – a point that cannot fail to impress Western Europe, "old" and "new". As in the economic field, most experts do not foresee any major upheavals in the Russian political system in the short- to medium-run – until the end of Putin's second presidential term in 2008. The basic constitutional set-up of the Russian state (the slightly diluted form of presidential government, the basic democratic rules of the game, separation of powers, etc.) is unlikely to be questioned in this period.

Yet the current Russian polity also exhibits some characteristics that continue to preoccupy its Western allies: an overly inflated state apparatus (with many unreformed elements, especially in the security and defence

[16] De Spiegeleire, Corver and Geesink, *Russia 2010 Scenarios*.

sectors), a probably still ineffectively centralised state, appallingly low quality of governance, selective problems with free speech, to mention just a few.

Taken together, however, political trends in Russia do not really trigger any major concerns – certainly not ones the European Union would be able to address by upgrading its relationship with Russia. Muted Western reactions against some of the darker sides of this mixed picture (such as Chechnya) probably already reflect the increased comfort-level with the relative stability that has been achieved in President Putin's first term in office. As for the Western politicians who seem to think that President Putin may require some help from his Western "allies" in the upcoming electoral season, even a cursory look at the dynamics of President Putin's personal rating is likely to transform their concern into envy.

Foreign policy

In Europe, President Putin's first steps in the international arena were warmly welcomed. The increased pragmatism, the higher emphasis put by Russia on Europe as an international actor, but also the more relaxed attitude towards the US role in Europe could not fail to please European capitals, which had been pushing hard for just such an outcome for some time.

As he started to consolidate his power and authority in the foreign policy field, however, President Putin started going significantly further, especially in pursuing a rapprochement with the United States. He seemingly reversed some long-held Russian reservations on key security issues such as US plans for missile defence, acquiescing to an increased US presence in the Russian "near abroad", cooperation with the US in general, and even NATO enlargement.[17] Many European governments seemed to have been taken somewhat aback by this apparent Russian volte-face. Fears were voiced about the sustainability of this new Russian policy, the potential consequences of a backlash, and the need for some compensation "gesture" towards Russia.

The current contours of Russia's foreign policy after operation Iraqi Freedom are still difficult to gauge. The electoral cycle may in the coming months create more rhetorical "noise" that will undoubtedly be scrutinised

[17] Dmitri Glinski-Vassiliev nicely summarises Putin's record so far: "The ABM Treaty has been discarded; the militaries of several NATO countries are present on the soil of Russia's immediate neighbors and, at least in a formal sense, allies are not rushing to leave; and NATO has apparently opted for the "big bang" scenario of admitting all nine East European applicants, while the plan to re-format Russia's relations with the Alliance into the "group of twenty" giving it an equal voice with others has been shelved." D. Glinski-Vassiliev, *The Myth of the New Détente: The Roots of Putin's Pro-US Policy*, PONARS Policy Memo No. 239 (Washington DC: CSIS, December 2001).

by Western analysts for new signals. But fundamentally, it is unlikely that President Putin's more pragmatic course will be altered, or his reprioritisation of Europe. It may also be worthwhile to point out that the European Union is quite popular in the Russian Federation – increasingly so, and across all layers of society.[18]

Summing up, this quick overview of Russia's current situation indicates that it offers few reasons at this stage to engage in any major review of European policies towards Russia. There remain numerous areas of concern – and they undoubtedly have to continue to be voiced through all existing channels – but none are of a nature to warrant fundamental changes in European attitudes or policies.[19]

Russia-EU today – sound fundamentals

The PCA institutions

Since the entry into force of the Partnership and Cooperation Agreement between Russia and the European Union in December 1997, the main institutional framework for the relationship between these two actors is already quite dense. Bilateral institutionalised contacts include:

- Two summits each year (presidency supported by the High Representative for CFSP, President of the Commission, President of Russian Federation). In 2003, the eleventh summit took place on 31 May in St. Peters burg with all current and future member states, and the twelfth will take place in Rome in November.
- Cooperation Councils (ministerial level), which meet once a year. The last meeting took place in Luxembourg on 15 April 2003. At the last Russia-EU summit, it was decided to strengthen the Cooperation Council into a "Permanent Partnership Council", which will meet more frequently and in different formats and will be "backed up by thorough preparation and policy coordination on both sides". But it is merely identified as a "clearinghouse" for all issues of cooperation.
- Cooperation Committees (senior official level), meeting as often as necessary. Two yearly meetings are held that alternate between the EU and Russia.

[18] Contrary to popular perception, it is not just the youth that has a positive attitude towards the EU. In the latest public opinion polls of FOM (Fond Obshchestvennogo Mneniya - Public Opinion Foundation, one of the most respected public opinion survey institutes in Moscow), 78% of the 18-35 age category supports EU membership for Russia, as opposed to 79% in the 36-50 age category and 64% in the over 50 age group.

[19] It may also be worthwhile to point out that the West has (wisely) come to the conclusion, after a decade of checkered engagement in Russia, that its leverage over Russia's domestic events is quite limited anyway.

• Joint Parliamentary Committee in which members of the European Parliament and the Russian Duma meet on a regular basis to discuss current issues. Their last meeting took place in May 2003.

Political dialogue with Russia takes place at the summits, Cooperation Councils and in various meetings in the Troika format (presidency, CFSP High Representative/Council Secretariat, future presidency and Commission). Meetings in this context take place at the level of ministers (twice a year), Political Directors (four times a year) and experts (some fifteen CFSP working group troikas meet with their Russian counterparts twice a year). In addition, the Troika of the Political and Security Committee meets with the Russian Ambassador to the EU on a monthly basis to discuss CFSP issues.

During the past four to five years of the PCA and the EU Common Strategy on Russia, dialogue between the Union and Russian Federation has vastly increased across all pillars. As a Council document sharply pointed out,

> There are altogether almost 40 joint bodies or EU bodies meeting with Russia at various levels with too many occasions for certain purposes (political dialogue), but too few for some other purposes (cross-pillar coordination). Various levels and different pillars appear to work too much in isolation. There are increasing difficulties with Russia to define what matters can be discussed at which meetings.[20]

Despite both Russia's and the EU's proclivities for institutional debates, it seems quite obvious that the current institutional set-up is rich enough to cover the most complex issues (and then some). There are a number of outstanding issues in the Russia-EU relationship, but the institutional framework is more than adequate to deal with them. If anything, this framework should be rationalised and streamlined, not expanded or "upgraded".

Common Strategy[21]

The instrument of "common strategies" emerged from the last round of tumultuous discussions on the Union's Common Foreign and Security Policy

[20] "EU-Russia relations: Assessment - Summit (St. Petersburg, 31 May 2003)", Brussels, 11 March 2003 (EU Council document 7146/03); and "EU-Russia relations: Assessment - Summit (St. Petersburg, 31 May 2003) - Common Strategy", Brussels, 13 March 2003 (EU Council document 7414/03).

[21] See also S. De Spiegeleire, "Towards a genuinely common EU strategy on Russia," *Challenge Europe* (Brussels: The European Policy Center, 4 March 2003) <www.theepc.net/

(CFSP) in the run-up to the Amsterdam Treaty. After the EU's shameful and extremely costly initial indecisiveness in the Balkan crises of the nineties, there was general agreement that the rigid consensus method that guided decision-making in the second pillar was unlikely ever to yield the decisiveness the new international environment increasingly demanded. There was no agreement, however, on how precisely more "flexibility" could be introduced into this part of the treaties. After long negotiations, a typically muddled compromise was adopted which maintained the unanimity principle at the highest level of decision-making, but allowed for qualified majority voting (QMV) in the implementation of those higher-level decisions.

Russia was singled out as the first "target" for this new instrument, also to send a clear signal to the Russian leadership about the importance that the EU attached to its relationship with Russia, especially after the difficult period following the August '98 economic crisis. As conceived, the Common Strategy on Russia (CSR) had two main ambitions:[22]

- an internal one, to improve the EU's internal focus and coherence on this important policy issue; and
- an external one, to improve relations with Russia to the level of a "strategic partnership".

The CSR has failed in both and has succeeded in disappointing even the very low expectations it had engendered.

On the internal dimension, the stock-taking exercises that had been announced resulted in a questionnaire that was developed by the Commission and administered by the Council secretariat. In line with the CFSP's unique approach to transparency, the results of these exercises were never made public – let alone used to take a hard look at issues such as duplication or "value for money" in general. After the Spanish presidency in the first half of 2002, all references to the inventory were dropped. There is little or no evidence that coordination at any level or consistency across presidencies has improved.

challenge/challenge_detail.asp?SEC=challenge&SUBSEC=issue&SUBSUBSEC=&SUBSUB-SUBSEC=&REFID=1093>.

[22] For further details, see H. Haukkala and S. Medvedev (eds) The EU Common Strategy on Russia. Learning the Grammar of the CFSP (Helsinki, Bonn: Ulkopoliittinen instituutti. Institut f?r Europäische Politik, 2001) and H. Haukkala "What went right with the EU's Common Strategy on Russia?," in Moshes, A. (ed.) Rethinking the Respective Strategies of Russia and the European Union. Special FIIA (Moscow: Carnegie Moscow Center Report 2003 <www.upi-fiia.fi/english/publications/upi_report/reports/FIIA-CarnegieReport2003.pdf>.

The CSR appears to have had little or no impact on what continue to be the main instruments of EU policy towards Russia: the Partnership and Cooperation Agreement and its various interaction mechanisms, and the Union's external assistance programs. Neither the various TACIS regulations and indicative programmes nor the overall Country Strategy Paper 2002-06 for the Russian Federation reflect the alleged "priorities" of the CSR. The CSR did not lead to more CFSP legal acts or to more joint actions on Russia.

What about the issue of flexibility – the original *raison d'être* for the common strategies? Even the biggest apologists of the "QMV-trick" can only refer to the single joint action on non-proliferation and disarmament, which was useful but remained far more modest than initially intended. Not a single member state dared to try and apply the trick to more contentious issues such as Chechnya or freedom of the press.

The *substantive* impact of the CSR on relations between Russia and the EU appears spurious at best. The CSR did not prevent the EU from almost freezing its relations with Russia because of the second Chechnya war or to continue openly protectionist policies that clearly hurt Russia. Equally, the CSR did not prevent Russia from boycotting almost all meetings with the EU under the PCA agreement while it was upping the ante (frequently unreasonably so) on Kaliningrad and the Zakaev case in the second half of 2002. The nature of the relationship between Russia and the EU on both sides seems to be based more on conjunctural pragmatism than on genuine strategic partnership.

The first common strategy on Russia was unceremoniously extended at the Thessaloniki European Council on 19-20 June 2003 by one year (until 24 June 2004).

Some thoughts

Economics: first things first

Some time ago, voices within EU political circles started clamouring for a new "grand" framework for the EU-Russia relationship to replace the Partnership and Cooperation Agreement. It would presumably codify the somewhat nebulous concept of a "common European economic space" (CEES) that is currently being explored by a joint High-Level Group (HLG) chaired by Commissioner Patten for the EU and Deputy Prime Minister Khristenko for the Russia Federation. The official Italian Work Plan on Russia has put the CEES (or at least its definition) on the top of its substantive agenda.

The attractiveness of the CEES concept – beyond the idea's political

symbolism – is questioned by many specialists.[23] At this stage, it is unclear whether any side would stand to gain anything at all from such an arrangement. The relationship between the two would benefit much more from an investment of political capital firstly in WTO accession and then in a possible free trade area between the EU and Russia (as promised in the PCA agreement) rather than in free-wheeling discussions about even further stages of economic integration. Nobody will dispute that accession to the WTO – another high-priority item for both the incoming Italian presidency and the EU as a whole – is the first necessary step in this direction. And it is equally clear that much work remains to be done in this field on the Russian side, despite claims by Prime Minister Berlusconi that Russia will become a member in 2003.[24] Some progress towards WTO membership has been made, but 2002 in particular saw many (disappointing) slippages in passing relevant legislation, and in the current election year there are unlikely to be any renewed reformist impulses.[25] Accession negotiations have continued, with the most difficult areas including implicit energy subsidies, budgetary subsidies to agriculture, and protection of the automotive and aircraft industries as well as services, including financial services. However, neither the draft customs code nor other major pieces of legislation were passed in 2002. On the Western side, the EU (and the US) granted Russia market economy status in the course of 2002, but they are unlikely to give in on the aforementioned issues. It seems therefore more appropriate to focus on the whole range of issues related to Russia's WTO accession before leaping into nebulous discussions about what might happen afterwards.

Mechanics

One of the key issues in the Russia-EU relationship that has remained more or less untouched by the debate so far – including in the European

[23] See S. Pekka, "Russia and Europe: Some Economic Aspects", manuscript dated 12 January 2003 (Helsinki: Bank of Finland Institute for Economies in Transition, forthcoming) and C. Hamilton, "Russia's European Integration. Escapism and realities" (Stockholm and London: Stockholm School of Economics and CEPR, forthcoming).

[24] The Russian government now hopes to complete the negotiations on Russia's accession to the WTO in the year 2004: German Gref, Russia's Minister for Economic Development and Trade at the Seventh St. Petersburg International Economic Forum, 18 June 2003.

[25] The approaching parliamentary and presidential elections make the adoption of new reforms that have short-term costs for large segments of the society much more difficult and therefore less likely.

Convention[26] – is the "downstream"[27] problem. Like most of the CFSP debate, the Convention has focused predominantly on top-level (and high visibility) issues such as internal leadership, external representation and coherence within the EU itself. The final results of this discussion will become visible after the upcoming IGC. Yet for all intents and purposes, Europe's foreign policy continues to be characterised by 15 separate (national) stovepipes "crowned" by a "common" layer where the positions that emerge from the stovepipes are aggregated – usually at the level of the lowest common denominator. This extra layer is increasingly taking on a life of its own – certainly in foreign economic relations, but even in other areas where the EU is emerging as an important actor in its own right (for example, the Middle Eastern Peace Process or Cyprus). But the main engines of Europe's foreign policy are still the (enormously much larger and more expensive) national diplomatic machineries, which in almost all countries remain the biggest dinosaurs of the civil service.[28]

In many ways, the first-order problem of today's CFSP is much less one of weak supranationalism than one of inefficient intergovernmentalism. In fact, many more inefficiencies and unnecessary duplications both within and across national foreign policy establishments are tolerated within CFSP than between and across military establishments within NATO, not to mention the economic or other more technical ministries. And many potential synergies between the national foreign policy establishments never emerge not because of political impediments, but merely because of poor networking. This is all the more regrettable since modern technology and the ensuing organisational design principles allow for much more situational awareness and self-synchronisation at all levels of complex bureaucracies than ever before.

As long as Europe does not start addressing those downstream "stovepipe" problems, the "crown" will remain a brittle one indeed and Europe will be unable to project the influence in Russia that is commensurate with its economic and political presence and weight there. The Union maintains by far the largest diplomatic presence in Russia, in terms of both staff and coverage. For instance, whereas the US has 4 diplomatic posts in Russia, with 429 home-based staff, only the UK (3 posts, with 90 home-based diplomatic staff, 161 Russian staff and 36 expatriates), France (2 posts with

[26] See European Convention, Final report of Working Group VII on External Action <http://register.consilium.eu.int/pdf/en/02/cv00/00459en2.pdf>.

[27] S. Everts, Shaping a Credible EU Foreign Policy (London: Centre for European Reform, 2002).

[28] Anybody doubting this, will find their scepticism swept away by a cursory look at the technological infrastructure in most MFAs (and not only in Europe).

85 home-based diplomatic staff, 65 Russian staff and 28 expatriates) and Germany (4 posts with 209 home-based diplomatic staff, 142 Russian staff and 52 expatriates) together exceed the US diplomatic presence. European taxpayers could be forgiven for doubting that this numerical superiority translates into better tracking or influencing of events in Russia.

Moving from a "stovepipe-centric" to a more "network-centric" CFSP will certainly require a gradual approach and, from this point of view, common strategies (an existing instrument written into the treaties!) may still have much to commend themselves. Very specific ideas could be written into the new Common Strategy on Russia to better network and enhance existing capabilities on Russia both at home and in the field. The ill-fated stock-taking exercise of the first CSR could still provide a useful starting point for a more critical common look at both duplication and white spots in the EU's engagement of Russia – maybe even in ways analogous to the NATO defence planning process, which annually analyses "defence planning questionnaires" against certain jointly established force goals.[29] Proposals could be made to make better use of both national and common EU assets in Russia, which might range from divisions of labour in various reporting tasks to consular cooperation all the way to joint political démarches. In this way, the EU could use the CSR to turn its policy towards Russia into a "controlled" experiment for a more efficient CFSP (CFSP in one country?). It may be worthwhile to point out that some of these concrete ideas could also lend themselves to implementation through joint actions (even under the current CSR).

What not to do

Undermine the PCA. The right vehicle for any innovations in the EU's policy towards Russia – if required at all – remains for all intents and purposes the main substantive policy document with respect to Russia: the Partnership and Cooperation Agreement, which will have to be revisited at its expiry date in 2007 anyway. It should also be noted – as indeed EU documents regularly do – that various aspects of the PCA have yet to be implemented and that many of the dossiers already being implemented still require much work. These discussions (across the three pillars!) frequently – often even fortunately – escape public attention, but they may be more important to the long-term prospects of Russia-EU relations than any renewed institutional tinkering.

[29] For a brief description, see NATO Handbook <www.nato.int/docu/handbook/2001/hb0704.htm>.

Parole, parole, parole. What the Russia-EU relationship needs much more than mediatised grandiloquence or strategic "vision" documents are real actions with visible results. And there is certainly no dearth of policy areas that could benefit from a new injection of activism (see below under "what to do"). The same argument applies to the many other new buzz-words flying around, such as "proximity policy", "Eastern dimension", "new neighbours initiative", "wider Europe", which all seem long on rhetoric and short on substance. All of these terms reflect a real need for more attention to the EU's "new neighbours", but more than slogans will be needed to address these policy issues.

Institutional fetishism. Both sides sometimes overlook the obvious fact that institutions reflect real life, and not the other way around. Russia is (re-) integrating into the wider world and especially into Europe through a myriad of genuinely functional ties at all levels. Given time and adequate political will on both sides, growing functional ties will also translate into closer institutional ties. But for the time being, the current institutional hull – which already contains approximation and integration[30] – probably fairly adequately reflects the current stage in the underlying functional relationship.[31] The EU has a strategy towards Russia that is only partially captured in the CSR It is a distinctly European strategy with all the ensuing strengths and weaknesses: it is quite long-term, incrementally integrationist, multi-dimensional, multi-level (sub-national, national and supra-national), and both functional and institutional. It closely mirrors the neo-functionalist logic that has served Western Europe so spectacularly well over the past half century: economic integration "spilling over" into political and eventually security integration. It is frequently an excruciatingly slow process, but as has been seen a number of times in the history of Western European integration, there are dangers in trying to run ahead of oneself.

Fuite en avant. One does get the impression sometimes that both sides prefer certain forms of "escapism" – both positive and negative – to earnest

[30] The core of both the PCA and the CSR is the integration of Russia into Europe. Although the PCAs admittedly do not go as far as association agreements in preparing a country for EU membership, Article 55 of the Russian PCA does stipulate that "Russia shall endeavor to ensure that its legislation will be gradually made compatible with that of the Community". The CSR, in language that comes close to the Maastricht formula of "an ever closer union", even talks about "ever closer cooperation between Russia and the European Union".

[31] In some areas, it may already exceed it. See for example, D. Lynch, *Russia Faces Europe*, Chaillot Paper 60 (Paris: EU Institute for Security Studies, May 2003).

attempts to deal with the many concrete issues that are already on the table. Many grand new projects have been floated on both sides. Russia is now on record as officially aspiring to all four EU "freedoms", including the most challenging one: the free movement of persons. This seems entirely unrealistic for the foreseeable future (as the debate on transit visas for Kalingrad has already amply demonstrated) and deflects from the more immediate problems connected to Russia's painful transition process. The discussions on the CEES certainly fall under this category. One should not forget that for the time being, neither the nature of the political and economic relationship between the two sides nor the political economy of that relationship on either side is conducive to big qualitative leaps forward.

Deprive Russia of "external policy anchors"[32] There is increasing evidence that the prospect of becoming a member of the European Union (and other Euro-Atlantic institutions) provided Central European countries with a uniquely valuable external policy anchor that allowed them to withstand the disruptive effects of the various painful changes required in adjusting policies, institutions and legislation to the rigours of the *acquis communautaire*. Russia's "anchoring" continues to be substantial, and of all major international players the European Union is probably the only one that has both the capability AND the willingness to provide Russia with at least some institutional anchor. From this point of view, discussions about giving a precise answer to the question "where does Europe end" are likely to do more harm than good.

What to Do

Focus on the EU side of the relationship. Not much progress in the Russia-EU relationship is to be expected in the coming two presidencies. The EU will remain absorbed in its internal and other external problems (IGC, overcoming the traumas of the Iraq war, etc.). And Russia will enter the peak of its electoral cycle, making it unlikely that any initiatives will come from the Russian side (indeed – the EU may even come in for more criticism than usual with respect to enlargement, visa-issues or other discriminatory policies). This may give both sides a breathing spell to focus on the internal dynamics of their policy-making apparatus vis-à-vis the other side. This applies both to the "streamlining" of the political dialogue

[32] E. Berglöf and G. Roland, *The EU As an 'Outside Anchor' for Transition Reforms*, Working Paper No. 132 1-[23] (Stockholm: Stockholm Institute of Transition Economics and East European Economies, October 1997).

structures (already presaged in the May 2003 summit communiqué), but even more to the intra-EU aspects:

- at the EU level: more coherence across the Russia dimension of the different pillars; bringing different strategies AND instruments more in sync (e. g. TACIS, Northern Dimension, Common Strategy, etc.)
- between the EU and the member states (minimise bilateral and mini-lateral temptations); and
- between the member states themselves (see the "mechanics" section of this article).

Pick a few good high visibility topics of strong interest to both. Rather than engaging in rhetorical grandstanding, the two incoming EU presidencies would be well-advised to select of a few concrete and high profile projects (some of which could be pursued through joint actions under the CSR).

- Energy will obviously continue to be the lynchpin of Europe's economic interaction with Russia for the foreseeable future. There is certainly more scope for high visibility EU joint actions with real content in this sphere.
- Ecology. Besides the various ecological "direct neighborhood" issues, the Kyoto framework – however deficient – still opens up many mutually advantageous possibilities for turning Russia's ecological liabilities into assets.
- Non-proliferation and disarmament. The European Union has already pledged 1 billion euros through the G-8 Global Partnership against the Spread of Weapons and Materials of Mass Destruction. Yet so far, this program has not garnered the kind of public visibility that for instance the Nunn-Lugar funds have had in both the United States and Russia. This can and should be remedied.
- Youth. "Europe" is a particularly popular theme among Russia's younger population, which is something the European Union should capitalise on. Much is already being done here, but these efforts still do not get the visibility they deserve.

Conclusion

It seems that Russia is unlikely to be at the centre of the Union's preoccupations during the Italian presidency. Developments in the Middle East, pressures to overcome the internal (CFSP) and external (transatlantic relations) traumas of Iraq, the new Intergovernmental Conference which

Prime Minister Berlusconi wants to complete by the end of the year – all these are but the predictable elements of the agenda for the next few months. Many less predictable events, ranging from possible complications in some of the existing EU military operations to possible new terrorist attacks, may mitigate the Italian presidency's ambitions with respect to Russia even more.

But this need not be bad news. Russia's relative domestic stability coupled to the sound nature of the fundamentals of the relationship between an enlarging Union and a normalising Russia will almost certainly continue to lead to continued organic growth in the relationship and make a period of further consolidation quite appealing. And for the time being, the institutional hull of that relationship probably reflects the present stage in that growing process fairly adequately.

Both sides would therefore be well advised to use this "breathing spell" to work on their own side of this relationship. Russia, generally, will have to accelerate the transformation process it has embarked upon and, specifically, aim for more approximation of the EU *acquis* and better coordination of its various ministries' (and regions') interactions with the EU. The European Union, generally, will have to create a genuine (hopefully network-centric) European foreign policy, but also improve its coordination across pillars and most of all between the member states.

The ultimate test of the Russia-EU relationship – also at the end of the Italian presidency – will not be whether the institutional set-up has been improved, but whether any concrete changes have been implemented in any area that can help recouple Russia to Europe.